2020

MAINSTREAMING SUSTAINABILITY IN BRAZIL´S FINANCIAL SECTOR

Policy actions for a national supporting framework

Developed in the framework of the project Finanças Brasileiras Sustentáveis (FiBraS)
Endorsed by the Laboratório de Inovação Financeira (LAB)
Technical development by SITAWI Finance for Good and Frankfurt School of Finance & Management

acknow _ledgements

The authors would like to thank the representatives of the public and private sector institutions that shared their ideas and expertise in interviews and comments on the draft version of the report. Feedback was included from Ministries, regulators, supervisors, think tanks, academia and international organizations.

Main authors and concept
SITAWI: Guilherme Teixeira
Frankfurt School of Finance & Management: Sebastian Rink

Contributing authors
SITAWI: Beatriz Maciel, Gustavo Pimentel
GIZ: Christine Majowski, Sebastian Sommer, Makaio Witte, Daniel Ricas
Frankfurt School of Finance & Management: Christina Anselm, Mathilde Bossut, Henriette Jahns, Johanna Wietschel, Lara Hensel, Karsten Löffler
GFA Group: Matthias Knoch, Colin Vanderplasken

Design and Layout
namBBU: Paulo Barroso

Editing
Sandy Pederson

table _of contents

table of _figures

list of _abbreviations

ABC Plano de Agricultura de Baixa Emissão de Carbono (Low-Carbon Agriculture Plan)
ABDE Associação Brasileira de Desenvolvimento (Brazilian Development Association)
ABRAPP Associação Brasileira das Entidades Fechadas de Previdência Complementar (Brazilian Association of Pension Funds)
ACPR Autorité de Contrôle Prudentiel et de Résolution (French Prudential Supervision and Resolution Authority)
AMF Autorité des Marchés Financiers (Financial Markets Authority)
ANBIMA Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais (Brazilian Financial and Capital Markets Association)
BdF Banque de France (French Central Bank)
B3 Brasil, Bolsa, Balcão (Brazilian Stock Exchange)
BCB Banco Central do Brasil (Brazilian Central Bank)
BNDES Banco Nacional de Desenvolvimento Econômico e Social (Brazilian Development Bank)
CAR Cadastro Ambiental Rural (Environmental Rural Registry)
CBI Climate Bonds Initiative
CEBDS Conselho Empresarial Brasileiro para o Desenvolvimento Sustentável (Brazilian Business Council for Sustainable Development)
CMN Conselho Monetário Nacional (National Monetary Council)
CNPC Conselho Nacional de Previdência Complementar (National Council for Pension Funds)
CNSeg Confederação Nacional das Empresas de Seguros Gerais, Previdência Privada e Vida, Saúde Suplementar e Capitalização (Brazilian Insurance Confederation)
CNSP Conselho Nacional de Seguros Privados (National Council of Private Insurance)
CRA Certificado de Recebíveis do Agronegócio (Agribusiness Receivables Certificates)
CRI Certificado de Recebíveis Imobiliários (Real Estate Receivables Certificates)
CVM Comissão de Valores Mobiliários (Securities and Exchange Commission of Brazil)
DNB De Nederlandsche Bank (Dutch Central Bank)
E&S Environmental and Social
EC European Commission
ESG Environmental,Social and Governance
ETF Exchange Traded Funds
EU European Union
FC4S Financial Centres for Sustainability
FEBRABAN Federação Brasileira de Bancos (Brazilian Federation of Banks)
FiBraS Projeto Finanças Brasileiras Sustentáveis (Brazilian Sustainable Finance)
GHG Greenhouse Gas Emissions
GIZ Deutsch Gesellschaft für International Zusammenarbeit
GRI Global Reporting Initiative
HLEG High-Level Expert Group on Sustainable Finance
ICAAP Internal Process of Capital Adequacy Assessment
IDB Inter-American Development Bank
IFC International Finance Corporation
IPSF International Platform on Sustainable Finance
ISE Índice de Sustentabilidade Empresarial (Corporate Sustainability Index)
ISO International Organization for Standardization
JRC European Joint Research Centre
LAB Laboratório de Inovação Financeira (Laboratory of Financial Innovation)
MAPA Ministério da Agricultura, Pecuária e Abastecimento (Ministry of Agriculture, Livestock and Food Supply)
MDB Multilateral development bank
MMA Ministério do Meio Ambiente (Ministry of Environment)
MoE Ministério da Economia (Ministry of the Economy)
MInfra Ministério da Infraetrutura (Ministry of Infrastructure)
NACE Nomenclature des Activités Économiques dans la Communauté Européenne (European Industry Standard Classification System)
NDC Nationally Determined Contribution
NGFS Network for Greening the Financial System
PNMC Plano Nacional sobre Mudança do Clima (National Plan for Climate Change_
PRI Principles for Responsible Investment
PRSA Política de Responsabilidade Socioambiental (Social and Environmental Responsibility Policy)
RIC Responsible Investment Charter
SARB South African Reserve Bank
SNCR Sistema Nacional de Crédito Rural (Rural Credit National System)
SPO Second Party Opinion
SUSEP Superintendence of Private Insurance
TCFD Task Force on Climate-Related Financial Disclosures
TEG Technical Expert Group on Sustainable Finance
UK United Kingdom
UN United Nations
UNDP United Nations Development Programme
UNEP United Nations Environment Programme
UNEP FI United Nations Environment Programme Finance Initiative
WEF World Economic Forum

executive _summary

Around the world, unsustainable consumption and production have given rise to **sustainability risks**. To ensure economies and financial sectors remain stable, business and financial decision making must integrate these risks. Business as usual is no longer an option — the transition to sustainable economies is inevitable and will require unprecedented financial resources. The financial sector has an essential role to play in **mobilising and allocating the necessary capital** to finance this transition.

Sustainable finance is increasingly important to policymakers, the real economy, financial institutions, and civil society. Brazil is well positioned to tap into the opportunities of sustainable finance given its long history of sustainability regulations, voluntary environmental commitments, and self-regulations. Together, these provide a solid foundation for fostering sustainable finance and incorporating social and environmental factors in standard management processes.

Brazil is at a crossroads with sustainable finance. Greater integration and mainstreaming of sustainability in the financial sector will be necessary to make Brazil's financial system more stable, and to strengthen national capacities to reap the opportunities of sustainable finance. The aim of this white paper is to contribute to the discussion of how Brazil can best position itself in this process.

Brazil's financial actors pushed sustainable finance forward in 2020 despite the COVID-19 outbreak. Examples include the Central Bank of Brazil (BCB) joining the Central Banks and Supervisors Network for Greening the Financial System (NGFS) and launching its new sustainability agenda, which focuses on the development and improvement of regulatory and supervision instruments. The biggest national platform for innovative and sustainable finance, the Laboratório de Inovação Financeira (LAB), became the first South American member of the International Network of Financial Centres for Sustainability (FC4S). Finally, the issuance of Federal Decree No. 10,387/2020 extended the list of sustainable infrastructure projects eligible for issuing incentivised debentures.

A holistic strategy will be vital to enhance the impact of sustainable finance in Brazil. It will make financial markets more attractive, improve market opportunities, and reduce sustainability-related risks and transaction costs. The development of a Brazilian sustainable finance strategy would need to follow guiding principles. A multi-public sector committee should lead the development of this strategy, supported by other market participants. This white paper recommends nine concrete policy options for immediate implementation (see Figure 1).

Figure 1
Overview of nine concrete sustainable finance policy recommendations for Brazil

	Recommended policy action
1	**Develop a position on an economy-wide environmental and social (E&S) taxonomy:** Brazilian authorities should develop a position on the potential integration of a Brazilian E&S taxonomy with a view to the international context as well.
2	**Refine and expand reporting on environmental, social and governance (ESG) factors by financial and non-financial companies:** Mandatory public disclosure requirements for ESG risks and impacts increases transparency and should therefore help to strengthen resilience and boost the market for E&S investments.
3	**Improve transparency and guidance on E&S supervision:** Monitoring and provision of technical guidelines on reporting should strengthen the impact of existing E&S regulation.
4	**Create a level playing field for E&S management across the financial industry:** Harmonisation of a legal framework for E&S risks should support consistent E&S management and reporting across Brazil's financial system.
5	**Provide aggregated and publicly accessible E&S data:** Aggregating data in an improved database should increase transparency and access to sustainability-related data in Brazil's financial sector.
6	**Foster a sustainable infrastructure pipeline:** Investors should have the opportunity to invest in a robust sustainable infrastructure projects facilitated by matching investors and projects.
7	**Foster sustainable agriculture investments:** Amplifying sustainable agriculture projects and matchmaking with investors should lead to a more sustainable agriculture sector in Brazil.
8	**Refine and expand official sustainability labels for funds:** Retail investors should have easier access to sustainable financial products through reliable sustainability labels for funds.
9	**Establish a strong Brazilian presence in sustainable finance fora:** Brazil should establish a strong international presence by becoming an active member of the NFGS, the FC4S, and the IPSF.

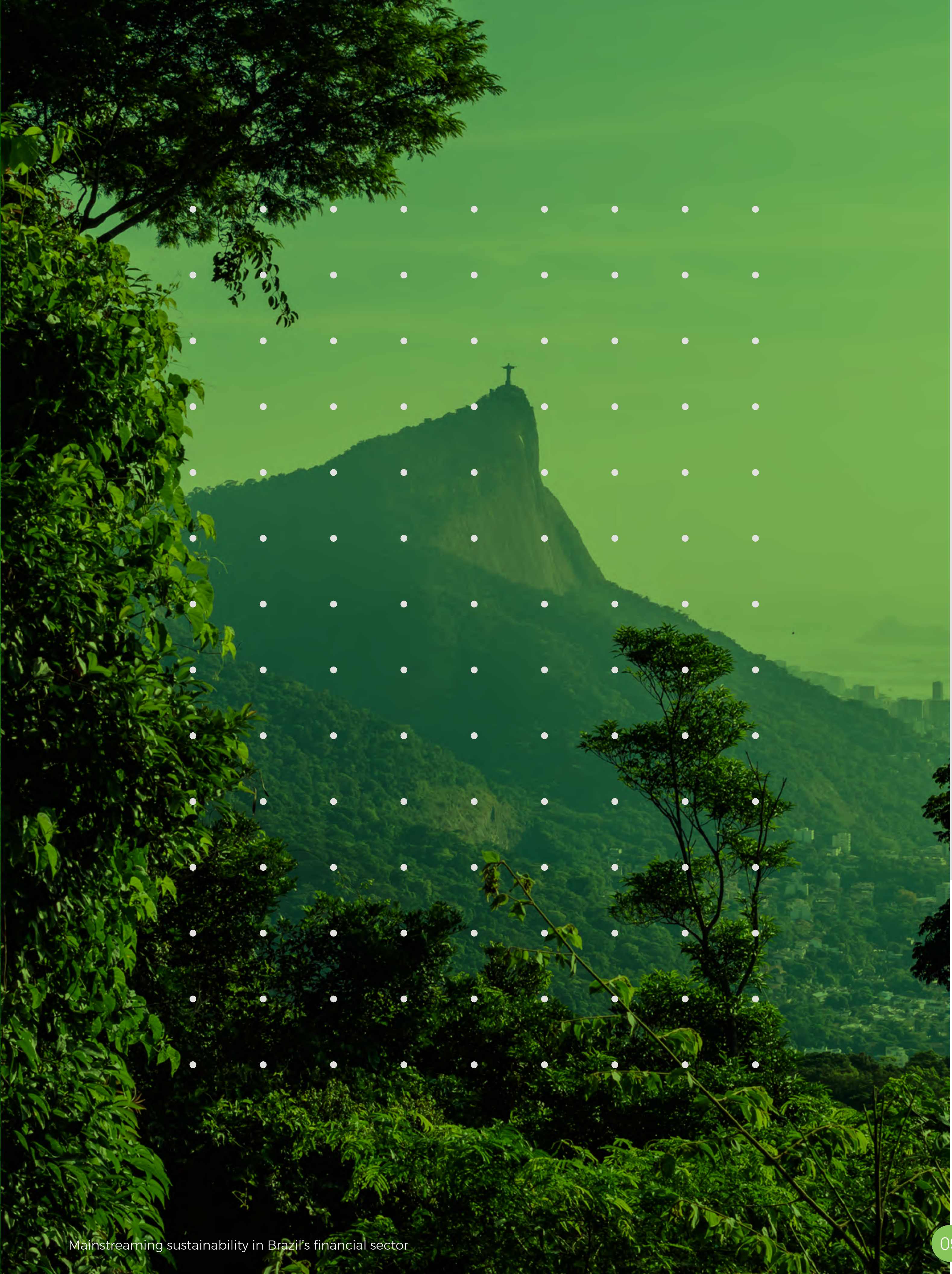
The methodology of this white paper included a combination of desk research based on the Sustainable Finance Policy Navigator, interviews and dialogue with key stakeholders, and a peer review process with a wide range of actors in Brazil's financial sector.

Introduction: action is needed on sustainable finance regulation in Brazil

1.

"There is a myth that the adoption of sustainable measures by companies decreases their productivity and, therefore, their profitability. This myth should be debunked."
Mr. Roberto Campos Neto, President, Central Bank of Brazil (September 2020)

Sustainable finance and environmental and social (E&S) considerations have become increasingly important to policy makers, the real economy, financial institutions and civil society, both in Brazil and internationally. Large asset managers are calling for action, pension funds want to ensure long-term returns on investments, and banks are increasingly integrating E&S considerations in their decision-making processes.[1] Financial hubs like London, Luxembourg, and Hong Kong use sustainable finance to gain an edge in the global competition to attract capital. Multilateral development banks (MDBs) are increasingly incorporating sustainability goals in their programmes, while large trading blocs like the European Union (EU) and China are working on the international harmonization of sustainable finance standards, such as taxonomies and disclosures.



Brazil is well positioned to tap into the opportunities offered by sustainable finance. Its socio-economic structure, based on a wealth of natural capital, together with large-scale capital needs and investment pipeline allow Brazil to attract and absorb high levels of capital in sustainable finance. Brazil is one of the largest green bond markets in Latin America with 55 bonds issued totalling USD 10.2 billions.[2] Establishing a market environment conducive to sustainable finance will put Brazil's financial sector in a better position to benefit from growth opportunities in the sustainable investment pipeline and from the development of innovative products and adjunct advisory services. Key sectors for sustainable investments are renewable energy, sustainable cities, energy efficiency, sustainable forest management, sustainable agriculture, and social infrastructure.

Sustainable finance helps to understand, measure, and manage sustainability risks more effectively. In Brazil,[3] sustainability risks are already translating into material financial risks, which can lead to stranded assets or depreciation in the value of assets, such as lower crop yields.[4] Sustainability-related effects and standards for technology, the legal environment, and demand and supply patterns are already changing the business model in many industries. For instance, BP recently announced that global demand for oil may have already peaked,[5] which would have a mounting impact on Brazil's oil and gas industry. Managing sustainability risks is therefore critical, not only for individual financial institutions, but to ensure overall financial stability. Macro-economic stability may make Brazil a more attractive market to public and private investors and ultimately reduce financing costs for the real economy, which could act as an engine for growth.

Brazil's financial system has a long history of sustainability regulations, voluntary environmental commitments and self-regulation, all of which help to foster sustainable finance and incorporate social and environmental considerations in relevant management processes. One of these regulations, Resolution CMN 4,327 proposed by the National Monetary Council (CMN), was regarded as a leading regulation when it was introduced in 2014. Since then, sustainable finance efforts have intensified — Brazil's central bank, the BCB, joined the **Central Banks and Supervisors' Network for Greening the Financial System** (NGFS) on March 25, 2020 and subsequently announced that sustainability would be integrated in the bank's strategic plan, including in future regulatory changes.[6] Furthermore, the recent membership of the **Financial Innovation Lab** (LAB) in the **International Network of Financial Centres**

[01] See for instance: UNEP-FI (2020). World's largest investors step up call for urgent policy action on climate change; Bloomberg (2019). Investors With $16 Trillion Want Deforestation Action. https://www.bloomberg.com/news/articles/2019-09-18/investors-managing-16-trillion-demand-action-on-deforestation.

[02] SITAWI (23 November 2020). Thematic Credit Operations - Brazil. Available at: https://docs.google.com/spreadsheets/u/1/d/e/2PACX-1vRDp7Z82Qovj9VuupGGQGSiBi66hQPdRL5ucb6kZ80HyjtQtVjjtf7Qekh99_DVs2FRG-8ADHE05ASP/pubhtml.

[03] LSE and Grantham Research Institute on Climate Change and the Environment. (2020). The sovereign transition to sustainability: Understanding the dependence of sovereign debt on nature. Available at: https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2020/02/The-sovereign-transition-to-sustainability_Understanding-the-dependence-of-sovereign-debt-on-nature.pdf.

[04] Jelani, V. (2017). How Climate Changes Affects Brazilian Agriculture. Available at Harvard Scholar: https://scholar.harvard.edu/vincentjelani/publications/how-climate-changes-affects-brazilian-agriculture.

[05] Bloomberg.com (17 September 2020). BP sees peak oil even without major new laws on climate change. Available at: https://www.bloomberg.com/news/articles/2020-09-17/bp-sees-peak-oil-even-without-major-new-laws-on-climate-change.

Nine concrete policy actions are proposed to make Brazil a vital marketplace for sustainable finance and to help the financial system recover from the economic fallout of the COVID-19 pandemic.

for Sustainability (FC4S) underlines Brazil's ambition to become a hub for sustainable finance. **Greater integration and mainstreaming of sustainability in Brazil's financial sector will contribute to a more stable financial system and strengthen national capacities to reap the opportunities of sustainable finance**.

