

POLICY BRIEF

GREEN BONDS: MARKET DEVELOPMENT AND FUTURE PERSPECTIVES FOR BRAZIL

Sustainable finance has emerged as a central tool to shift investments from financial and capital markets into sustainable activities and projects.

Green bonds are one of the many vehicles used in sustainable finance, where institutional investors have driven the development and growth of this market. The green label is attractive as it allows investors to direct funding towards climate and environmental projects & assets while also providing greater transparency. Green bonds do not differ from traditional bonds in its structuring and issuance, however, it adds a bonus feature to deals by exclusively earmarking proceeds to fund eligible projects with climate and environmental benefits. Green bonds first came to market in 2007 and since then have proven to be a promising instrument to mobilize investments for low carbon solutions. To date, more than USD 1.2 trillion green bonds have been issued globally; with USD 297 billion issued in 2020 and USD 155 billion issued up to June 2021.

MARKET DEVELOPMENT IN BRAZIL

- The largest potential for green investments lie within the emerging economies, and these countries' market share is growing steadily. The Latin America and Caribbean region has issued a cumulative USD 26.3 billion to date. Brazil is the largest Green Bond market in the region, with USD 9 billion in issuance. The country's first green bond was issued in June 2015 and since then the market has seen 60 issuances, with investments across renewable energy, agriculture and infrastructure sectors.
- Non-financial corporates lead Brazil's issuance, with 52 bonds. They account for 70% of the total amount issued. Other issuers include the National Development Bank (BNDES), Government-backed Entities, ABS (e.g. CRAs) and Financial Institutions.
- Brazilian green bonds have on average 5 to 10 year tenors, particularly for larger deals. Most of Brazilian green bonds fall into this range, with only seven deals exceeding 20 years - two for pulp & paper and five for renewable energy.
- There is a substantial green pipeline in Brazil that could be financed through green bonds. The Climate Bonds Initiative (CBI) has identified green investment opportunities across renewable energy, agriculture and infrastructure. A report published in 2020 outlined USD 163.3 billion across sustainable agriculture activities over the next ten years. Therefore, there is a significant potential to expand the Brazilian green bond market.

ADDITIONAL REFERENCES

- <https://www.climatebonds.net/resources/reports/sustainable-debt-global-state-market-2020>
- https://www.climatebonds.net/files/reports/cbi_post_issuance_2021_02f.pdf
- <https://www.climatebonds.net/resources/reports/sovereign-green-social-and-sustainability-bond-survey>
- <https://www.climatebonds.net/resources/reports/latin-america-caribbean-green-finance-state-market-2019>
- <https://www.climatebonds.net/files/reports/cbi-brazil-agri-sotm-eng.pdf>
- <https://www.climatebonds.net/resources/reports/unlocking-brazil%E2%80%99s-green-investment-potential-agriculture>
- https://www.climatebonds.net/system/tdf/reports/cbi_giio_2019_02c_0.pdf?file=1&type=node&id=40189&force=0
- <https://www.climatebonds.net/files/reports/climate-bonds-gb-treasurer-survey-2020-14042020final.pdf>
- <https://www.climatebonds.net/files/reports/climate-bonds-gb-treasurer-survey-2020-14042020final.pdf>

WHAT IS NEEDED FOR THE FUTURE

- Green sovereign: a green sovereign bond not only sends a strong signal to the market, but also to international investors. Although finding a green pipeline is not an issue, particularly across agriculture and infrastructure, Brazil has a regulatory challenge to overcome before it can issue any labelled sovereign debt. A resolution from the Federal Senate (Resolution 20/2004) foresees that all proceeds from sovereign bonds must be directed towards the paying off the national debt and therefore is allocated under the federal budget. Thus, a regulatory adjustment would be required in order to allow for earmarked proceeds in the case of a green sovereign.
- Harmonizing standards and metrics: transparency is one of the key selling points for green bonds, where investors are sighted on the allocation of proceeds backed by annual reporting from the issuer until bond maturity. As global green bonds markets develop, investors are also increasingly pushing for comparability among these bonds, a benefit of establishing and harmonizing standards internationally. For financial institutions, embedding metrics and reporting practices also allows for more efficient "green-tagging" of their portfolios and therefore expanding the green finance potential.
- Capital Market development: regulatory adjustments seeking to enhance and mature the domestic capital market will also help to develop sustainable finance as a consequence, especially if there is room for labelled deals to be prioritized or highlighted. Recent measures such as Decree 10.387/20, which seeks to fast-track green debentures and Law 13.986/20 which allows for CRAs to be denominated in hard currencies, are both examples of regulation which can support the further development of a Brazilian green finance market.
- Adjusting the role of public and development institutions: given the growing participation of private capital across key sectors of the economy, it is important to steer the role of Development Financial Institutions (DFIs) to where its impact can be maximized: in the provision of risk mitigation structures and guarantees.