



Climate Finance in Brazil: an overview of challenges and opportunities

Executive summary



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Executive summary

Objective and scope

- This report aims to **characterise Brazil in terms of challenges and opportunities to accelerate large-scale financing for the transition to a net-zero economy.**
- It adopts a broad (but non-exhaustive) approach to **analyse public and private climate finance players and barriers** within the Brazilian context. By doing so, NINT expects to **provide relevant inputs to design initial aspects of Climate Arc's strategy in Brazil.**

Climate commitments and priorities

- Brazil has presented important climate commitments in the past. Those will be probably strengthened and improved in coming years based on a new presidential government agenda. Despite **improvement opportunities (especially related to Brazil's NDC and carbon pricing mechanisms)**, the country provides a relatively robust regulatory framework for addressing its commitments.
- Within the sustainable finance agenda, Brazil's Central Bank participates in the **Network for Greening the Financial System (NGFS)** and has recently developed important regulations related to climate risk disclosures for financial institutions. Recent federal commitments may indicate this agenda should gain even more traction in the short term.
- **Land use and agriculture** are key sectors for Brazil in terms of GHG emissions and strategic action to achieve its NDC. Still, much of the climate-related debt issued with CBI certification in Brazil is tied to **energy** projects, and **climate finance is needed in all economic sectors to ensure a just and equitable transition. Reducing deforestation and regulating carbon pricing mechanisms** are priority policy agendas to unlock additional climate finance.
- There is **no consensual answer on how much would implementing Brazil's climate commitments cost.** Studies estimate that this figure could range from US\$1 billion to US\$15 billion by 2030¹. **There are also no consensual and aggregate estimate on current investments in climate solutions,** as Brazil's public budget does not adopt a tagging system that could enable tracking cross-sectoral expenditures and private financial flows are not systematically monitored either.
- The lack of a consistent figure on current climate finance is partially related to the **absence of an official federal taxonomy or a common tracking approach to what should count as climate finance within Brazil's context.** There are currently voluntary initiatives in this sense, such as FEBRABAN's

¹ Hof et al. (2017). [Global and regional abatement costs of Nationally Determined Contributions \(NDCs\) and of enhanced action to levels well below 2 °C and 1.5 °C.](#)



Green Taxonomy, and each financial institution tends to establish its own taxonomy (such as BNDES' Sustainable Taxonomy). In its recent **Sustainable Finance Policy**², CVM has publicly stated the intention to develop a sustainable finance taxonomy, which might leverage further climate finance tracking.

Private climate finance

- Private financial institutions are heterogeneous in terms climate-related performance. The following figure summarises advances and critical points.

	Banks	Asset managers	Asset owners	Insurance companies
Commitments	One of the key banks is committed to SBTi and six are committed to PCAF. Two banks are members of the Net-Zero Banking Alliance (NZBA)	No key asset manager is committed to SBTi and three are committed to PCAF	One key asset owner is signatory of the IPC Commitment.	No key insurance company is committed to SBTi or PCAF
Initiatives	Banks are relatively well engaged in international initiatives such as PRB, PE and UNEP-FI. FEBRABAN's climate squad plays an important local role.	Engagement in local initiatives such as IPC is significant	Few asset owners are engaged in climate-related international initiatives (e.g., PRI) and IPC.	Engagement in climate-related international initiatives (e.g., PSI) is significant, but local initiatives are still gaining traction
Key policies and regulations	Well-designed regulations for banks' disclosure of climate risks management are in place	Regulations for labeling ESG funds and requesting climate-related disclosures from listed companies are in place	Regulations approaching broad ESG criteria are in place, but they lack climate-related specific requirements.	Well-designed regulations for insurance companies' disclosure of climate risk management are in place
Disclosure level	Banks are increasingly reporting climate-related data based on TCFD recommendations	CDP and TCFD disclosures are relevant, but transparency, especially in terms of strategy, metrics and targets, need improvements	Asset owners are poorly engaged with reporting frameworks such as CDP and TCFD. Brazilian Pension Funds Association plays an important role fostering the engagement and transparency action of the sector.	Insurance companies are poorly engaged with reporting frameworks such as CDP and TCFD. CNseg plays an important role in fostering transparency at the local level.