The aim of this white paper is to contribute to the discussion on how Brazil can best position itself in a dynamic and evolving sustainable finance environment. In this paper, nine concrete policy[7] actions are proposed to make Brazil a vital marketplace for sustainable finance and to help the financial system recover from the economic fallout of the COVID-19 pandemic. The recommendations are the result of an analysis of the status quo of Brazilian sustainable finance regulations. This analysis was conducted through desk-based research and a series of interviews with key stakeholders that are applying the new **Sustainable Finance Policy Navigator** (please refer to Annex for more information on the SF Policy Navigator).

The following section provides an overview of Brazil's policy and regulatory fundamentals, which provide a foundation for developing policies related to sustainable finance. Section three highlights the potential benefits and early steps towards a holistic sustainable finance strategy in Brazil. Section four presents nine recommendations for immediate action on sustainable finance. The paper concludes with a broader view of sustainable finance and potentially complementary policy actions. It also provides examples of international good practice for orientation and guidance.

[06] Valor Economico (2020). BC adotará medidas para incluir critérios de sustentabilidade no crédito.

[07] Please note, this white paper refers to policy in a broad sense. It follows the definition of the Cambridge Dictionary, which states that a policy is "a set of ideas or a plan of what to do in particular situations that has been agreed to officially by a group of people, [...] a government, or a political party".

Brazil's solid regulatory foundation

2.

Brazil's financial system has a long history of sustainability regulations, voluntary environmental commitments, and self-regulation. These building blocks provide a solid regulatory foundation to implement the recommendations of this report. This section provides a brief history of key sustainability-related regulations in Brazil, and a summary of an analysis conducted using the Sustainable Finance Policy Navigator.

2.1 A brief history of Brazil's sustainable finance regulation

The first financial regulations and standards related to sustainable finance were introduced in the 1990s, long before sustainable finance had appeared in mainstream discussions in the financial world. Figure 2 outlines a brief history of sustainable finance regulations in Brazil and the regulatory framework conditions analysed in section 2.2.

Figure 2: A brief history of sustainable finance regulation in Brazil

Banks and credit institutions →

Green Protocol
(Voluntary initiative)

In 1995, five major state-owned Brazilian banks signed the Green Protocol facilitated by the Ministry of the Environment. The Protocolo Verde is a voluntary commitment to consider E&S factors in financial decision making and risk analysis. Signatories pledge to adhere to principles on socio-environmental aspects in asset management and investment risk analyses. Private banks and the Brazilian Federation of Banks (FEBRABAN) have subsequently signed it.

CFC Resolution 1,003/2004
(Voluntary initiative)

This norm established accounting standards for voluntary reporting on environmental matters.

← **Real economy / non-financial companies**

Banks and credit institutions →

CMN Resolution 3,545/2008
CMN Resolution 3,814/2009

Resolution 3,545 (Rural Credit – Amazon) and 3,814 (Rural Credit – Sugar cane crop expansion) are intended to prevent financing of companies involved in illegal deforestation. Borrowers must provide documentation of compliance with environmental laws. The resolutions can play an important role in reducing environmental degradation and carbon emissions given that land use changes and agriculture account for 70 percent of Brazil's GHG emissions combined.[8]

[08] SEEG (2018). Estimation of Greenhouse Gas Emissions in Brazil. Available at: http://seeg.eco.br/.

Real economy / non-financial companies

CVM Instruction 480/2009

This instruction requires issuers of securities to (i) mention environmental and social risks as part of relevant risk factors, and (ii) disclose whether and how they have implemented E&S policies and reports. Instruction 552/2014 amended the original.

CMN Resolution 3,876/2010

Resolution 3,876 (Rural Credit – Slave-like work conditions) aims to prevent financing of activities related to forced labour.

Banks and credit institutions

Banks and credit institutions

CMN Resolution 3,896/2010

Resolution introduced tax incentives to promote low interest credits to activities in line with climate change mitigation, such as the Low-Carbon Agriculture (ABC) Plan.

BCB Circular 3,547/2011

In 2011, the BCB issued updated instructions on the Internal Process of Capital Adequacy Assessment (ICAAP). Financial institutions are required to assess whether they hold sufficient capital in relation to their risk exposure, explicitly including E&S risks, and to have adequate governance structures in place to manage these risks. It was later amended by the BCB Circular 3,846/2017 to meet the requirements defined by Resolution CMN 4,557.

Banks and credit institutions

Banks and credit institutions

CMN Resolution 4,008/2011

The Resolution sets out rules on financing climate mitigation and adaptation projects. It establishes credit lines for climate-friendly lending, backed by resources from the National Plan for Climate Change (PNMC).

CMN Resolution 4,267/2013

The Resolution regulates the financing of climate mitigation and adaptation projects, backed by resources from the National Climate Change Fund (Fundo Clima) that was created by Federal Law 12,114/2009.

Banks and credit institutions

Banks and credit institutions

CMN Resolution 4,327/2014

In 2014, the Resolution introduced the concepts of relevance and proportionality of E&S risks. It required all financial institutions and other institutions authorised to operate by the BCB to establish and implement E&S risk management practices and implementation plans tailored to their operations. The resolution requires institutions to formalise and publicise an E&S Responsibility Policy. (PRSA).

Self-Regulation Norm SARB N°14/2014

In 2014, FEBRABAN introduced the self-regulatory banking standard SARB N°14/2014, which establishes common principles for the implementation of E&S governance and due diligence regarding the assessment of E&S impacts of a bank's operations under CMN Resolution 4,327.

Banks and credit institutions

Real economy / non-financial companies

CVM Instruction 552/2014

The instruction amended Instruction 480/2009. It requires issuers of securities to (i) mention environmental and social risks as part of their relevant risk factors, and (ii) disclose whether and how they have implemented E&S policies and reports.

CMN Resolution 4,557/2017

CMN Resolution 4,557 demands a holistic risk assessment approach that includes social and environmental factors in addition to other financial risks. It builds on several previous resolutions (3,380; 3,464; 3,721; 3.988; 4,090; etc. as well as 3,547), all of which cover risk management processes. Resolution CMN 4,557 requires financial institutions to have processes for the identification, assessment, evaluation, monitoring, reporting, control, and mitigation of E&S risks integrated in the risk management structure, in addition to other financial risks. Moreover, banks are obliged to perform scenario analyses and stress tests on their portfolios, including tests for E&S risks.

Banks and credit institutions

BCB Circular Letter 3,846/2017

This norm requires financial institutions to demonstrate how they consider the risk of exposure to E&S damage in their assessment process and in the calculation of capital needed for risk (ICAAP).

Banks and credit institutions

CMN Resolution 4661/2018 and 4769/2019

Resolution 4,661 states that closed pension fund managers must integrate ESG risks in their investment decision-making processes. This norm improves and replaces CMN Resolution 3,792/2009, which required pension managers to disclose whether their investment policy includes E&S principles. In addition, 4769/2019 asked closed and open private pension funds to consider ESG criteria when possible. The resolution does not provide further detail on these criteria.

Pension funds

Federal Decree No. 10,387/2020

This Federal Decree made clear that infrastructure projects with social and environmental benefits were included in the pool of projects allowed to issue incentivised debentures (under Federal Law 12,431/2011 and regulated by Federal Decree No. 8,874/16). Projects involving renewables, urban and low carbon transportation, and water and sanitation may access tax benefits and fast tracking, i.e. a simplified and faster issuance process.

Real economy companies and capital market investors

2.2 Summary of the Sustainable Finance Policy Navigator analysis

This section includes a brief analysis of Brazil's current framework and policy environment for sustainable finance — a starting point for developing recommendations that enhance the status quo. The Sustainable Finance Policy Navigator developed by GIZ and the Frankfurt School guides this analysis.[9]

The Policy Navigator analysis is structured around three guiding questions:

1. Existing policies: Are policies for specific action areas already in place? Are any policy reforms planned in these areas?
2. Coverage: To what degree do existing policies apply to the financial sector? Do authorities intend to expand coverage to other actor groups?
3. Level of detail: How specific and impactful are existing policies? Are any changes planned to make existing regulations more specific?

Relevant information for the analysis was derived from desk-based research and interviews with key stakeholders.

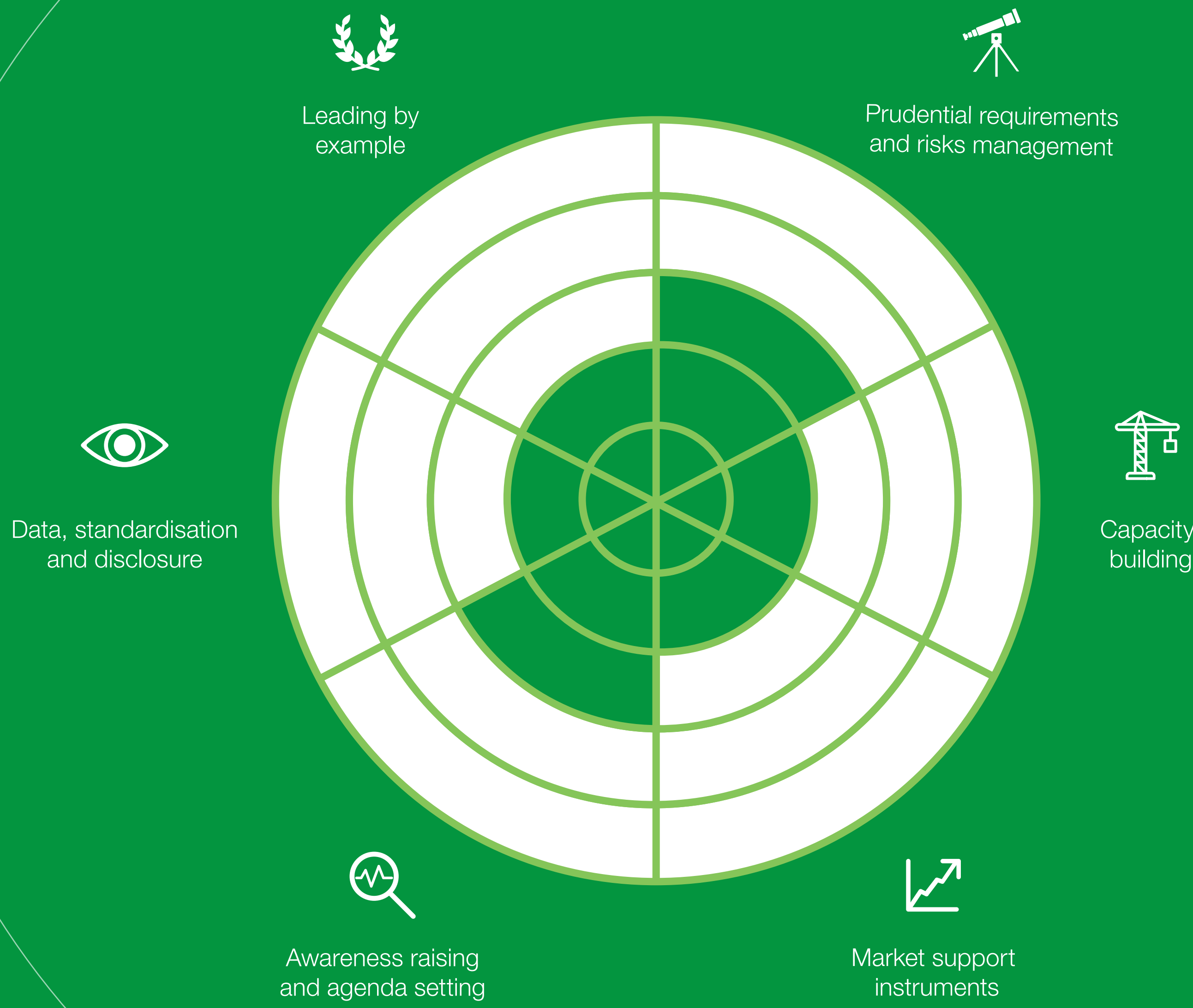
The following is a brief analysis of policy action on sustainable finance in Brazil based on the six action areas of the Sustainable Finance Policy Navigator:

- Prudential Regulation and Risk Management
- Data Standardisation and Disclosure
- Awareness Raising and Agenda Setting
- Capacity Building
- Market Support Instruments
- Leading by Example

Each action area can achieve a score between 0 (no policy action in place or planned) and 5 (development of the policy area completed). The three guiding questions (see above) and the menu of actions developed in the Sustainable Finance Policy Navigator guide the scoring process. The score is neither a statement on the quality of the overall financial system or guiding policies, nor is it a scientific result. The main purpose of the score is to inform analysis and the development of new policies. Figure 3 provides an overview of the overall results of the analysis. This is followed by a brief analysis of each of the six action areas, which is complemented (where applicable) by a more detailed analysis of each of the nine recommendations (see section four).

[09] For more information, please see: https://www.fs-unep-centre.org/policy-navigator/.

Figure 3 Status quo analysis of Brazil's sustainable finance policy landscape



Prudential Requirements and Risk Management: Brazil scores 3 out of 5.

This indicates that although the country has a solid regulatory foundation, there is room for amendment and improvements.

The BCB and CMN have issued various regulations on integrating E&S factors in financial risk management and capital allocation. However, these regulations could be more precise. For example, technical supplements and guidelines could be added (some are currently under development), the application of the regulations could be disclosed and reviewed more transparently (e.g. through public reporting and verification schemes), and coverage could be extended and harmonised, particularly to segments of the financial sector beyond the reach of the BCB and CMN (e.g. pension funds and the insurance industry). In September 2020, the BCB published a new sustainability agenda that includes strengthening its accountability on E&S supervision and providing information under CMN Resolution 4,327 or a revised version.

Most current sustainability regulations are not precise enough and do not clearly prevent greenwashing or the omission of information. While many regulations require E&S factors to be included in risk management and public and/or non-public reporting, they often do not explicitly specify which aspects of sustainability to include. For example, sustainability-related risks are not defined or specified with indicators or metrics. This highlights the need to increase the level of detail and rigor of existing regulations.

Supervisory authorities can also specify requirements for sustainability risk-adjusted capital and liquidity adequacy, ensure ESG factors are integrated in credit ratings, and enhance monitoring and prudential supervision. Although there is still a lack of international standards, this is an emerging issue under discussion among financial authorities.[10] Moreover, the coverage of regulations should be extended and harmonised throughout Brazil's financial ecosystem. Regulation could be more strongly enforced through better training of supervisory staff, which is ongoing at the BCB, and access to higher quality data.

The sustainability agenda launched by the BCB in September 2020 is a new work stream for its Agenda BC#. This work stream will be focused on developing and improving regulatory and supervision instruments. Over the next three years, the BCB will work in several action areas, including:[11]

» Incorporating the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations in the regulatory framework;
» Monitoring climate risks and stress tests, including climate risk scenarios;
» Improving the BCB's Integrated Risk Management;
» Structuring and broadening the scope of information gathering on S&E risks; and
» Creating the 'Green Bureau' for rural credit and establishing incentives for green rural credit.

[10] NGFS. (2020). *Guide for Supervisors: Integrating climate-related and environmental risks into prudential supervision.* Available at: https://www.ngfs.net/en/guide-supervisors-integrating-climate-related-and-environmental-risks-prudential-supervision.

[11] Other action areas can be found here: https://www.bcb.gov.br/content/about/presentationstexts/BCB_Agenda_BChashtag_Sustainability_Dimension_Sep2020.pdf.

Data Standardisation and Disclosure: Brazil scores 2 out of 5.

There is room for improvement with current E&S disclosure, for instance, by defining common and uniform E&S disclosure requirements, developing or adopting/adapting a sustainable finance taxonomy, and introducing standards for sustainable financial products. Ideally, those measures would be consistent with internationally accepted disclosure standards and applied in a uniform way across all pillars of the financial sector.

Existing E&S regulations are tailored primarily to a specific group of financial market participants, which hinders harmonised, sector-wide E&S management and reporting. For example, sustainability-related reporting requirements vary between financial sectors. Generally, financial institutions supervised by the BCB tend to have more reporting requirements than the rest of the financial system. This complicates understanding and the exchange of information on E&S risk management between financial market participants. This highlights the importance of finding a common language and implementing standardised reporting for the entire financial sector. While it is crucial to account for the local context — social issues must be addressed and environmental challenges need to be managed — internationally accepted reporting frameworks, such as the TCFD for climate-related disclosure of risks and opportunities, and the Global Reporting Initiative (GRI) for E&S impacts, provide a useful starting point to harmonise disclosure obligations.

Public and private databases of relevant social and environmental data are not connected or synchronised, and data is often not (freely) available to stakeholders in the financial system.

The implementation of Resolution CMN 4,327 in the banking sector encourages disclosure on sustainability factors to a certain extent, and the BCB plans to integrate the TCFD in the regulation. This is further strengthened by the support of FEBRABAN, which has a roadmap for the banking sector to implement standardised reporting following the TCFD recommendations. However, there is a clear need for more disaggregated information on E&S risks and impact in the financial sector. Furthermore, information on green financial flows and more publicly available data on E&S factors across the financial system would support the Brazilian sustainable finance ecosystem by reducing information asymmetries.

Awareness Raising and Agenda Setting: Brazil scores 3 out of 5.

Various key institutions actively promote sustainable finance domestically and participate in international dialogues, which provides a solid foundation to build upon, especially when developing a national sustainable finance strategy, organising local conferences to raise awareness among smaller financial institutions, and engaging in stakeholder dialogues to include all relevant financial market participants.

FEBRABAN has been active in establishing a self-regulation, drafting guidelines and organizing workshops. Since 2017, Brazil's Laboratory of Financial Innovation (LAB), led by the Brazilian Development Association (ABDE), the Inter-American Development Bank (IDB), the Brazilian Securities and Exchange Commission (CVM) and GIZ, has been promoting dialogue between the public and private sectors on sustainable finance. Although the discussions help to raise awareness and encourage the development of sustainable finance solutions, more action is needed to raise awareness among all financial market participants of the importance of transitioning to sustainable finance, especially from a risk management perspective. Brazilian institutions participate in international dialogues and platforms on sustainable finance. The BCB and FEBRABAN are members of the Sustainable Banking Network (SBN), which is hosted by the International Finance Corporation (IFC). The CVM and B3 have been actively participating in ESG-related discussions at the International Organization of Securities Commissions (IOSCO) and the Sustainable Stock Exchanges (SSE), respectively. The Brazilian Superintendence of Private Insurance (SUSEP) is a supporting institution of the UNEP Principles for Sustainable Insurance.

In March 2020, the BCB joined the Central Banks and Supervisors Network for Greening the Financial System (NGFS). The Ministry of Agriculture, Livestock and Food, the Ministry of Infrastructure, and the Ministry of Regional Development all have plans to support the development of investable green projects and financing instruments. These ministries, together with the BCB, have signed Memorandums of Understanding (MoU) with the CBI to qualify agriculture and infrastructure projects for the issuance of green bonds and connect issuers with potential investors.

In September 2020, the BCB became a supporter of the TCFD. SUSEP has been a supporter since December 2017.

In October 2020, LAB, led by the CVM, joined the International Network of Financial Centres for Sustainability (FC4S), becoming the first South American member.

Capacity Building:

Brazil scores 2 out of 5.

There is ample room for improvement given the range of largely untapped resources. Capacity building on the interrelatedness and relevance of sustainability in finance — at all levels of the financial system — is key to mainstreaming sustainable finance. This includes capacity building programmes for public entities, financial institutions and service providers, academia, and the general public.

Some capacity building programmes and other initiatives are already underway, such as the workshops and guidance materials FEBRABAN and ABDE offer to their members. LAB also promotes selected webinars and publications to different financial sectors. Multilateral organizations, specialists, and other civil society organizations usually collaborate with these financial institutions to promote particular capacity building initiatives.

In 2003, the Business Administration School of Fundação Getulio Vargas established the Center for Sustainability Studies, which works on sustainability topics with the public and private sectors. In 2019, a group of researchers founded the Brazilian Research Alliance for Sustainable Finance and Investment (BRASFI). In 2020, many institutions began offering non-academic courses in ESG.

However, there is significant untapped potential in Brazil given that no professional training on sustainable finance is currently available to public sector and financial market participants. This could include adding sustainable finance to academic curricula, creating public information portals or platforms on sustainable finance, or strengthening consumer choices by introducing labels for sustainable financial products.

Market Support Instruments:
Brazil scores 2 out of 5.

Market support instruments to promote sustainable finance have largely been implemented by the Banco Nacional de Desenvolvimento Econômico e Social (BNDES) and other institutions that are part of the National Development System (SNF). Additional public finance instruments, including blended finance solutions, could boost investment in E&S-related projects and help build a pipeline of projects, particularly in infrastructure and agriculture. Issuing tax and market incentives for the real economy would also crowd in private capital for sustainable investments.

In the early 2010s, the Brazilian Government introduced tax incentives for climate change mitigation, such as the Low-Carbon Agriculture (ABC) Plan with low-interest credit. The credit lines of the ABC Programme under the ABC Plan have encouraged the adoption of low-carbon agricultural technologies. However, the Programme faced challenges in providing sufficient financial conditions to increase financing for small producers. The government also has mechanisms like the National Climate Change Fund that offers both refundable and non-refundable resources for climate change adaptation and mitigation projects.

In 2017, the government issued a USD 1 billion green bond through the BNDES, which has made the greatest contribution to the development of green finance in Brazil. In October 2020, the bank issued a new USD 1 billion green bond. Brazilian regional constitutional funds (FCO, FNO and FNE) and other regional development banks are key players in supporting E&S projects in Brazil. They disburse BNDES credit lines as well as their own credit lines, and work in partnership with international development finance institutions (DFIs). It is understood there is limited room for additional public fiscal support measures.

Brazil's sustainable bond market has reached nearly USD 10 billion, five years after the first issuance in 2015.[12] Although the market is growing quickly, it has not reached its potential. The BNDES and the Ministry of the Economy have issued some market support instruments to incentivise capital flows in E&S focus areas, such as the BNDES Sustainable Energy Fund

[12] As of September 2020. SITAWI. bit.ly/basedados-titulosverdes.

and the Federal Decree No. 10,387/2020, which provides a fast track for infrastructure debentures (under Federal Law 12,431/2011) with social and environmental benefits. Recent sustainable finance-related investments in the BNDES portfolio include financing for hospitals during the COVID-19 pandemic, non-reimbursable operations (e.g. Amazon Fund, Climate Fund), and green concessional loans.

Currently, few regulations or policies require the government's strategy to account for E&S aspects or to align public spending with sustainability factors.[13] However, the BCB has announced it will incorporate E&S criteria for: (i) the design of a liquidity credit line to be provided to banks, and (ii) the selection of counterparties to manage Brazil's international reserves (nearly USD 350 billion[14]) and its own investment strategy. These actions will be part of the BCB's sustainability agenda within the next two years.

Leading by Example:
Brazil scores 2 out of 5.

While there have been various efforts to incorporate sustainability factors in the form of regulations and voluntary commitments, Brazil still lacks a holistic sustainable finance ecosystem.
Compared to other emerging and developing economies, Brazil has an established and institutionalised foundation to advance sustainable finance. The BCB has a long record as a leader in E&S regulations in Latin America and the Caribbean, and recently demonstrated its ambition in this area by joining the NGFS and launching its sustainability agenda.[15]

[13] Most are related to sustainable procurement policies. See, for example, the A3P initiative: http://a3p.mma.gov.br/compras-publicas-sustentaveis/.

[14] As of August 2020. BCB https://www.bcb.gov.br/estabilidadefinanceira/reservasinternacionais.

[15] CMN/BCB regulations on E&S risk management were among the first financial sector regulations in Latin America. In 2020, the BCB announced a new Sustainability Agenda: https://www.bcb.gov.br/en/financialstability/sustainability.

B3's Corporate Sustainability Index (ISE B3) was created in 2005, the fourth of its kind in the world. The voluntary roadmap launched by FEBRABAN in 2018 to implement TCFD recommendations is further evidence of the private sector leading by example. In 2020, the largest private banks in Brazil (Bradesco, Itaú and Santander) announced a joint initiative to promote sustainable development of the Amazon. The banks presented their plans to the federal government and are currently developing specific actions to mitigate deforestation risks and support the socio-economic development of the region.

Beyond financial market regulation, it is important to align and expand sustainable finance efforts across the entire financial system to lead by example. For instance, China and the EU follow a holistic approach to their sustainable finance strategies by simultaneously accounting for economic, political, financial, environmental, and social factors. This is expressed in sustainability strategies for key sectors to ensure coherent and operational solutions. This requires strong political leadership and buy-in from ministries, parliaments, and political leaders.

The analysis of the six action areas shows that Brazil's financial system already has the necessary foundation to build a strong sustainable finance environment. It is apparent that future policy actions should focus on creating a national level playing field in the form of a holistic sustainable finance strategy for Brazil, clear signalling and positioning on sustainable finance-related ambitions and expectations, and further support for the development of a sustainable project pipeline.


87.00K
8.97M
135.39M
430.83M
5.16M
16.09M
629.16K
84.23M
2.92M
253.37M
3.72M
09:30
10:30
Market Data
Open
Pre. Close

Towards a holistic sustainable finance strategy in Brazil

3.

A holistic approach to sustainable finance is largely absent in Brazil. As shown in section two, in most cases, single actors are implementing sustainable finance policies within their own mandate without harmonising policy actions throughout the financial system. However, there is growing momentum for alignment.

A holistic approach to integrating and establishing sustainable finance in Brazil's financial sector makes its financial markets more attractive as it improves market opportunities and reduces sustainability-related risks and transaction costs for market participants. A holistic strategy is typically pegged to a clear and coherent narrative with a concrete vision and target. It abandons silo thinking and includes all relevant stakeholders in the dialogue when it is being developed.

The inherent trade-offs between different and often competing goals can be discussed and actionable plans formulated.

This white paper argues for the importance of, and recommends establishing, an implementation structure for a holistic strategy that would enhance the impact of Brazil's sustainable finance environment. The financial system, which is highly complex and closely interconnected with all economic sectors and social structures, provides a range of services that cannot be managed in isolation. Taking a holistic approach to a sustainable finance strategy involves engaging the key actors in Figure 4.

Figure 4: Key actors in the sustainable finance environment

The integration and mainstreaming of sustainability in the financial sector is itself quite a new phenomenon, let alone a holistic approach. In the international context, early good practice examples of holistic sustainable finance strategies include the EU's High-Level Expert Group on Sustainable Finance (HLEG) and the Moroccan Roadmap for aligning Morocco's financial sector with sustainable development.[16] In both examples, a wide range of stakeholder groups have been involved in the development of the strategy, bringing together expertise from various parts of the financial and economic sectors, academia, and civil society. Engaging a variety of actors in strategy development ensures that (i) feasible solutions are developed; (ii) different perspectives combine to create a holistic strategy; and (iii) there is broad buy-in throughout the financial industry.

The HLEG significantly shaped the direction of the EU's sustainable finance strategy, especially with its final report.[17] Private and public actors in Morocco's financial market, including the Moroccan Capital Market Authority (AMMC) and the Ministry of Economy and Finance, jointly developed a roadmap with five pillars: (i) social and environmental risk governance, (ii) development of sustainable financial tools and products, (iii) promotion of financial inclusion, (iv) capacity building, and (v) transparency and market discipline. The development and implementation of the roadmap laid the foundation for aligning Morocco's financial sector with national climate commitments, including collaboration between the Casablanca Stock Exchange and the AMMC on an ESG benchmark index and the AMMC's legal framework and guidelines[18] for green and sustainable bonds. Since the roadmap was developed (between COP 22 in 2016 and early 2019) there has been a USD 420 million increase in sustainable finance products in the market.

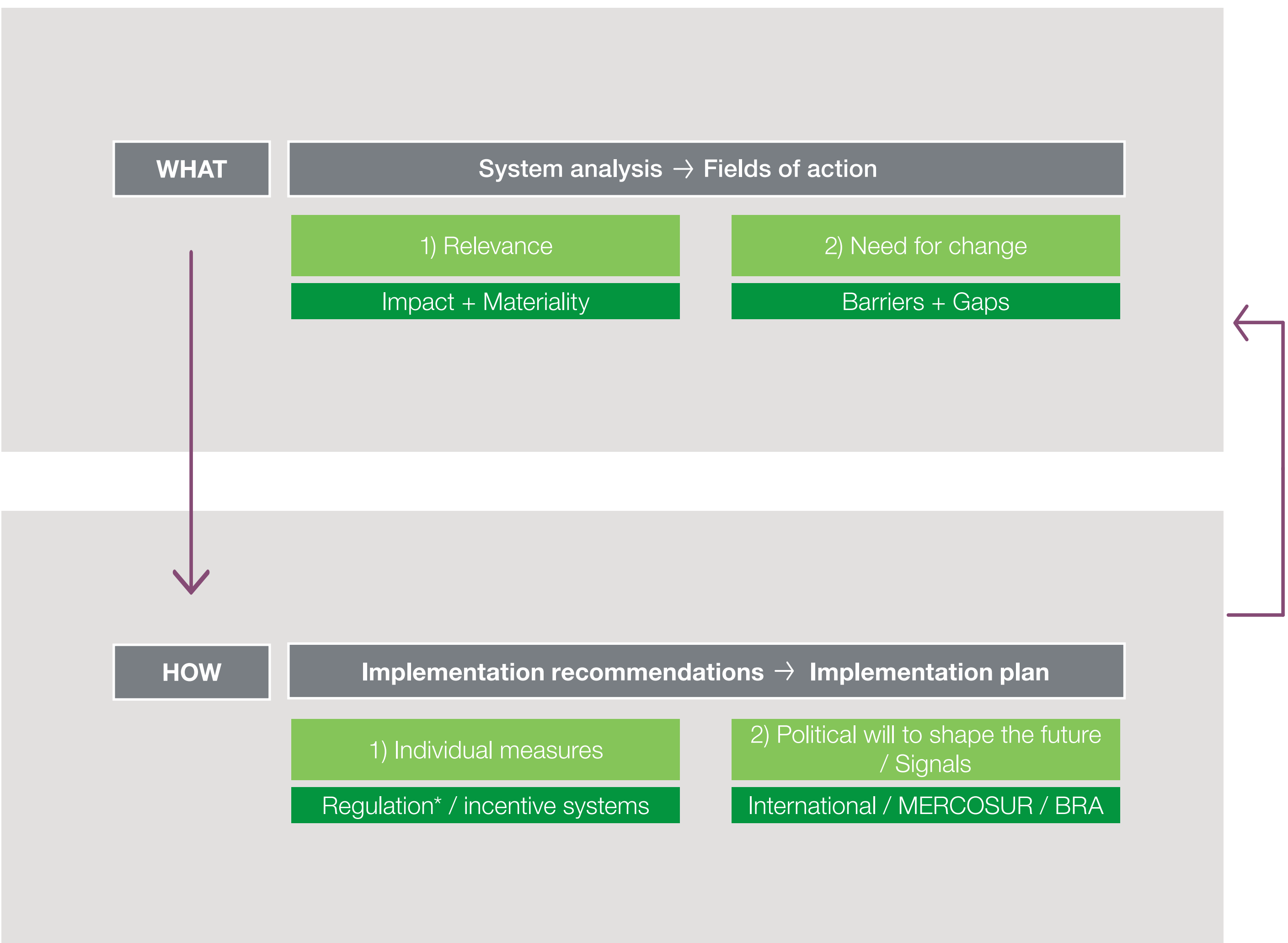
[16] Bank Al-Maghrib, Moroccan Capital Market Authority, Supervisory Authority of Insurance and Social Welfare; Ministry of Economy and Finances; Casablanca Finance City Authority; Casablanca Stock Exchange; Moroccan Banking Association; Moroccan Federation of Insurance and Reinsurance Companies. (2016). Roadmap for aligning the Moroccan financial sector with sustainable development. Available at: http://www.bkam.ma/en/content/download/462869/3754811/Feuille+de+route+pour+l'alignement+du+secteur+financier+avec+le+developpement+durbale-ANG_finale.pdf.

[17] EU High-Level Expert Group on Sustainable Finance. (2018). Financing a Sustainable European Economy. Available at: https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf.

[18] AMMC (2017). Green Bonds Guidelines. Available at: http://marrakechpledge.com/wp-content/uploads/2017/11/AMMC-BROCHURE-VGB.pdf.

To develop a sustainable finance strategy in Brazil, a similar stakeholder group of key representatives, as depicted in Figure 4, is recommended. This group should have a clear mandate and governance structure, and ensure transparent communication and public consultation when reporting interim and final results. The framework depicted in Figure 5 could be used as a starting point for formulating goals and an implementation plan.

Figure 5: Systematic approach to developing a sustainable finance strategy in Brazil



The analytical process begins by asking "what": *What is the status quo? What are the challenges? What are the ambitions? What is the political will to shape the future and send signals to the market?* The starting point is an analysis of the overall system, particularly the financial system, which the stakeholder group uses to define specific action areas for further development. Action areas may include data standardisation and disclosure, prudential requirements and risk management, awareness raising and agenda setting, or market support instruments. For each action area, the stakeholder group would analyse a range of actions from an outside-in and inside-out perspective to determine impact and economic materiality. It would also employ a barrier and gap analysis to assess the need and ambition for change on the part of the status quo. These assessments would yield a set of possible or recommended actions.

Once it has answered "what", the stakeholder group should ask "how": *How should the identified actions be designed and introduced? How should implementation be structured?* The stakeholder group will develop a holistic implementation plan with recommendations for individual measures, such as changes to regulation and incentive systems. From here, an iterative process will be needed to adjust the overall policy landscape in accordance with the dynamic changes. The stakeholder group also needs to become more institutionalised.

To do this, a stakeholder group could follow the example of established structures. For capital markets, an example is the Capital Markets Initiative (Iniciativa de Mercado de Capitais, or IMK), which is comprised of the Ministry of the Economy (MoE), BCB, CVM, and SUSEP.

Such a structure is well positioned to steer the process outlined above and integrate a sustainable finance strategy as a strategic objective. A holistic sustainable finance strategy should be developed by a similar initiative that covers the entire financial system, such as a multi-public sector committee. In Brazil, LAB could act as a "workbench" for the development of a sustainable finance strategy, uniting the voices of the financial industry and facilitating public-private dialogue throughout the process.

Ideally, the MoE or government representative (potentially Presidência) would steer the entire process. Integrating the strategy in the national development plan would make the work of the stakeholder group even more important.

The development of a Brazilian sustainable finance strategy would need to follow guiding principles, which could be established by the multi-public sector committee and verified by other market participants. These guiding principles could include safeguarding the socio-environmental basis of Brazil's prosperity, aligning financial flows with Brazil's national and international agenda for sustainable development, making domestic and international investment more attractive, supporting sustainable infrastructure investments, strengthening the resilience of Brazil's financial system and real economy against future shocks, and/or shaping the international debate on sustainable finance.

The outcomes of the process could be integrated in international dialogues to strengthen and shape discussions on sustainable finance, thereby ensuring strong representation for Brazil and its interests in the development of global standards.

4.

Nine actionable sustainable finance policy recommendations

The key medium-term recommendation of this white paper is to develop a holistic sustainable finance strategy, as it should maximise the benefits of sustainable finance for Brazil. At the time of publication, it is unclear whether or when this holistic approach will be implemented. Therefore, this paper presents nine actionable sustainable finance policy recommendations that could be addressed in the shorter term while paving the way for more comprehensive actions over the medium term.

It is important to highlight that these recommendations **are aimed primarily at financial authorities at the national level** (e.g. financial industry regulators and supervisors, as well as the MoE) and other government bodies with major relevance for financial markets (e.g. the Ministry of Agriculture and Ministry of Infrastructure). However, **successful implementation of the recommendations depends on cooperation with other public and private sector stakeholders** (e.g. the Ministry of Regional Development, the Ministry of Science, Technology and Innovation, the Ministry of Environment, the Ministry of Mines and Energy, environmental agencies, financial institutions, industry associations). Civil society organisations and technical experts on sustainable finance could also provide support.