² CVM (2023). [Portaria CVM/PTE Nº 10/2023](#). Accessed on Feb. 10th 2023.





Advocacy

Larger banks are active in recent climate statements

Climate-related letters and joint statements are frequent in the past few years

Involvement with climate-related advocacy activities is occasional and discrete.



Key challenges

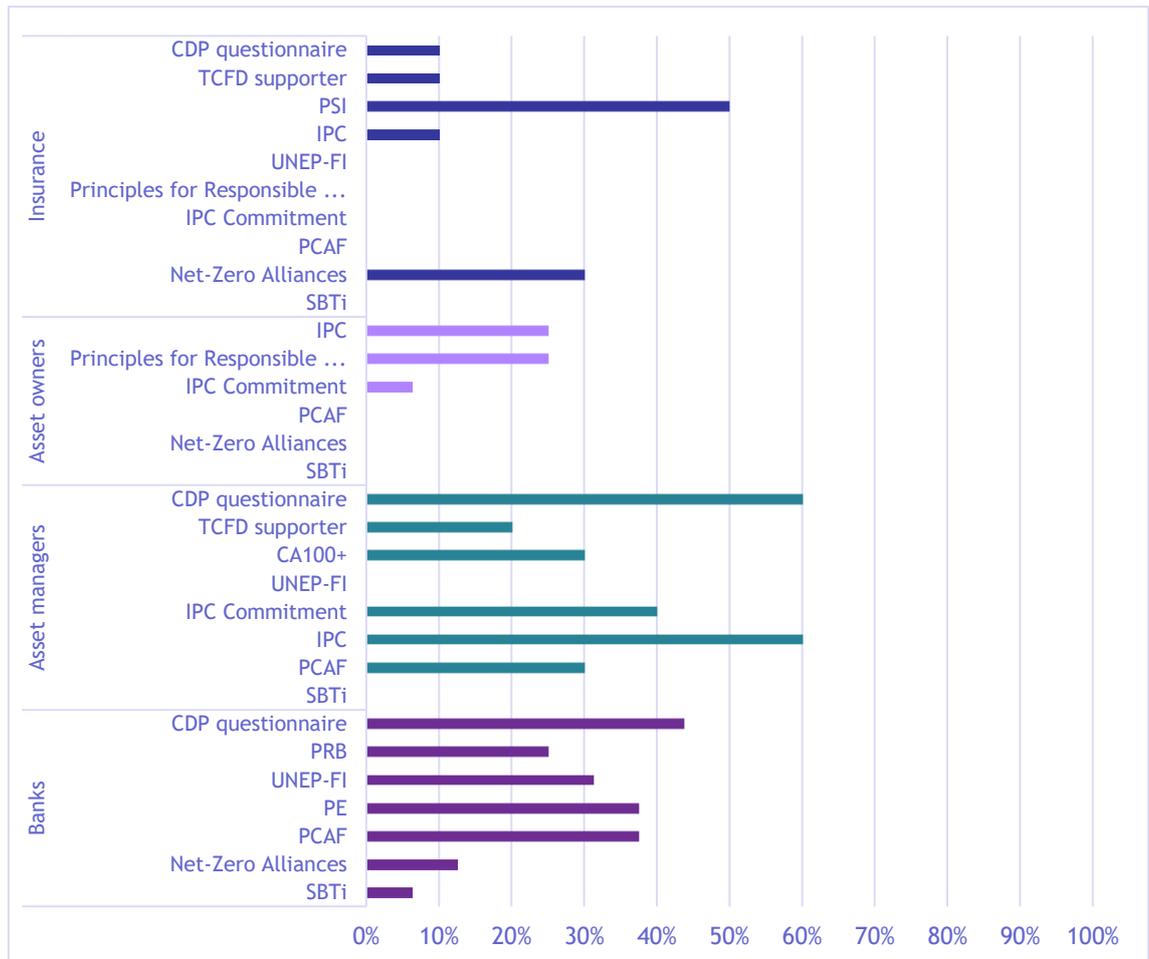
- Effectively implementing BACEN's regulation
- Integrating climate risks in credit analysis or risk models