The nine sustainable finance policy actions for immediate implementation are based on the Sustainable Finance Policy Navigator analysis. After ranking a list of possible policy actions, nine were selected using the decision matrix shown in Figure 6. The sequence of the recommendations does not reflect their relative importance; rather, they are classified based on the following characteristics:

Time frame
How long does it take for the recommended action to become effective? The aim: focus on faster impacts on Brazil's sustainable finance environment with a particular view towards COVID-19 recovery.

Complexity
How complex will it be to implement the recommended policy action? The aim: prioritise less complex actions if necessary to facilitate implementation and achieve tangible, shorter term results.

Impact
How much impact will the recommended policy action have? The aim: maximise impact while keeping the other two factors as constraints.

Figure 6: Classification and responsibility for the nine recommended policy actions

#	Recommended policy action	Lead actor	Time frame	Complexity	Impact
1	**Develop a position on an economy-wide E&S taxonomy**	Multi-public sector committee	Medium term	Medium to high	High
2	**Refine and expand ESG reporting for financial and non-financial companies**	B3, BCB & CVM	Medium term	Medium	High
3	**Improve transparency and guidance on E&S supervision**	BCB	Medium term	High	Medium
4	**Create a level playing field for E&S management across the financial industry**	CNSP/SUSEP, PREVIC/CNPC	Medium term	Medium to high	High
5	**Provide aggregated and publicly accessible E&S data**	Multi-public sector committee	Short term	Medium	Medium
6	**Foster a sustainable infrastructure pipeline**	Ministry of Infrastructure	Short term	Medium	Medium
7	**Foster sustainable agriculture investments**	Ministry of Agriculture	Medium term	Medium	Medium
8	**Refine and expand official sustainability labels for funds**	CVM and ANBIMA	Short term	Medium	Low to medium
9	**Establish a strong Brazilian presence in sustainable finance fora**	MoE, BCB, LAB	Short term	Low	Medium

The nine recommended policy actions are presented in more depth in the following pages. To ensure comparability and usability, a similar structure is followed for all nine recommendations:

Starting Point: A short analysis of existing regulations provides an overview of market characteristics, existing gaps, and potential for regulatory improvement.

Ambition: The ambition and connection to an overall improved sustainable finance policy environment across the six action areas — awareness raising, data standardisation and disclosures, prudential requirements and risk management, market support instruments, leading by example, and capacity building — are described.

Actors: Each policy recommendation is assigned to one or several specific financial sector actors (mostly regulators) who are in a position to assume primary responsibility for the action.

Implementation: Key steps in the implementation process are suggested and briefly outlined.

Output: The output section describes the intended immediate result of the policy recommendation on Brazil's sustainable finance environment. Further actions and potential next steps might also be discussed.

Example: A good practice example (international) is presented at the end. The example, its implementation, and links to additional resources will help guide the implementation process for the recommended policy action.

Recommendation 1:
Develop a position on an economy-wide E&S taxonomy

Complexity: High
Impact: High
Time frame: Medium term

"A well-defined and structured taxonomy can support better-informed and more efficient decision making and response to investment opportunities that contribute to achieving national environmental objectives."

The World Bank, Developing a Green National Taxonomy (2020)

Starting point

In the rapidly growing global sustainable finance environment, taxonomies (i.e. classification systems) that define environmentally or socially sustainable activities are becoming increasingly relevant to investors, financial intermediaries, regulators, and supervisors. Taxonomies increase transparency, which reduces the risk of greenwashing, prevents market fragmentation, provides a foundation for additional policy action, highlights the contribution of investments to sustainability, reduces transaction costs, and offers a tool to structure portfolios. Internationally, China and the EU have taken the lead in the development of taxonomies. Given Brazil's role in international financial markets, it is expected these taxonomies will also affect national market actors in coming years.

Brazil does not yet have a fully-fledged, economy-wide E&S taxonomy. However, every year since 2015, FEBRABAN has collected data on the financial resources allocated by banks to the green economy, and to sectors with high potential for environmental degradation.[19] The green economy methodology, developed with the support of Fundação Getulio Vargas (FGV) and the United Nations Environment Programme (UNEP) Inquiry, is based on UNEP's Green Economy definition.[20] It is a voluntary initiative with currently 15 participating banks that account for over 80 percent of credit portfolios in Brazil's financial system.

With the support of SITAWI, FEBRABAN is revising the methodology to develop a taxonomy that would help improve the identification of green activities, as well as sectors highly exposed to climate and environmental risks. The BCB is also assessing how to adopt a classification system to identify the exposure of credit portfolios to environmental and social risks. Its latest Financial Stability Report presents a version of this system, which is being improved. The FEBRABAN taxonomy under review and the list of high-risk sectors provided by the World Bank[21] are among the references currently being considered.

There are two strong arguments for developing an economy-wide E&S taxonomy in Brazil. First, a sustainable finance taxonomy that accounts for local market circumstances, specifically Brazil's social and environmental challenges, may make a positive contribution to the country's socio-economic development and address environmental issues like deforestation more effectively. Second, an E&S taxonomy meets investor demand for greater transparency and appetite for sustainable investments. Without any guidelines for what is considered sustainable, financial institutions can currently market financial products and services under the label of sustainability without having to meet specific requirements. This allows them to use their own definitions and raises greenwashing concerns. Therefore, a well-designed taxonomy that clarifies which economic activities count as sustainable gives issuers and investors more clarity and confidence, and can incentivise the allocation of private and public capital from Brazilian and internationally for sustainable projects and investments.

Ambition

Brazilian authorities should develop a position on establishing an economy-wide taxonomy and, therefore, a basis for an effective sustainable finance environment. If a national taxonomy were to be developed, the financial system would benefit greatly from harmonisation with international environmental taxonomies, as this would help to reduce transaction costs in international financial markets and facilitate cross-border capital flows. However, Brazil may seek to adopt or adapt existing taxonomies. A national taxonomy might include three key components:

1. Classification of environmentally and socially sustainable activities: The scope of the Brazilian sustainability taxonomy should cover sectors most relevant to the Brazilian economy and with the greatest environmental and social impacts. For example, The Coolest Bonds[22] guide identified over 100 eligible assets and projects in nine key sectors for the Brazilian context based on international reference frameworks (e.g. Climate Bonds Standards and Green Bond Principles). Green bond issuers have been using this taxonomy together with the international standards to assess whether their assets are eligible. Criteria should be developed considering existing taxonomies, such as the EU Taxonomy and People's Bank of China taxonomy, to reduce development costs and increase international harmonisation. It will also make Brazil's sustainable finance environment more attractive to international investors. The Classificação Nacional de Atividades Económicas (CNAE) could serve as the underlying classification system for the adoption of international taxonomies in Brazil, although it may need to be adapted.

2. Disclosure of taxonomy alignment: The greater the disclosure with respect to the taxonomy (i.e. reporting a company's or portfolio's degree of alignment with the thresholds defined in the taxonomy, for example, percentage of revenue), the more useful the taxonomy will be for financial institutions and decision makers. Disclosure of taxonomy alignment should cover both large corporations and financial market participants. It could also cover financial products, such as those marketed as sustainable, or all products of certain product classes.

3. Use cases for the taxonomy: The taxonomy is a transparency tool that allows financial market participants to make less ambiguous and more informed lending and investment decisions. This, in turn, enhances market efficiency. For financial market regulators,

[19] FEBRABAN https://portal.febraban.org.br/pagina/3085/43/pt-br/estudos-sustentabilidade-2019. See the annual reports, Mensurando recursos financeiros na economia verde.

[20] UNEP Green Economy: https://www.unep.org/explore-topics/green-economy.

[21] GIZ (2020). O mercado emergente de finanças verdes no Brasil. Available at: http://www.labinovacaofinanceira.com/wp-content/uploads/2020/07/mercado_financasverdes_brasil.pdf.

[22] SITAWI and Institute for Climate and Society: http://info.sitawi.net/thecoolestbonds.

the taxonomy may serve as an underlying framework for the development of sustainable financial product standards and labels, which can create new growth opportunities for banks and financial market participants. For corporations and portfolio managers, a taxonomy may support target setting for new sustainable business opportunities and investments that align more closely with E&S criteria, respectively. A taxonomy can also guide public spending and investments, for instance, when designing stimulus packages like COVID-19 recovery programmes in line with sustainability goals.

Actors

The development of a taxonomy is a multi-stakeholder project. The MoE, the BCB, and CVM seem well positioned to take the lead and establish relevant regulation. Other government authorities should be closely involved in providing technical inputs, such as the Ministry of Science, Technology and Innovation, Ministry of Agriculture, which estimates annual GHG emissions for specific industries and leads the development of green technologies, or the Ministry of Mines and Energy, which leads renewable energy and energy efficiency programmes. Networks like the LAB (mainly through its Working Group on Green Finance) and the Brazilian Business Council for Sustainable Development (CEBDS), research institutions like the FGV, Embrapa and COPPE/Federal University of Rio de Janeiro, as well as specialists, may all provide valuable support. Multi-stakeholder involvement in the development of technical criteria, including those from the financial industry, the real economy, academia and civil society, will ensure technical feasibility, broad acceptance and buy-in.

Implementation

The implementation of an economy-wide E&S taxonomy should include both a technical and legislative process. The first step is to define the objectives for the development of the taxonomy (e.g. to foster the issuance of green/social/sustainability bonds, to assess and foster green investments in the real economy, and to measure exposure to E&S risks). Clear objectives will shape the technical and regulatory approaches. Through the regulatory process, mandates for the technical process and a disclosure regime should be established. The technical process could be divided into two work streams that collaborate closely throughout the process to ensure alignment.

Environmental taxonomy work stream: In this work stream, the environmental part of the E&S taxonomy is established. The work stream should be comprised mainly of members of the MoE and/or the BCB, but should be further supported with the technical expertise of an expert group similar to the European Commission's Technical Expert Group on Sustainable Finance (TEG), if necessary. The work stream should select economic activities relevant to the Brazilian context and develop technical criteria in line with taxonomies in other jurisdictions (e.g. the EU and China), international voluntary taxonomies (e.g. Climate Bonds Standards and the ICMA's Green Bond Principles), existing classifications in Brazil (e.g. FEBRABAN taxonomy for the measurement of green financial flows, list of activities provided by the National Environment Council regulation), as well as input from international dialogues on taxonomy development (e.g. IPSF). The first set of criteria could be issued to a stakeholder consultation, and then translated into legislation in a timely manner to make it available for all financial market participants. This process may build on FEBRABAN's current work to revise its taxonomy to identify green financial flows in the banking sector.

Social taxonomy work stream: Since there are fewer blueprints for social taxonomies, it will take more work to develop. Setting up a working group with key stakeholders from broader society to develop criteria would improve the credibility of the process. The structure of the European Commission's TEG could serve as an example for the set-up of this group. International experts from various development institutions could support the work of the group with technical and administrative input. Following a public stakeholder consultation, translation into legislation should proceed.

Outputs

A national E&S taxonomy in Brazil would benefit the domestic financial market by increasing the transparency of green and social lending and investments, supporting the development of sustainable financial products, and making the Brazilian market more attractive to international investors seeking sustainable investment opportunities. Furthermore, Brazil could serve as an example and assist in the development of social taxonomies in other jurisdictions.

International examples

The EU Taxonomy is a central piece of the European Commission's sustainable finance agenda. It aims to establish a common language for which, and to what degree, economic activities qualify as environmentally sustainable. As such, the EU Taxonomy is used by regulators at both the EU and national level, and by any international financial market participant offering environmentally sustainable financial products within the EU.

With the EU Taxonomy, the European Commission aims to address divergent and inconsistent classifications of economically sustainable investments, which in the past have resulted in ambiguous and inaccurate marketing of sustainable investments (both intended and unintended greenwashing). Against this backdrop, the legislative proposal requires that a sustainable economic activity must fulfil the following requirements:

- Contribute substantially to at least one of the six EU environmental objectives;
- Do not significantly harm any of the other environmental objectives;
- Comply with minimum social safeguards; and
- Comply with quantitative and/or qualitative Technical Screening Criteria.

To help develop technical screening criteria for the EU Taxonomy, the Commission has established a working group within the Technical Expert Group on Sustainable Finance (TEG). The TEG developed a basis for defining thresholds (e.g. GHG emission limits) for selected economic activities and called for feedback on the proposed criteria in late 2018. After incorporating the feedback, the TEG published its final technical report in March 2020. The Commission is currently translating the recommendation into European law.

Emerging markets, such as China, Bangladesh and Mongolia, have also developed sustainability taxonomies to address objectives related to fostering sustainable finance markets. In Latin America and the Caribbean, the Financial Superintendence of Colombia is working on a green bond taxonomy, and the Mexican Banking Association is discussing a national green finance taxonomy. The International Platform on Sustainable Finance (IPSF) aims to foster collaboration to align these various national and regional developments.

#2

Recommendation 2:
Refine and expand ESG reporting for financial and non-financial companies

Complexity: Medium
Impact: High
Time frame: Medium term

"The most effective disclosures are consistent, they are comparable, they are clear, and reliable, and they are efficient."

Mark Carney, former governor or the Bank of England (2015)

Starting point

Mandatory disclosure regulations on ESG for companies listed in Brazil are limited to specific requirements provided by the CVM. These requirements could be a starting point for improvements that enable better sustainability risk assessment and impact analysis by companies and their investors.

CVM Instruction No. 552/2014 requires financial and non-financial issuers of listed equity and fixed-income securities from the corporate and the public sector to publicly report on E&S aspects in the CVM reporting form, including item 4.1: "the company must disclose E&S risk that are relevant to its business"; item 7.5: "disclose E&S policies and compliance costs related to E&S laws"; and item 7.8: "(i) whether the company evaluates its E&S impact; (ii) what methodology is used; (iii) whether this evaluation is reviewed by an independent party; (iv) where investors may find additional information". However, some companies exposed to E&S risks argue that these types of risks are not sufficiently material and therefore do not disclose them.

Currently, the Brazilian stock exchange (B3) encourages companies to report on their ESG practices and their contribution to the UN Sustainable Development Goals (SDGs).[25] This was initiated through the "Report or Explain" initiative in partnership with the GRI launched at Rio+20 in 2012, which encourages listed companies to report in item 7.8 "Long Term Information" (the item's title at the time) of CVM's Reference Form, whether it had published an annual report that considered sustainability aspects and, if not, explain why. B3 aimed to compile relevant data in a database. The project ended in 2020 when CVM and BCB began providing relevant information directly. In 2016, mandatory sustainability reports were proposed for Novo Mercado B3 segment (i.e. companies that have committed to voluntarily adopt stricter governance practices beyond the law), but companies resisted this regulatory change and vetoed the proposal. Hence, the proposal remains a non-binding guideline.

Ambition

The introduction of mandatory public disclosure requirements on ESG risks and impacts for companies is important to establish a sustainable finance sector in Brazil. Mandatory ESG

[25] SSE: https://sseinitiative.org/stock-exchange/b3/; B3: http://www.b3.com.br/en_us/b3/sustainability/at-b3/transparency/.

reporting must yield standardised, comparable, and reliable information across all listed companies and, ideally, among large non-listed companies and medium-sized companies in high-impact sectors. In light of the rapidly increasing relevance of climate-related risks and opportunities, it is also recommended that ESG disclosure requirements include explicit references to climate issues, which often disappear in discussions of ESG at the broader level. Therefore, it is critical to design regulations in alignment with existing regulations (and their extensions), internationally recognised frameworks such as the GRI, IIRC and TCFD recommendations, and a prospective economy-wide taxonomy. Other emerging frameworks (e.g. biodiversity disclosure, the integration of the EU Taxonomy in the EU Non-Financial Reporting Directive) could serve as a reference.

Actors

The CVM is responsible for monitoring activities, participants and products, including disclosure of relevant information, in the securities market. It works closely with the B3 to draft and introduce mandatory ESG reporting and disclosure for Brazil's listed companies. It is recommended to engage with institutions such as LAB (primarily the Working Groups on Green Finance and ESG Risks and Transparency), CEBDS, GRI Brazil and the Integrated Reporting Brazilian Commission, among others, for additional technical expertise and stakeholder involvement. Companies and industry associations should also be involved in consultations during the development of the regulation.

Implementation

The introduction of mandatory ESG reporting should follow a three-step process. First, the CVM and B3 should set up a working group or task force responsible for leading the development phase of the ESG reporting rules. The establishment of such a task force facilitates close collaboration and sharing of resources and expertise throughout the process. Second, this task force should review common reporting standards and current best practice examples to align ESG reporting across borders.[26] The consideration of internationally recognised standards will provide a foundation for establishing comprehensive, internationally comparable reporting requirements in Brazil. Finally, the CVM and B3 are advised to engage with companies through public consultations. This is especially crucial as regulations on ESG reporting must account for the local context and ensure that adherence to it is feasible for different types of financial and non-financial companies.

Outputs

The introduction of consistent and mandatory ESG reporting in Brazil will enable financial market participants to improve their risk assessments and decision making. This will provide a basis for better management of financial risks related to environmental and social issues. Moreover, mandatory ESG reporting forces companies to collect data and then assess their operations critically, which would ideally lead to positive changes in their strategies and business models. Moreover, financial institutions are better able to assess their portfolios and engage with borrowers or investees on their sustainability performance.

[26] Internationally aligned ESG reporting will harmonise international financial markets and reduce transaction costs for all market participants and increase cross-border capital flows.

In the coming years, lessons from the integration of disclosure requirements should be used to roll out similar regulations for large, non-listed, high-impact, and relevant medium-sized enterprises.

International examples

The most comprehensive ESG reporting to date is required under the EU's Non-Financial Reporting Directive.[27] Since 2018, large public interest companies, including banks, listed companies, and insurance companies with more than 500 employees, are required to provide information about their businesses and operations. Supplementing the directive, the EU Commission has published non-binding guidelines[28] that explain how climate-related information should be disclosed, offer suggestions on reporting frameworks used internationally, and provide concrete examples of metrics and key performance indicators (KPIs). These non-binding guidelines help to orient and support a company's reporting and disclosure procedures. The European Commission is expected to update the Non-Financial Reporting Directive in 2021 to include elements of the non-binding guidelines in mandatory reporting, and to expand the scope of the directive to cover smaller and non-listed companies. International standards, such as the SASB, GRI and IR, may be adopted as relevant standards for reporting in this process.

[27] EU Non-Financial Reporting Directive: https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en.

[28] EU NFRD Non-binding Guidelines: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017XC0705(01).

Resolution 4,327 – the greatest milestone in Brazil's sustainable finance regulation to date

The Brazilian National Monetary Council issued Resolution 4,327 in April 2014, which specified that all financial institutions and other institutions authorised to operate by the BCB must develop and implement an Environmental and Social Responsibility Policy (PRSA). The Resolution states that the institution's PRSA should establish internal policies on strategic actions related to the governance and management of E&S risks. It also requires them to have an E&S Action Plan to implement their PRSA. The Resolution was innovative in requiring the development or improvement of policies and processes to manage these risks, and it was a comprehensive in scope, covering Brazil's entire financial system.

Principles for E&S risk management: The principle-based approach of the resolution determines that institutions should self-assess the relevance and proportionality of its E&S risks. When assessing relevance, institutions must evaluate their exposure to E&S risks, and when examining the proportionality they must consider whether the PRSA is consistent with the nature and complexity of activities and services provided. This principle-based concept was introduced to avoid creating one-size-fits-all requirements. While this was beneficial to the regulation of a diverse financial system like Brazil's, it introduced supervision challenges for the BCB.

Governance: The resolution also supported the development and improvement of governance structures to manage E&S risks. This governance must enable implementation and improvements of E&S Action Plans to implement the PRSA, as well as to monitor the adequacy of E&S risk management practices and compliance with the PRSA.

The resolution requires institutions to assign an Executive Director that has final responsibility for the PRSA. It also gives institutions the option to establish a committee dedicated to the PRSA. Several financial institutions have developed committees at the Board of Directors and/or senior management level.

Disclosure and accountability: Institutions are required to disclose their PRSA, but not their E&S Action Plans. However, the disclosure of E&S Actions could be an important way to increase the transparency of financial institutions' efforts to fully implement their PRSA.

The PRSA must be revised every five years by the Executive Director and, if applicable, by the Board of Directors. The resolution does not require any disclosure on the progress of PRSA implementation.

#3

Recommendation 3:
Improve transparency and guidance on E&S supervision

Complexity: High
Impact: Medium
Time frame: Medium term

"We must prepare and respond appropriately to these structural changes in the economy. The Central Bank's policymaking must consider E&S risks and the impact of extreme events on our economy and financial system."

Fernanda Necchio, Deputy Governor of Central Bank (September 2020)

Starting point

The BCB took a position early in the 1990s on the importance of integrating social and environmental factors in financial institutions' risk management, and Resolution 4,327 was a major step in that ambition (see box above).

Since then, the management of ESG risks has been expanded to include the assessment of capital adequacy by the BCB in the Internal Process of Capital Adequacy Assessment (ICAAP).[29] The BCB has systematically assessed the adequacy of financial institutions' E&S risk management and has worked to improve its own assessment processes.

These tools are vital complements to the principle-based approach of Resolution 4,327, which requires further translation into concrete guidance for financial institutions. This is particularly important since it is currently difficult to compare risk exposures and mitigation strategies across financial institutions due to a lack of standardised metrics and disclosure formats. The vagueness of the guidelines and insufficient pressure on financial institutions can lead to conflicting interpretations.

In 2020, the BCB added "Sustainability" to the BC# Agenda, announcing that it would enhance the structure and expand the information it collects on E&S risks as part of its supervisory mandate. One of the potential outcomes is to increase transparency and accountability in the implementation of the E&S regulation. The BCB Sustainability Agenda also includes enhancing the regulation to include climate-related issues and TCFD recommendations.

Ambition

The impact of BCB/CMN's E&S prudential regulation would be significantly improved if monitoring, prudential supervision, and technical guidelines on reporting were all strengthened. Transparency: A publication on the overall process and outcomes of the BCB's supervisory activities would increase credibility and send a signal to financial institutions. The supervisory measures announced in its sustainability agenda would facilitate the process, but the BCB has not yet publicly announced which requirements and items it intends to disclose in the annual report.

Guidance to financial institutions: Requirements for financial institutions are still unclear. Although Resolution 4,327 and other norms refer to E&S risks, there is no clarification on which associated risk factors (e.g. deforestation, water stress, labour issues) financial institutions need to consider in their E&S risk management processes. Additionally, climate-related issues are not sufficiently clear when E&S issues are discussed at the broader level.

There are four main ways to address these issues:

» Amending Resolutions 4,327 and 4,557;
» Issuing new resolutions to cover specific themes (e.g. climate risks);
» Reviewing existing supervisory tools (e.g. BCB qualitative questionnaire based on the E&S regulation); and
» Issuing complementary norms (such as BCB Circular Letters) and supporting tools (such as the Guidance of Supervision Practices, which is under development), including the development of a quantitative questionnaire to financial institutions.

A combination of these approaches should have the following objectives:

» **To expand the current scope of the guidance:** The BCB can provide further clarification to financial institutions in form of technical guidance on incorporating E&S risks in mainstream processes mentioned in Resolution 4,557 (e.g. risk appetite declaration, stress testing).

» **To implement the TCFD recommendations:** The TCFD structures its recommendations for climate-related financial disclosures along the elements (i) governance, (ii) strategy, (iii) risk management, and (iv) metrics and targets.[30] Through Resolution 4,327, banks are already required to develop risk management plans, but disclosure requirements are still limited. Additionally, implementing the TCFD recommendations requires assessing and analysing risks and opportunities in the context of alignment with scenarios consistent with the Paris Agreement. Therefore, extending this resolution to cover all four elements of the TCFD recommendations are critical to improve disclosure on climate-related risks and opportunities in the Brazilian banking sector. Extending it to other environmental criteria may also ensure that environmental aspects are fully covered. Elements in Resolution 4,327 should include:

- Formalising roles and responsibilities regarding climate/environmental risks and opportunities within governance structures;
- Applying a climate/environmental risk sensitivity assessment that allows financial institutions to identify the most exposed sectors in their portfolios;
- Performing pilot assessments on climate/environmental risks (e.g. pilot environmental scenarios analyses and climate stress testing):
    * Propose that financial institutions collect information on the geographic location of clients' facilities/operations and their intended use of the financial resources provided.

[29] BCB, Circular 3,846/2017, Internal Process of Capital Adequacy Assessment. Available at: https://www.bcb.gov.br/ingles/norms/brprudential/Circular3547.pdf.

[30] TCFD (2017). Final Report. https://www.fsb-tcfd.org/publications/final-recommendations-report/.

   * Propose which scenarios should be used to conduct environmental scenario analyses (standardisation).
   * Propose the use of granular locational/georeferenced data (e.g. from the future Green Credit Bureau, as announced in the BCB sustainability agenda, especially for agricultural operations); and
- Mandatory reporting to the BCB on material climate/environmental risks and opportunities, as well as related targets for investments and credit portfolios.

» **To include social safeguards:** Resolution 4,327 should be extended to include more specific guidance on social safeguards, which should go beyond current screening for compliance with local legislation on child and slave labour and workplace health and safety. This would also involve defining the materiality of social risks for the Brazilian financial system, potentially through a research report. The inclusion of certain minimum social safeguards (e.g. concerning human rights and labour standards) would help to contain adverse social impacts and risks that may undermine socio-economic development. Commonly applied frameworks and guiding principles are the International Bill of Human Rights, the International Labour Organisation's Fundamental Principles, OECD Guidelines for Multinational Enterprises, and Rights at Work, and the UN Guiding Principles on Business and Human Rights. The first two conventions are already incorporated in Brazilian legislation, while the UN Guiding Principles could provide guidance for due diligence of higher-risk projects financed by banks. The selection of social safeguards should be aligned with and appropriate to the national and local context. Financial institutions should disclose their adherence to relevant standards by describing due diligence, monitoring and auditing processes, and risk mitigation strategies. A first step could involve changing the definition of stakeholders in the regulatory text to explicitly include local communities.

Actors

The CMN and BCB are responsible for prudential regulation and supervision of financial institutions, and therefore need to ensure that the financial sector is prepared for and resilient to climate, environmental and social-related risks.

Additionally, the BCB and CMN could involve the broader market and civil society in the process to ensure transparency measures are adequate. Stakeholder dialogue should be considered, potentially in cooperation with the LAB Working Group on ESG Risks and Transparency.

Implementation

The implementation process should include the following components:

1. Review of compliance: The BCB should improve its audits to verify that regulated financial institutions adequately implement E&S risk management processes.
2. Publication of results: The BCB should improve visibility of the state of E&S reporting.

3. Review of regulation: The BCB should incorporate concrete reporting guidelines, including at minimum the aspects outlined above.
4. Dialogue with supervised financial institutions and other stakeholders from civil society: The BCB should engage with supervised financial institutions and support them in integrating processes to comply with the new requirements, as well as consider inputs from other stakeholders. The BCB did this for the development of Resolution 4,327 and announced that it will hold a public consultation to improve the regulatory framework as part of its new sustainability agenda.

Outputs

By clearly stating supervisory requirements and increasing the transparency of the results, the BCB will send a strong signal to financial markets. Increased scrutiny should encourage financial institutions to raise their ambitions and continue to pursue efforts in strengthening social and environmental due diligence and risk management processes throughout all activities and transactions. Meanwhile, the BCB would strengthen its credibility as a supervisor that sees the need for greater action on E&S risks as part of its mandate.

International examples

In 2019, the European Central Bank designed a qualitative questionnaire to evaluate how major banks integrated climate-related risks in their strategy and risk management framework. The results revealed some of the challenges financial institutions face in incorporating these issues in risk management structures.

On 19 May 2020, Banco de México and UNEP, with the support of the United Nations Development Programme (UNDP), published "Climate and environmental risks and opportunities in Mexico's financial system: From diagnosis to action",[31] a report highlighting the need for Mexican financial institutions to begin incorporating environmental topics in their risk assessment and corporate governance strategies. The report also points to the opportunities that could result from the transition to a zero-carbon economy and provides recommendations to develop a comprehensive strategy on sustainable finance.

Although the report has not (yet) led to mandatory reporting by Mexican financial institutions to Banco de México, it sends a clear signal and further measures are expected from the central bank.

[31] Banco de México and UNEP Inquiry. (February 2020). *Climate and environmental risks and opportunities in Mexico's financial system from diagnosis to action.* Available at: https://unepinquiry.org/wp-content/uploads/2020/05/Climate_and_environmental_risks_and_opportunities_in_Mexicos_Financial_System.pdf.

#4

Recommendation 4: Create a level playing field for E&S management across the financial industry

Complexity: Medium to high
Impact: High
Time frame: Medium

"Managing risk is the core business of the insurance industry. This includes understanding and reducing risks in the insurance industry's underwriting and investment activities associated with both the physical impacts of climate change and the transition to a low-carbon economy."

Marcio Serôa de Araujo Coriolano, President of the Brazilian Insurance Confederation (CNseg) (May 2018)

Starting point

Resolution 4,327 only covers financial institutions that report to the BCB, primarily banks and other credit institutions. However, in recent years, several measures have been taken by other regulators to work towards a level playing field. Regulation CMN 4661/2018[32] on closed pension funds and CMN 4769/2019[33] on provisions and funds in general, both recommend considering

ESG risk factors in investment decisions. SUSEP and the Brazilian Insurance Confederation (CNseg) are signatories of the UNEP FI's Principles for Sustainable Insurance (PSI),[34] and both institutions are interested in strengthening the position of insurance companies on ESG topics. However, Resolution 4,327 remains the most advanced regulation.

Action by other regulators indicate there is some momentum in the pension funds and insurance sector, which could serve as a starting point for extending Resolution 4,327 to other financial market participants.

Ambition

Creating an industry-wide level playing field on E&S disclosure will reduce information asymmetries on sustainability risks, strengthen transparency, and limit greenwashing. Moreover, streamlining sustainability-related reporting requirements to supervisors across Brazil's entire financial system (i.e. pension funds, other institutional investors, insurance, and rating agencies) ensures and increases comparability of environmental and social risks across various financial market participants.

[32] CMN 4661/2018: http://www.previc.gov.br/regulacao/normas/resolucoes/resolucoes-cmn/resolucao-cmn-no-4-661-de-25-de-maio-de-2018.pdf/view.

[33] CMN 4769/2019 https://www.legisweb.com.br/legislacao/?id=387849.

[34] UNEP-FI PSI Signatories https://www.unepfi.org/psi/supporting-institutions/.

Brazil will achieve a level playing field not only by translating key elements of Resolution 4,327 in regulation for the pension and insurance sector, but also by implementing recommendations 2–4 in those sectors. Regulation 4,327 will need to be adapted somewhat to the insurance and pension industry, including accounting for the effects of different (usually longer) investment time horizons or different portfolio compositions.

Actors

In Brazil, the National Council of Private Insurance (CNSP) regulates insurance companies and the National Council of Pension Funds (CNPC) regulates pension funds. These are the main actors responsible for designing the extension of Resolution 4,327 to other sectors of Brazil's financial system. SUSEP and the National Pensions Funds Authority (PREVIC), which are the executive bodies subordinated to CNSP and CNPC, respectively, are responsible for the supervision of these financial industry segments and will be relevant actors. Given that the BCB has a proven record of issuing Resolution 4,327 and other E&S regulatory instruments, it will be an important support and knowledge provider to the CNSP and PREVIC when implementing this recommendation.

The industry associations of the insurance (CNSeg) and pension funds (ABRAPP) sectors should also be consulted, including their working groups dedicated to discussing the sustainability agenda. The LAB Working Group on ESG Risks and Transparency could facilitate discussions to support the development of this initiative.

Implementation

As also outlined in Recommendation 2 and 3, Resolution 4,327 should be revised to create a more harmonised and transparent disclosure regime. Ideally, Recommendations 2 and 3 would be implemented simultaneously with this recommendation. The CNSP and PREVIC should assess the feasibility of the revised Resolution 4,327 for the insurance and pension fund sector and amend it accordingly. Both could apply the following procedure.

First, complementary instructions or norms related to CMN 4661/2018 and CMN 4769/2019 should be issued and/or extended to include concrete and mandatory E&S risk assessments. For instance, Previc Instruction 6/2018 states that closed pension funds must integrate ESG issues in their investment policies. In addition, both regulations must be amended to include reporting requirements to the respective supervisor on managing sustainability risks and impacts in pension funds.

Second, for the insurance sector, the draft resolution prepared by SUSEP in 2018/19[35] should be revised, harmonised with other regulations on sustainability factors, and then implemented. The CNSP and CNPC are advised to engage industry associations and other relevant stakeholders in the process, for example, through consultations.

Outputs

The result of the implementation of this recommendation is a harmonised legal framework on how to assess and manage E&S risks across Brazil's entire financial system.

International examples

The EU's Disclosure Regulation (i.e. COM (EU) 2019/2088)[36] is an example of how a single regulation can establish the same operating conditions and reporting requirements for multiple financial market participants. The Disclosure Regulation covers:

» an insurance undertaking that offers insurance-based investment products (IBIP);
» a credit institution or investment firm that provides portfolio management services;
» an institution for occupational retirement provision (IORP);
» an institution that provides pension products;
» an alternative investment fund manager (AIFM);
» a pan-European personal pension product (PEPP) provider;
» a manager of a qualifying venture capital fund;
» a manager of a qualifying social entrepreneurship fund; or
» a management company of an undertaking for collective investment in transferable securities (UCITS management company).

[35] SUSEP Regulatory Plan. http://www.susep.gov.br/setores-susep/seger/codin/delib217.pdf.

[36] EU Disclosure Regulation: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32019R2088.

#5

Recommendation 5: Provide aggregated and publicly accessible E&S data

Complexity: Medium
Impact: Medium
Time frame: Short term

"The complexity of transition risks demands governments, the private sector, civil society, and the international community to anticipate the foreseeable long-term negative impacts and to start building a low-carbon economy that is more resilient and adapted to future challenges."

Former Finance Ministers of Brazil and Governors of the BCB, Open Letter "Convergência pelo Brasil" (2020)

Starting point

Data deficiencies and inconsistencies are major barriers to adequately considering, addressing, and internalizing environmental, social, and climate-related risks and impacts, and to seizing green and sustainable investment opportunities. Classification systems and systematic disclosure of relevant information on E&S and climate-related risks and impacts are vital to enable the market to lend and invest more sustainably at a larger scale.

E&S data in Brazil is fragmented at the municipal, state and federal level. A lack of communication and integration of these data points has limited the role of financial authorities to a certain extent since an integrated approach is necessary to improve availability and access to decision-useful data through official E&S databases.

For the agricultural sector, for instance, the BCB already collects E&S data on economic activities under rural credit operations through the Rural Credit Operations System (Sicor). Given the importance of the agriculture sector to the Brazilian economy, the Rural Credit Policy is a pivotal public policy and financing mechanism for the long-term sustainability of not only agribusinesses, but the entire Brazilian economy.[37] As part of its sustainable finance agenda, the BCB intends to improve and disclose its initial database on Sicor, creating the Green Bureau for Rural Credit.

Following an open banking model, it will allow data exchange between financial market actors, and could be used to increase capital provision to certain projects (see Recommendation 7). This work could be leveraged by a broader initiative to aggregate and make E&S data for the financial market publicly accessible.

[37] BCB, Rural credits: https://www.bcb.gov.br/en/financialstability/ruralcredit.

Ambition

The overall ambition of this recommendation is to increase transparency and access to sustainability-related data in the Brazilian financial sector. To achieve this ambition, and considering the BCB has already announced the development of the Green Bureau, vital information should be aggregated in the improved database, including green financial flows in the banking sector, E&S information reported by companies, and the scope should be expanded to include infrastructure, manufacturing, industrial production, among other sectors with high E&S risks and impacts. The systematic aggregation and disclosure of E&S information, and the provision of such information to the market and various stakeholders, is essential to promote capital allocation for the financing of projects that meet E&S standards.

Additional information on the E&S characteristics of an operation should be relevant and useful for decision making, and available for use by financial institutions to assess new loans and identify and manage E&S risks, not only for credit rural operations.

Actors

Although it was the BCB that first began compiling data, built an initial database, and announced a plan to improve it, its role is limited to a certain extent given that an integrated and system-wide approach is needed to improve official E&S databases in a purposeful way. The Chief of Staff of the Presidency (Casa Civil) could engage different ministries and E&S agencies to lead a multi-stakeholder process to implement this recommendation.

Since valuable information is provided by other government authorities, the successful implementation of the recommendation would depend on the cooperation of other stakeholders, such as the Ministry of the Economy, Ministry of Agriculture, Ministry of Science and Technology, Ministry of Environment, Public Prosecutors Office, IBGE, IBAMA, and INPE. Civil society organisations and technical experts on sustainable finance can provide support, and the LAB Working Groups on Green Finance and ESG Risks and Transparency could play an important role.

Implementation

The BCB has already identified some green criteria and information to be included in the Green Bureau, and announced that it will open a consultation with civil society, academia, and the financial sector to understand what additional information would be required. The implementation of the Green Bureau will follow a phased schedule starting in 2021 and ending in July 2022. As a first step, the BCB is conducting a stocktaking and gap analysis of the existing database. The initial objective for the database should be improving the provision of E&S information on rural credit operations to the market. To do this, the BCB is conducting a thorough assessment of the current E&S factors covered in the database. Subsequently, a plan will be created to adjust the database to allow for detailed E&S analysis of rural credit and other financial operations. In this regard, ministries and E&S agencies are is recommended building on the BCB's work with a project that systematically aggregates and publish E&S information as part of a large database accessible to all market actors. The following data points should be considered:[38]

- **Labour conditions:**
  - Dirty List of Forced Labour: Companies and persons that subjected employees to slave-like labour conditions according to the Ministry of Labour. Banks use this list as a source for negative screening, and BCB Sicor prevents listed companies and persons from accessing rural credit.
  - Social Security: Companies must prove compliance with social security obligations.
  - Negative Certification of Labour Debts (CNDT): Mandatory certificate issued by the Superior Labour Court (TST) for companies to participate in public biddings. It proves companies have no debts regarding their labour obligations.
  - CAGED reports: Information about companies' admissions and dismissals reported to the Ministry of Economy's General Register of Employment.

- **Biodiversity and land use:**[39]
  - Deforestation alerts: Georeferenced data provided by the Instituto Nacional de Pesquisas Espaciais (National Institute for Space Research) on deforestation alerts using satellite surveillance monitoring.
  - Environmental Rural Registry (CAR): A mandatory digital registration system that aims to integrate environmental information on property (e.g. compliance with legal reserves minimum thresholds). The New Forest Code (Federal Law 12,651/2012) created the registry. Since it provides georeferenced information, it is possible to identify conflicts in indigenous areas, overlap with protected areas, deforestation, etc.
  - Agricultural Climate Risk Zoning (ZARC): technical-scientific and georeferenced instrument built on information about the environmental capability and vulnerabilities of a particular region, especially the behaviour and characteristics of climate, soil, vegetation, geomorphology, and focusing on the land capability for agricultural use. It also considers the social and economic characteristics of each region.
  - List of National Environment Authority (IBAMA) fines and embargoed areas: companies and persons that have developed economic activities in embargoed areas by the IBAMA and/or have been fined for other environmental issues (e.g. damage to protected areas).

[38] This is not an exhaustive list and is based on available official databases. The BCB has already adopted some of these official data points to rural credit operations (e.g. the Dirty List since 2011). Other data sources are being considered by BCB staff for the development of the Green Credit Bureau. Regarding the disclosure of these data points for financial operations, it is important to find an approach that avoids breaching banking secrecy laws.

[39] The BCB is already working to incorporate and/or improve the incorporation of these issues in Sicor.

- **Use of natural resources:**
  - National Water Agency (ANA) database: provides georeferenced data of the National System of Water Resources on water use permits and water systems.

Outputs

The output of this implemented recommendation would be the improvement of currently available E&S data banks and the subsequent improvement of the disclosure of other relevant E&S information to the financial sector. The format and set-up of the database(s) as well as other important factors, such as data protection and legal aspects related to the development and disclosure of the database, would need to be carefully assessed and specified.

The BCB's recent announcement to improve and disclose its initial database of rural credit operations and relevant E&S factors, which will help to implement this recommendation, may only be the starting point of a systematic and comprehensive set of actions around the aggregation and disclosure of relevant sustainability-related data to the financial sector.

These recommended actions will also strengthen coordination between E&S and financial authorities, and pave the way for a systematic and comprehensive aggregation and disclosure of E&S information to the private sector. The improved quality and availability of this data may help to channel capital flows to projects in rural, agribusiness, and other sectors that meet sufficient E&S requirements.

International examples

Agri-environmental indicators[40] (AEIs) track the integration of environmental concerns in the Common Agricultural Policy (CAP) at the EU and national levels. A set of 28 indicators was developed by the Commission in close collaboration with Member States following the last Commission Communication on Agri-Environmental Indicators of 2006. These indicators provide information on the cultivated land, track the impact of agriculture on the environment, assess the impact of agricultural and environmental policies on the environmental management of farms, inform agricultural and environmental policy decisions, and illustrate agri-environmental relationships to the broader public.

[40] The indicators can be found here: https://ec.europa.eu/eurostat/web/agriculture/agri-environmental-indicators.

#6

Recommendation 6:
Foster a sustainable infrastructure pipeline

Complexity: Medium
Impact: Medium
Time frame: Short term

"A green bond program provides successive issuances for certain types of assets. It is the consolidation of a green pipeline in the infrastructure sector. No project in the transport sector has seen this sort of issuance here in Brazil so far. The time has come now."

Tarcísio Gomes de Freitas, Minister of Infrastructure, Brazil (7 July 2020)

Starting point

A pipeline of sustainable infrastructure projects is a prerequisite for capital allocation towards sustainable projects. In the absence of a sufficiently large project pipeline, capital will most likely search for alternatives in other jurisdictions. Also, when project developers under-price ESG risks, the existing project capital may be inadequate to cover potential losses. Therefore, policy measures should foster the development of a sustainable infrastructure project pipeline.

In the World Economic Forum's Global Competitiveness Index, Brazil's infrastructure score is 78th out of 144, with weak areas related to, for instance, poor quality transport services in the road and railway segment, among others.[41] In its current condition, Brazil's infrastructure is not sufficiently prepared to meet the country's development needs, which would require total annual investments of BRL 205 billion between 2019 and 2024.[42] A considerable share of these volumes must come from private financing sources as the public budget was only at BRL 7 billion in 2020. Massive investment needs and the growing role of the private sector provide an opportunity to support the development of a sustainable infrastructure investment pipeline. Such a pipeline would certainly attract the interest of domestic and foreign investors looking for environmental and socially sustainable investment opportunities.

The Ministry of Infrastructure (MInfra) is responsible for the country's infrastructure development. Traditional infrastructure financing has mainly come from the BNDES,[43] which once had a 70 to 80 percent share in financing infrastructure projects, but is now reducing its participation due to strategic repositioning.[44]

Requirements for sustainable infrastructure projects involve mandatory disclosure of environmental and social impacts under BNDES's lending programmes as well as broader risk integration established by Resolution 4,327/2014. Based on this, the MInfra issued Decree 2,866/2019 that created an Environmental Management Committee to develop environmental and social guidelines that apply to all infrastructure project concessions to the private sector. Those guidelines are still under development.[45]

[41] See World Economic Forum (2019). The Global Competitiveness Report. Available at: http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf.

[42] Compare IDB (2019). Improving Infrastructure Financing in Brazil. Available at: https://publications.iadb.org/en/improving-infrastructure-financing-brazil.

[43] See also IDB (2019).

[44] Compare IDB (2020). Financing sustainable infrastructure in Latin America and the Caribbean Market development and recommendations. Available at: https://publications.iadb.org/publications/english/document/Financing-Sustainable-Infrastructure-in-Latin-America-and-the-Caribbean-Market-Development-and-Recommendations.pdf.

Further to this, MInfra has recently announced a plan for a green bond programme that will finance infrastructure projects in the country. The green bonds will seek certification against the Climate Bonds Standard and the first programme is to focus on three railway networks with an investment potential of close to USD 3 billion.[46]

Ambition

To continue fostering sustainable infrastructure projects in Brazil, it is critical to build a robust pipeline of sustainable infrastructure projects and facilitate matching with investors seeking such opportunities. For instance, this list of necessary infrastructure projects could be published in a new online database or platform administered by MInfra. Projects should be identified and selected based on clearly defined sustainability criteria (as defined in a taxonomy, see Recommendation 1) and ranked by factors like their expected impact (e.g. emissions savings per BRL invested or travel time saved per BRL invested) and importance (e.g. strategic relevance to a region). The platform should act as a publicly supported matchmaking facility. Furthermore, MInfra might want to consider creating effective public-private partnership mechanisms for sustainable infrastructure investments. The set-up of such a structure should be assessed in a feasibility study.

The progressive elimination of tax exemptions for unsustainable projects should also be considered as it would both help to internalise some of the negative externalities of these projects and provide a clear signal to infrastructure project developers. On-going discussions led by the MoE[47] on the establishment of a carbon pricing scheme in Brazil can help support decisions on tax matters.

Actors

The main actor responsible for implementing this recommendation should be MInfra, which is responsible for Brazil's infrastructure development and strategy. It must be actively involved in identifying the pipeline of sustainable infrastructure investment projects and in setting up the online platform and establishing effective public-private partnership mechanisms for sustainable infrastructure investments. Additionally, the Ministry's partnership with the Climate Bond Initiative (CBI) to use green bonds to attract investment in sustainable infrastructure projects[48] could be harnessed, and other partners, such as BNDES, IDB and other development financial institutions could also be included. The Brazil Green Finance Programme, managed by the UK Foreign, Commonwealth & Development Office, plans to develop an online platform to promote sustainable infrastructure opportunities in Brazil and could also be a potential ally.

The MoE would also be an important partner in improving the regulatory framework for the issuance of green, social and/or sustainability bonds, while the Ministry of Regional Development would contribute to identifying and assessing needs and opportunities for financing sustainable infrastructure projects at the local level. The MDR could also work to adapt regional Constitutional Funds (FCO, FNO, and FNE) to prioritise and promote flexible conditions for these projects.

[45] Compare IDB (2020).

[46] See: https://www.climatebonds.net/2020/07/brazilian-govt-announces-first-latam-green-bond-program-fund-infrastructure-projects-green.

[47] See: https://www.thepmr.org/country/brazil-0.

[48] See: https://www.climatebonds.net/2019/09/shifting-pathways-brazil-review-54-billion-infrastructure-portfolio-line-international-green.

Implementation

The implementation of this recommendation should follow three steps:

First, it is critical to establish a solid methodological framework that integrates sustainability criteria in the investment and financing processes of infrastructure projects. These environmental and social criteria should be developed and determined in alignment with both the Brazilian taxonomy for sustainable activities (Recommendation 1) and international principles and standards, such as the Equator Principles. The public-private partnership mechanism should also be established.

Second, infrastructure projects should be assessed against and integrated with these environmental and social criteria. In-depth information on projects for potential investors (i.e. detailed project description and selected financial data) should be published in the newly established online database or platform for sustainable infrastructure projects. The information should include how the new public-private partnership mechanism will be applied to the project. This way, prospective private investors are presented with a pipeline of sustainable investment opportunities and can use the publicly supported matchmaking facility. The issuance of green, social and/or sustainability bonds would be an effective way to access these private investments. Thus, the MoE may have an important role in issuing norms to foster the issuance of these thematic bonds.

Finally, following the initial pathway design, MInfra is advised to establish an infrastructure development plan and set taxonomy-aligned infrastructure development objectives (e.g. 80 percent of new infrastructure built by 2040 must be aligned with the taxonomy). Such targets provide transparent indicators for Brazil's overall infrastructure development path, and offer clear signals to investors that they can invest with confidence. Reducing incentives for projects not aligned with sustainability criteria would help to achieve these targets.

If the opportunity to attract private capital to sustainable infrastructure development projects is missed, there is a risk of technology lock-ins (e.g. coal-fired power plants, energy-intensive buildings, transport infrastructure vulnerable to climate change, etc.), and stranded assets. On the flipside, fostering innovative sustainable technologies to Brazil will likely have a strong positive economic effect thanks to more resource-efficient, climate-smart infrastructure and an improved built environment for the benefit of citizens and businesses.[49] The mobilisation of this private capital could be combined with existing government resources, such as those provided by the FCO, FNO, and FNE to provide better conditions for sustainable projects. Existing reimbursable green credit lines of these funds (e.g. FNE Verde) could be enhanced, and all credit lines could follow these principles: (i) prioritizing projects that meet minimum E&S standards, and (ii) have ESG-linked schemes in which interest rates and other financing conditions depend on ESG performance.

[49] World Economic Forum (2020). How sustainable infrastructure can aid the post-COVID recovery. Available at: https://www.weforum.org/agenda/2020/04/coronavirus-covid-19-sustainable-infrastructure-investments-aid-recovery/.

[50] See: https://www.proyectosmexico.gob.mx/en/projects-hub/.

The LAB Working Group on Green Finance is already leading discussions on this topic and could be an ally.

Outputs

The newly created platform for sustainable infrastructure projects in Brazil would attract investors and reduce the infrastructure financing gap that widened after BNDES restructured. As a result, sustainable infrastructure investments will not come to a halt and economic development will continue. Lower interest rates in Brazil and the reduced participation of BNDES in the infrastructure credit market have also been attracting more private capital. A platform for sustainable infrastructure projects will provide an appropriate direction for these resources. Implementing this recommendation will not only help to attract financing for sustainable and future-proof infrastructure projects, but also provide a critical component to scale up the green bonds market in Brazil.

International examples

The Mexico Projects Hub for Investment and Infrastructure[50] (Proyectos México) is an initiative of the Mexican Government mainly led by the NDB Banobras and the IDB to create an Infrastructure Promotion Office that links infrastructure investment projects with national and international investors. It should encourage long-term financing for infrastructure in the country.

The platform currently lists over 200 infrastructure projects.[51] However, a large share of these projects is not dedicated to sustainability. Since, Banobras has intensified work to develop a sustainable infrastructure framework for the platform. Brazil could benefit from a peer exchange with Mexico on the platform. A sustainability focus on a Brazilian online platform for infrastructure investments would help make the market more attractive or accessible to large international investors.

[51] See https://emsdialogues.org/sustainable-infrastructure-with-banobras.

#7

Recommendation 7:
Foster sustainable agriculture investments

Complexity: Medium
Impact: Medium
Time frame: Medium term

"The Ministry of Agriculture, Livestock and Food Supply recognizes that Brazil has the largest agro-environmental assets in the world and believes this can be scaled up through green investments."

Teresa Cristina, Minister of Agriculture, Livestock and Food Supply, Brazil (2020)

Starting point

Brazil has great potential to increase sustainable financing and investments in the agriculture sector. As one of the largest exporters of agricultural commodities, the country has established a solid sustainable agriculture framework and legislation in the last few decades, providing a good basis for fostering sustainable agriculture investments.

In 2012, the updated Forest Code (Federal Law 12,651) introduced rules to reconcile the preservation of Brazil's remaining native forest, rivers, soil, and biodiversity with sustainable development. The Forest Code established that rural landowners should set aside a percentage of their property for preservation of native vegetation,[52] while also requiring that deforested areas (above the percentage defined for the property) be restored.

According to the Forest Code, landowners should monitor such requirements through the Rural Environmental Registry (CAR). The CAR is a mandatory digital registry that enables landowners to document environmental information on their property. When this information is deemed not compliant with the Code's rule, landholders are obliged to take part in the Environmental Regularisation Programme (PRA), which involves developing environmental restoration and conservation plans.

However, there have been challenges in fully implementing the CAR: The deadline for its adoption has been repeatedly postponed, and less than ten percent of rural properties recorded in the system have been assessed and validated.[53] As a result, the full potential of this tool has not been realised since the financial sector cannot rely completely on the information provided by the CAR system to assess land use. Challenges remain, especially the complexity and cost of implementing the legislation further. However, the current government has established new strategies and is using new technologies to improve the system, which may significantly increase the potential of this tool. Thereafter, the financial sector would rely on information provided by the CAR system to assess land use.

[52] These areas are called 'legal reserves' and range from 20 to 80 percent of rural properties depending on the biome where native vegetation must be conserved. Partially or totally protected areas (e.g. indigenous reserves, environmentally protected areas) account for nearly 29 percent of Brazil's territory. See: http://www.planalto.gov.br/ccivil_03/_ato2011-2014/2012/lei/l12651.htm; https://data.worldbank.org/indicator/ER.LND.PTLD.ZS?end=2018&locations=BR&most_recent_value_desc=true&start=2016&view=chart.

[53] See: https://observatorioflorestal.org.br/em-seis-meses-menos-de-10-dos-propriedades-rurais-entraram-no-car/.

Estimates[54] indicate a deficit of 19 million hectares of registered areas under the Forest Code, which could amount to investments of approximately USD 32.5 billion for implementing PRAs. Such investments could be financed through green and transition bonds, loans, or funds.

Regarding the credit market, the 2020/2021 Safra Plan[55] increased funds for the ABC Programme and reduced interest rates — to 4.5 to 6 percent p.a. from 5.25 to 7 percent under the previous plan.[56] Also, the Ministry of Agriculture, Livestock and Food Supply (MAPA) has included the possibility of financing the acquisition of Environmental Reserve Quotas to foster the implementation of the Forest Code. However, the funds available through these concessional credit instruments are still not enough.

In 2020, an update on rural financing introduced by Law 13,986 (Lei do Agro) brought changes to the Rural Product Note[57] (Cédula de Produto Rural, CPR), an important agribusiness financing instrument in Brazil's capital markets. The change introduced a set of measures,[58] such as expanding who can issue CPRs, as well as eligible collaterals for CPRs, to include activities such as native forest conservation, forestry, management of commercial and native forest, and agroindustry activities.[59] The update introduces the possibility of CPR issuance and respective covered bonds, as well as asset-backed securities (ABS) denominated in foreign currency. The possibility of registering market-based instruments abroad was also introduced, which should attract investments from capital markets to the country's agriculture sector and could be further replicated with other financial instruments.

To assist with the green labelling of these instruments, current initiatives of MAPA and the Climate Bonds Initiative (CBI) may be useful. In November 2019, they signed an MoU to guide the development of a green finance market for Brazilian agriculture, and in 2020 launched a document with recommendations for unlocking green investments in the sector. The MoU also aims to support the certification of green projects for green bond eligibility. An operational plan for the MoU has been put in place and disclosed to stakeholders in the sector through engagement workshops. Specific activities were held throughout 2020 and more are planned for 2021. Efforts have included launching a survey to understand and minimise differences between investors and producers. Criteria for agriculture have already been published, and those for livestock will be published in late 2020. Some "Leading Cases" were already operationalised in 2020, including one using the CBI taxonomy criteria. First, it was expected that the Leading Cases would be operationalised only in 2021, but four are already in place and two more are almost ready. Hence, this policy action is ahead of schedule despite COVID-19.

Finally, the new Forest Code introduced the Payment for Environmental Services (PSA) mechanism as an incentive for forest preservation and restoration. It established that the federal government could create a payment programme for environmental services provided by rural properties that preserve native and restored vegetation. However, further regulation for

[54] See: https://www.climatebonds.net/system/tdf/reports/brazil_agri_roadmap_english.pdf?file=1&type=node&id=47432&force=0.

[55] Safra Plan is the official guidance provided annually by MAPA on the conditions of federal agriculture credit lines.

[56] See: https://www.gov.br/agricultura/pt-br/assuntos/noticias/com-mais-recursos-e-melhores-condicoes-de-financiamento-plano-safra-2020-2021-tera-236-bilhoes.

[57] The Rural Product Note (CPR) and the Financial Rural Product Note (CPR-F) provide a promise of delivery of rural products and by-products, and are issued exclusively by rural producers, their associations, and cooperatives.

[58] Some measures include: introduction of fiduciary lien over rural land, which is now allowed to be granted as collateral to foreign investors; the possibility of segregating rural assets as collateral for CPR; and the possibility of issuing CPRs/CPR-Fs in foreign currency adjustment.

[59] See: https://www.tauilchequer.com.br/en/perspectives-events/publications/2020/04/federal-law-n-13986mp-agro.

the mechanism is lacking. A draft bill (PL 792/2007)[60] that would create the National Policy for Payment for Environmental Services and provide resources to rural landowners that maintain these services is currently being discussed in the House of Representatives.

These initiatives illustrate the country's efforts in strengthening sustainable agriculture and land use, and its intentions to foster sustainable business models. While progress has been made, there is still a gap between current initiatives and the development required for the market to take off, which this recommendation aims to address. A strong policy environment and ensuring its compliance will nurture this development and help to unlock investment opportunities in the field.

Ambition

To foster a sustainable agriculture market in Brazil, investors must be made aware of the opportunities for green investments in the agribusiness sector. MAPA and CBI have identified a large pipeline of projects and assets eligible for green financing that would reach nearly USD 160 billion by 2030. An investor survey has also been launched by MAPA and CBI to understand investor appetite for green bonds in the agriculture sector.

Such opportunities should be amplified to attract long-term capital from the private sector. Opportunities can be leveraged through greater enforcement of the Forest Code, updates to existing financial instruments regulation, and green taxonomies.

Actors

The main actor to introduce these improvements should be MAPA, which needs the active support of the MoE, the BCB, CVM, MMA, and Casa Civil. Its current initiatives with the CBI already tackle some of the challenges to the development of a better market environment for sustainable agriculture, but more work needs to be done to implement recommendations for unlocking green investments in the agriculture sector. MAPA should also engage with legislators on bills to foster access to financial instruments for sustainable agriculture producers, and to establish a market for environmental services. For instance, PL 792/2007 would assist in the development of the National Policy for Payment for Environmental Services (PSA). The Ministry of Environment would be an important ally in the elaboration of a framework to further develop the PSA mechanism. The Ministry has already been working on the development of PSA programmes, such as Floresta+.

[60] See: https://www.camara.leg.br/proposicoesWeb/prop_mostrarintegra;jsessionid=903890EF7335E4D6626C0AEBE5FBCCE1.proposicoesWebExterno1?codteor=453221&filename=PL+792/2007sicoesWebExterno1?codteor=453221&filename=PL+792/2007.

As a multi-stakeholder forum with active players in the agriculture sector, all LAB working groups can support the dialogue and development of criteria for this initiative.

Implementation

Greater enforcement of the Forest Code, through further implementation of CAR and the PRA, provide a substantial opportunity for green investments. To overcome challenges such as the low rate of recorded rural properties, deadlines for registry submission by landowners must be set and enforced. Further regulation of the Forest Code rule for the establishment of the PSA mechanism should also be developed.

Regulation on capital market instruments should follow the updates made by Law 13,986, and include sustainable agricultural activities within its scope. Incentives such as those introduced by Law 12,431/2011, which created fast-tracking for green bonds in the infrastructure sector, could also be used in the sustainable agriculture sector to engage issuers. Also, the adaptation or creation of new financial instruments can facilitate access to capital markets for farm producers and green labelling of their issuances for sustainable activities. Efforts to create Agribusiness Credit Notes (CCA) is an example of an ongoing initiative led by MAPA.

A green or sustainable taxonomy should be used to support sustainable labelling of standard financial instruments already used to finance the agricultural sector (see Recommendation 1 on developing a position on an economy-wide taxonomy). The CBI has published its Agriculture Criteria, which should further support the labelling of sustainable agriculture projects in Brazil. The first certified deal in the world using these criteria was issued by Rizoma-Agro, sending a signal to the market. The use of existing instruments, such as the Agribusiness Receivables Certificate (CRA), Agribusiness Letter of Credit (LCA), Credit Rights Investment Funds (FIDCs), and bonds should be encouraged. Cooperation initiatives with agricultural associations and technical experts may also help to disseminate knowledge about green financial instruments among small and medium rural producers, thereby providing value to the financial resources.

The Sustainable Agriculture Investments Plan, launched by the Ministry of Agriculture in partnership with the CBI, may include all these actions, in addition to identifying specific regulatory barriers that must be overcome to facilitating access to capital markets for sustainable producers. Thus, implementation may foster the recommendations proposed by this roadmap.

Outputs

The actions recommended above aim to overcome some important barriers to sustainable agriculture taking off in Brazil. The country already has many legal and financial instruments to support green projects and practices in the sector, which it needs to implement, improve, and promote effectively.

Example

Brazil's Low-Carbon Agriculture (ABC) Plan is a good example of a national initiative that may:

- provide insightful lessons for any investment plan for sustainable agriculture, regarding (i) the target technologies and production processes that may be eligible for a sustainable agriculture plan, and (ii) the challenges faced by government and financial institutions to match the needs of rural producers; and
- be expanded to reach more small and medium-sized producers and have ambitious targets related to E&S issues.

Over-bureaucratisation and a lack of technical assistance to go along with the plan's funding have reduced its uptake. MAPA is in the process of implementing changes to the plan in accordance with these lessons.

The participation of private investors in similar initiatives may help to increase access to sustainable financial resources for rural producers and, in turn, increase the adoption of low-carbon and climate-resilient farming practices.

#8

Recommendation 8:
Refine and expand official sustainability labels for funds

Complexity: Medium
Impact: Medium
Time frame: Short term

"An eco-label is a tool for sustainable finance to become mainstream. It is a rallying point for investors and savers who are committed to the ecological transition. The aim is to accelerate investments."

Brune Poirson, French Minister for Ecological Transition on the French Greenfin label (June 2019)

Starting point

The Brazilian investment funds sector,[61] worth BRL 5.7 trillion (as of September 2020), is home to some sustainability funds. ANBIMA has defined a Sustainability and Governance category for investment funds that consider social and governance aspects in their investment strategies. However, these funds currently account for just 0.1 percent of total assets under the management of equity funds.[62]

In general, the development of sustainability-themed investment funds follows two strategies. First, for sustainable Exchange Traded Funds (ETFs), the strategy involves tracking a sustainability-linked index. In Brazil, there are three sustainability-linked indices:[63]

» The Corporate Sustainability Index[64] (ISE) includes companies listed on B3 with a good rating in economic efficiency, environmental equilibrium, social justice, and corporate governance;
» The Carbon Efficient Index[65] (ICO2) combines companies listed on the IBrX 50 Index that are disclosing and monitoring their greenhouse gas emission; and
» The S&P/B3 ESG Index adopts the S&P DJI ESG Score and applies a negative screening based on a company's involvement in specific business activities and non-adherence to the principles of the UN Global Compact.

The second strategy for sustainability investment funds consists of developing internal sustainable investment policies and frameworks. Sustainable investment policies typically combine different strategies and approaches, including negative, norms-based, best-in-class, or positive screening. ESG integration, and active ownership. These strategies can apply relevant definitions and standards. Those can include the use of taxonomies for sustainable assets (e.g. a national taxonomy, see Recommendation 1, or the Climate Bonds Sector Standards, the Green Bond Principles, and the IDB Sustainable Infrastructure Framework), and other ESG references (as, for instance, provided by the Principles for Responsible Investment and IFC Performance Standards).

[61] As of August 2020. Anbima, Boletim de Fundos de Investimento. Available at: https://www.anbima.com.br/pt_br/informar/relatorios/fundos-de-investimento/boletim-de-fundos-de-investimentos/classe-renda-fixa-registra-a-maior-captacao-liquida-no-mes.htm.

[62] GIZ (2020). O Mercado Emergente De Finanças Verdes No Brasil. Available at: https://www.giz.de/en/downloads/mercado_financasverdes_short.pdf.

[63] There are also indexes for companies with good corporate governance practices (IGTC, ITAG, IGCX, and IGNM).

[64] Corporate Sustainability Index (ISE): http://www.b3.com.br/en_us/market-data-and-indices/indices/sustainability-indices/corporate-sustainability-index-ise.htm.

[65] Carbon Efficient Index (ICO2 B3): http://www.b3.com.br/en_us/market-data-and-indices/indices/sustainability-indices/carbon-efficient-index-ico2.htm.

Despite this growing market for sustainability-themed investment funds, a common standard for sustainable labels for financial products and funds, which is regulated by public authorities, does not yet exist in Brazil. Funds are therefore generally self-labelled and underlying assets do not necessarily apply the verification schemes or Second Party Opinions (SPOs).[66] This reduces certainty among asset owners and retail investors on the standard or quality of sustainability-focused funds.

Ambition

By providing investment products with accredited sustainability labels that fulfil specific sustainability criteria, Brazilian authorities would allow asset owners and retail investors to more easily understand the level of sustainability of an investment product and, based on this understanding, make more informed investment decisions in line with their sustainability preferences. Better access and visibility could also increase demand for such products and support investors' contribution to socio-economic challenges while rewarding companies with good social and environmental practices.

An agreed definition of specific sustainability criteria, as well as a verification mechanism for compliance, both help to ensure that investments labelled as sustainable contribute effectively to Brazil's social and environmental goals. However, the introduction of sustainability labels for investment funds requires as a pre-requisite the establishment of sustainable finance framework that includes a taxonomy, E&S disclosure requirements, and a market for external verification providers.

Actors

As the responsible actor for market development, the promotion of appropriate information and the functioning of the market, the CVM would be the lead actor in implementing this recommendation. The involvement of ANBIMA will also be relevant, since the association has led previous initiatives on this topic, such as the development of a self-defined taxonomy for fund categories, including a category for "Sustentabilidade & Governança" funds. As the stock exchange in which open-end funds are registered, B3 should be included in the process to ensure smooth operationalization.

The implementation of sustainability labels for investment funds would contribute to the development of a sustainable finance market, improve the availability and reliability of information, and protect end-investors against misinformation. The role of ANBIMA and the CVM could involve either developing sustainability criteria and verification mechanisms for the labels or regulating the development of labels. The LAB Working Group on Green Finance and ESG Risks and Transparency can contribute to discussions on the development of ESG labels. Its Working Group on Impact Investing may also provide insights on impact investing labels.

[66] Since these methodologies were designed to evaluate individual financial assets, they may only be extended to funds that invest in a single asset and/or have already defined the specific assets.

Implementation

The implementation of a sustainability label for retail and institutional investment products and funds could follow three steps:

1. Sustainability criteria definition: Should be based on existing standards, ideally a single common definition or taxonomy (see Recommendation 1). Aside from positive (inclusion) criteria, such a label could also include negative screening criteria and/or define a minimum percentage of assets invested in eligible activities or stectors.
2. Fund management criteria: To ensure that market participants can trust the label, governance criteria should be established for the management of funds, including requirements on disclosure, reference to the taxonomy, and external verification.
3. Accreditation mechanism: An accreditation mechanism for the institution(s) verifying compliance with the label would need to be established. The CVM could provide sustainable finance label verification itself or select accredited institutions as official verifiers of the label.

Outputs

Investment products and funds with a certified sustainability label can help to set higher social and environmental performance and transparency standards in Brazil's financial sector. The label can increase visibility and foster the marketing of such funds. For (retail) investors and asset owners, it will become easier to assess the quality and credibility of a sustainability-labelled fund, and it may create an incentive to place more capital in social and environmental investments.

International examples

As part of the EU Action Plan on Financing Sustainable Growth, the European Commission aims to expand the EU Ecolabel, which currently exists for various goods and services, to financial products. In doing this, the Commission aims to make environmental performance more transparent and green financial products more accessible to a broader range of investors, including retail investors. The EU Ecolabel, which was established in 1992 by the European Commission, is given to products and services that meet high environmental standards throughout their lifecycle, including a product's materials, its production, distribution, and disposal. For companies intending to reduce their negative environmental and social impact, the label's criteria provide crucial guidelines.

The proposed EU Ecolabel for financial products is, furthermore, intended to be linked to other regulatory reforms, such as the EU Taxonomy and the ongoing update to the disclosure regime.

The European Joint Research Centre (JRC) is responsible for the development of the EU Ecolabel. Its proposed draft criteria have undergone several iterations with the financial industry, policymakers, and research institutions. The final EU Ecolabel for financial products is expected in 2021.

#9

Recommendation 9:
Establish a strong Brazilian presence in sustainable finance fora

Complexity: Low
Impact: Medium
Time frame: Short term

"There is a need for international mechanisms that address the (climate) changes that might occur, and are already occurring."

Luis Awazu Pereira, Deputy General Manager of the BIS (2020)

Starting point

The rapid growth of sustainable finance in recent years has been a source of competition among financial market actors, financial centres, and countries. Many financial market actors are aware of this trend and have responded by tapping into sustainable finance markets[67] and focusing more heavily on sustainable finance-related projects and initiatives.[68]

Despite the competitiveness, the way forward requires peer learning, capacity building, and the exchange of best practices to keep up with the fast pace of change. With the LAB and other fora, public and private actors have found platforms that support local innovation and knowledge sharing, as well as intercountry exchange. However, with financial markets interlinked on a global scale, and with benchmark-setting standards on sustainable finance under development, more international dialogue is required.

Brazil has intensified participation in international dialogue on sustainable finance in recent months. The BCB joining the NGFS was the first major step in establishing a strong global presence. In October 2020, LAB announced it had joined the International Network of Financial Centres for Sustainability (FC4S), becoming the network's first South American member. Joining the International Platform on Sustainable Finance (IPSF), a platform that aims at "scale[ing] up the mobilisation of private capital towards environmentally sustainable investments"[69] could be the next step in increasing Brazil's global presence in sustainable finance.

Ambition

Brazil should aim to establish a strong presence in sustainable finance internationally by becoming an active member of the NFGS, the FC4S and, potentially, the IPSF.

NGFS: The BCB became a member of the NGFS in March 2020. Since then, the institution has been participating in the discussions and joint efforts of the three key NGFS work streams:

[67] GIZ (2020). O Mercado Emergente De Finanças Verdes No Brasil. Available at: https://www.giz.de/en/downloads/mercado_financasverdes_short.pdf.

[68] See, for instance, the TCFD roadmap by FEBRABAN and SITAWI: http://info.sitawi.net/febraban-recommendations.

[69] European Commission: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/international-form-sustainable-finance_en.

- Supervisory and micro-prudential practices: Aim to identify best practices and issue guidance for financial authorities on the supervision of climate and environmental risks at the micro-prudential level;
- Macro financial: Aims to apply climate scenarios at the macro-prudential level to identify, assess and manage risks and guide authorities in integrating these analyses into macroeconomic and financial stability surveillance;
- Scaling up green finance: Aims to promote central banks' and supervisors' practices to integrate E&S issues in their investment and monetary policies, and to monitor the development of the market.

The BCB can also contribute to other cross-sectional work streams, including the one on bridging data gaps, which aims to address the limitations of data availability identified in the other work streams; and the research work stream,[70] which aims to improve knowledge of critical issues that require further research.

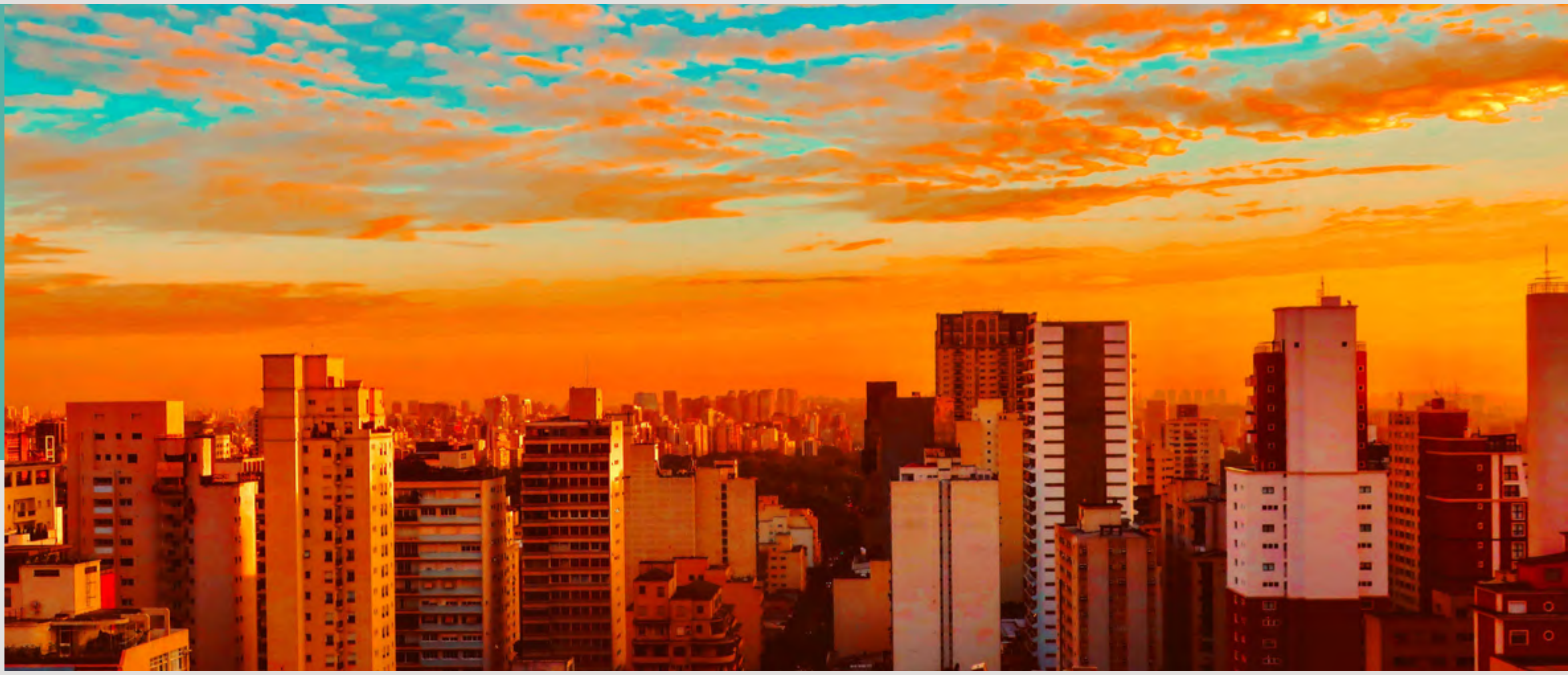
The BCB has been involved for many years in international discussions about the role of central banks and supervisors in the sustainability agenda. It has benefited from learning about the practices of its peers and from sharing the lessons and challenges faced in Brazil to improve E&S regulation and supervision. Membership in the NGFS takes the BCB further, allowing it to leverage its experience and better position itself in international discussions. By providing an emerging market perspective and strong expertise, the BCB is in a good position to actively influence and enrich these discussions and the development of guidelines and recommendations.

FC4S: Financial centres that are members of the FC4S collectively represent 80 percent of global equity markets. Effective participation may secure a strong international position for Brazil, which should focus on the creation of financial solutions that increase private sector participation in an emerging market context in sectors such as energy, water, transportation, agriculture, and finance. The FC4S has developed an assessment tool and a toolkit for financial centres to advance in ten key areas.[71] The LAB, which is based in Rio de Janeiro, should use this location to its advantage. Given its geographical proximity to São Paulo and the strong participation of São Paulo-based organizations in the LAB, the role of the LAB in the FC4S should be to promote both cities (Rio and São Paulo) as sustainable finance centres.

IPSF: The IPSF would give Brazilian policymakers the opportunity to help shape the international harmonisation of regulation. Currently, the IPSF is coordinating harmonisation efforts between the EU and China on taxonomies. Brazil could benefit from these developments in its own process of establishing an economy-wide taxonomy. Furthermore, ideas from Brazil on product standards may be presented and established globally.

[70] SITAWI has conducted a research project on regulation and supervision in the Brazilian banking system, under the Network for Sustainable Financial Policy Insights, Research, and Exchange (INSPIRE), a research network dedicated to supporting the NGFS workstream.

[71] For more information, see: https://www.fc4s.org/what-we-do/.



Actors

The BCB represents Brazil in the NGFS, and the LAB, led by CVM, represents Brazil in the FC4S. The MoE could steer membership in the IPSF, where public actors could participate actively on a variety of topics.

Implementation

A stronger international presence in sustainable finance would be an opportunity for Brazil to join and shape the international debate and position national ideas and perspectives. Brazil should select representatives from all three organisations that can "tropicalise" the international sustainability debate. A proactive approach should be taken to identify opportunities for positioning and harmonisation.

Outputs

A stronger international presence will strengthen Brazil's financial market. Greater visibility and wider networks could help to improve the sustainable finance environment in Brazil and attract investment. A stronger international network could allow key actors to share their ideas and positions on sustainable finance, and ensure the outputs of working groups are used in the most effective manner for the Brazilian market. Disclosure regulation, supervisory policies, and product developments could be aligned with international efforts, and support Brazil's move to a global market while tailoring them to the country context.

Moreover, these memberships send a strong signal to local investors and financial market participants and may catalyse local knowledge exchange and capacity building, as well as foster innovation in sustainable finance products specific to the Brazilian context.

Additionally, international dialogue will help to harmonise local and international actions and reduce transaction costs for market participants.

International examples

Casablanca Finance City was created by the Moroccan government for investors looking to access markets in Africa and for international businesses to set up headquarters for their regional operations. It aims at "help[ing] businesses to access the new opportunities in Great NorthWest Africa" by creating opportunities, removing barriers to investment, and giving investors economies of scale in North and West Africa.

Casablanca Finance City is a founding member of the FC4S network and has established itself as the key representative for sustainable finance in the northern and western parts of Africa. Its representatives take part in international events of the FC4S network, as well as in regional events of partners. Together with its sustainable finance strategy, this engagement has strengthened Morocco's position on the continent.

Creating the framework conditions for a comprehensive sustainable finance agenda in Brazil

5.

The recommendations of this white paper have focused on improving data and standardisation, transparency and disclosure, prudential requirements and risk management, and market support instruments. While some elements of awareness raising, agenda setting, and capacity building are captured by the recommendations, they deserve more attention. This section provides guidance on improving the framework conditions for these action areas.

The dynamic market development of sustainable finance necessitates new skills — of staff and managers of public authorities, financial institutions and the broader financial market, and academic and civil society communities. In the coming years, capacity building for all these actor groups will be vital to ensuring that the market has sufficient human capital and informed customers. A strategy or approach centered on broad-based capacity building should include the following aspects.

» **Equip civil servants with knowledge and skills to set the framework conditions and supervise the operationalisation of sustainable finance.** As this white paper shows, the public sector plays a central role in mainstreaming sustainability in the Brazilian financial sector. From steering the development of a holistic sustainable finance strategy to the effective implementation and enforcement of purposeful policy requirements, to the supervision of financial market participants, civil servants will face new tasks and changes to existing ones. This will require in-depth knowledge of sustainable finance. Public institutions like the BCB, SUSEP, MoE, or CVM should consider strategically mainstreaming capacity building for its employees to enable them to master these tasks. This includes (i) creating a general understanding of sustainable finance among a broad range of civil servants by offering training programmes, (ii) strengthening in-house capacities on the basics of sustainable finance and specific topics like taxonomies and sustainability risks through hiring or training of dedicated experts, and (iii) developing and providing detailed information that is material to operational staff, such as public auditors.

» **Strengthen capacities in public and private financial institutions to reap the full benefits of sustainable finance.** The mainstreaming of sustainable finance will only succeed if the full range of staff across different departments of financial institutions, especially at the management level, appreciates the benefits, recognises the need for implementation, and is provided with information, tools, skills, and the responsibilities to act. To deliver on this, senior management, as well as those at the operational level, will require new capacities and skill sets. For example, risk management must enhance standard risk assessment systems with a forward-looking approach, front desk employees will need to be able to advise clients and investees on new products and support the development of a project pipeline, and IT departments will need to build new IT infrastructure to facilitate the generation, processing, monitoring, and reporting of relevant data. A holistic approach to mainstreaming training programmes on sustainable finance would be helpful and could include: (i) the public sector providing access to key information and introductory training, such as through a web-based platform, (ii) training and apprenticeship programmes as well as higher level education, including mandatory modules on sustainable finance, and (iii) on-the-job training for existing staff that includes mandatory sustainable finance elements.

- **Improving financial literacy fosters public understanding of how sustainability affects individual and household finances.** The Brazilian public is a key financial actor, receiving private loans, saving in pension funds, purchasing insurance products, and investing surplus capital. Those millions of decisions add up to a significant source of demand in the financial system. Financial literacy and awareness of sustainability are vital to rational decision making. The public should be educated about the relationship between sustainability and finance as this will enable them to better express their preferences and understand the potential risks of financial products. Financial literacy in the field of sustainable finance could be strengthened by (i) integrating the topic in school and university curricula, (ii) making it mandatory for financial institutions to distribute official information materials to customers, and (iii) requiring that sustainability topics are included in every financial advisory and sales interaction.

Sustainable finance is part of a global transformation to sustainability driven strongly by the Paris Agreement and the SDGs. Public and private actors across the globe have signed up to limit global warming to “well-below 2°C”, to protect biodiversity on land and in waters, to alleviate poverty, and to provide access to basic human needs, such as education, electricity, food, health care, and housing. In this larger context, sustainable finance has become a driving force for action. However, it is only one gear in a large and complex system, and requires complementary action to realise its full potential, such as through macroeconomic, fiscal, and social policy. Awareness raising and agenda setting in particular can provide the necessary impetus. The following actions would strengthen Brazil’s contribution to this global transformation:

- **Send clear signals to the market.** Signals and actions by influential actors have great potential to influence the behaviour of mainstream actors. For instance, a coherent and clear agenda by public institutions strongly communicated by their leaders will reassure the private sector that investing in building up a sustainable finance policy, processes, and portfolio should pay off, and can be an example for private financial institutions. The triad of ministries and associated agencies, supervisory authorities, and public financial institutions should ideally align its messaging to the market. Since these actors have a whole range of options at their disposal, which they know best how to use, this white paper can only suggest or highlight some potential actions. To send stronger signals to the market, leaders in Brazil should consider (i) aligning the national development plan with the SDGs and the Paris Agreement supported by an integrated financing framework or strategy, (ii) introduce the pricing of S&E externalities, including GHG emissions, through a carbon pricing mechanism like an Emission Trading Scheme or a carbon tax, and (iii) align public procurement with the sustainability agenda by setting clear spending targets for sustainability and establishing a tracking mechanism.

- **Align financial sector regulation and support for sustainability with policy measures in the real economy.** A sustainable financial system is not possible without a sustainable real economy, and mainstreaming sustainable finance in Brazil is not possible without a sustainable foundation for financing activities. While sustainability in the financial system can drive sustainability in the real economy and vice versa, a one-way process in which the financial system either enforces sustainability on the real economy in the absence of real economy regulation, or must co-exist with an unsustainable real economy, is not feasible over the medium term. Therefore, policy action should also focus on the real economy. Actions for consideration include: (i) providing financial support for research and development to move sectors to a sustainable development path, (ii) implementing sector-specific sustainability strategies, standards and minimum requirements, which should be reflected in financial regulation such as taxonomies, and (iii) enabling the real economy to prepare for a transformation by providing publicly sponsored and sector-specific capacity building programmes, particularly for small and medium-sized enterprises.

Economic development can benefit greatly from sustainable finance, and Brazil should retain its historic role as a leader in sustainable finance. Sustainable finance can help to safeguard the socio-environmental basis of Brazil's current and future prosperity, and make domestic and international investment more attractive to finance the country's transition to sustainability. Building a strong sustainable finance environment that fosters investments in a sustainable physical and social infrastructure, agricultural, and energy systems will contribute to long-term value creation and a more resilient economy and society. Sustainable finance and recovery from the COVID-19 pandemic should go hand in hand to ensure that recovery measures contribute to Brazil's prosperity, not only in the short run but also over the long term.

Brazil needs to begin mainstreaming sustainable finance in its financial system now as governments and private actors around the globe are moving at a fast pace. To stay competitive internationally and attractive to public and private investors, Brazil needs to move quickly to improve the sustainable finance environment. This will enable key actors to continue to be active members in international fora and shape the international debate on sustainable finance.

It is in this context that this white paper has outlined potential policy actions and contributed to the discussion on the practical and concrete steps Brazil's public and private actors can take to build a more sustainable financial system.

_annex

overview of the sustainable finance policy navigator

Mainstreaming sustainability aspects in the financial sector is a complex challenge that involves political leadership and stakeholder engagement, financial sector action, the strengthening of knowledge and skills, and new methods and innovation. On the one hand, the financial sector is exposed to sustainability-related risks. On the other hand, financing the transition to environmentally and socially sustainable socio-economic systems offers enormous investment opportunities.

In recent years, a number of sustainable finance initiatives have emerged and are picking up pace at international, regional, and national levels. Despite this dynamic development and notable progress, it remains a challenge for governments, financial regulators, and markets across the globe to adopt and implement a comprehensive, systematic approach to integrating sustainability-related factors in financial market policies, processes, and practices. Advancing the sustainable finance agenda requires a high level of interdisciplinary awareness and leadership, effective engagement of public, private and civil society stakeholders, and coordination between various national authorities and initiatives. Given that sustainable finance is still an emerging field, it will take a concerted effort to build the necessary knowledge and skills and, ultimately, a change in mind-set in how the financial sector operates.

The Sustainable Finance Policy (SF) Navigator structures sustainable finance policy interventions and other measures along five public and private actor groups and fields of action. Along these two dimensions of actor groups and fields of action spans a menu of actions. This menu of actions provides a comprehensive overview of the range of potential measures available to actor groups to advance the transformation to a sustainable financial system. These groups include governments, central banks and financial regulatory and supervisory authorities, public financial institutions and agencies, (public-) private actors and initiatives, civil society, and academia.
The fields of action include awareness raising and agenda setting, data standardization and disclosure, prudential requirements and risk management, market support instruments, leading by example, and capacity building.

The SF Navigator can be used as a diagnostic tool to guide public and regulatory reforms towards a sustainable financial system that serves society within the ecological boundaries of the planet. The SF Navigator supports public institutions in identifying key policy and regulatory reforms to enable a sustainable finance transformation tailored to local contexts. The diagnostic takes stock of a country's existing legislative and regulatory framework governing the financial system and identifies key gaps, constraints and opportunities on the path to sustainability. Drawing on international reference frameworks, standards and good practice examples, the SF Navigator provides insights into the potential scope and design of various policy, regulatory, and supervisory measures. The output of the diagnostic is a comprehensive assessment with recommendations that can lay the foundation for a national or institution-specific sustainable finance strategy and action plan design.

The actor groups covered in the SF Navigator include public and private stakeholders that typically play a central role in driving, creating, and adapting to a sustainable financial system. Public actor groups, such as governments, government agencies, central banks, and financial regulatory and supervisory authorities, shape the legal and regulatory framework conditions of the financial system. They set the rules and incentives that frame corporate and financial decision making. The public sector is also an active financial market participant, for instance, when raising sovereign or sub-sovereign debt through capital markets, spending and investing public funds, or providing finance to households and companies through public financial institutions. Private financial sector stakeholders, meanwhile, include commercial banks and investors: insurance companies, pension funds, asset managers and individual investors, as well as stock exchanges, rating agencies, and data and other financial service providers. Civil society organizations, research institutes, and academia also play a role. They can set important impulses by providing relevant data, research and analysis, and information and knowledge to the public sector, the industry, and the broader public. Figure 7 summarises the actor groups covered by the SF Navigator.

Figure 7: Actor groups of the Sustainable Finance Policy Navigator

The SF Navigator clusters policy actions, such as integrating sustainability factors in laws, regulations, rules, guidelines, strategy and target setting, or incentives, into six fields of action. The fields of action reflect different dimensions of the transition to sustainable finance and include awareness raising and agenda setting; data standardization and disclosure; prudential requirements and risk management; and market support instruments. Given the importance of signalling effects and technical capacity for effective implementation, leading by example is a separate field of action, as is capacity building. The six fields of action are depicted in Figure 8. Each field of action can be of varying relevance to the respective actors or actor groups. When developing a strategic approach to sustainable finance, the fields of action can help to define focus areas.

Figure 8: Fields of action of the Sustainable Finance Policy Navigator

Awareness raising and agenda setting	**Data, standardization and disclosure**	**Prudential requirements and risk management**
Market support instruments	**Leading by example**	**Capacity building**

About GIZ
As a federal enterprise, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH supports the federal German government in achieving its international cooperation objectives. Together, Brazil and Germany face global challenges such as preserving biodiversity and fighting climate change. The German Cooperation for Sustainable Development therefore operates primarily in two areas: Protection and Sustainable Use of Rain Forests as well as Renewable Energies and Energy Efficiency. Transversal topics such as the mobilization of green and sustainable investments are of increasing importance. More information about the GIZ Brazil can be found at www.giz.de/brazil.

FiBraS | Finanças Brasileiras Sustentáveis