- Methodological barriers to measuring GHG financed emissions and setting net-zero targets
- Applying climate-related criteria for funds and securities labelling

- Lack of climate-related disclosure, commitments and advocacy

- Risk centred perspective; net-zero is not yet a priority agenda
- Data limitations and internal modelling capacity

- The graph below synthesizes the proportional participation of key Brazilian institutions analysed in main climate related commitments, initiatives and disclosure actions³.



Elaborated by NINT.

³ It should be noted that this analysis does not comprise all existing Brazilian financial institutions. A sample of key banks, asset managers, asset owners and insurance companies was selected based on its AuM.



<ul style="list-style-type: none"> When it comes to service providers, different aspects were observed: 	<ul style="list-style-type: none"> As a service provider, B3 is a member of the Sustainable Stock Exchanges Initiative (SSE), showing commitment with the ESG and climate issues. As a listed company, B3 is aligned with climate-related initiatives (PRI, CDP and TCFD) and working groups. It has also established a climate governance structure, set GHG reduction targets and included climate issues as a relevant topic in its strategy and risk management. A relevant climate contribution is delivered through its thematic indexes, such as ISE B3 and ICO2 B3.
<p>Stock exchange</p>	<ul style="list-style-type: none"> Several rating agencies operating in Brazil offer climate-related services, including the integration of climate risks and vulnerability in its assessments as well as specific analytic tools and indexes to evaluate investment portfolios. Brazilian companies' climate disclosure and net-zero trends presents opportunities for rating agencies to increase its climate-related services.
<p>ESG rating agencies</p>	<ul style="list-style-type: none"> Consultancy and audit firms operating in Brazil are providing a range of climate-related services. Access to open and robust climate data is a commonly faced challenge. Artificial Intelligence is a promising approach to tackle climate models and scenarios, and some firms are making use of private tools or developing their own to address this opportunity.
<p>Audit and consultancy firms</p>	<ul style="list-style-type: none"> Difficulties in recruiting talents. Lack of regionalised tools regarding climate risks. Incorporation of AI tools in the management of climate-related issues.
 <p>Key challenges</p>	

Public climate finance

- Although the Brazilian federal budget is a consistent and robust instrument, it does not contain any official classification on the environmental impacts of its resource allocations, which **hinders the tracking of climate related expenditures**. The presidential government change is expected to bring more attention to the climate agenda, which might result in a better budgetary allocation towards environmental issues. **However, the country still funds massively carbon intensive agendas such as oil, gas and mining industries.**
- Responding to both national and international pressures and wanting to publicly reaffirm the government's commitment to the climate agenda, the National Treasury has revealed plans to issue **Brazil's first Sovereign Green/Sustainability Bond still in 2023**. A similar subnational bond operation is being carried by the state of Pará.
- Special funds (such as the Amazon Fund and the National Climate Fund) are essential for achieving the NDC targets. However, **strengthening non-repayable support within these funds is relevant** to foster the transition to a net-zero economy. The recent **relaunch of the Amazon Fund** is an important sign of the **country's renewed commitment to climate and the environment**, which is already resulting in additional international financial flows.



- **Brazilian Development Financial Institutions (DFIs) play a key role in climate finance.** Development banks and agencies offer several climate-related financing options with facilitated conditions, reaching companies and municipalities of different sizes and regions.

Blended finance

- There are still few Brazilian blended finance operations in compliance with OECD's principles. However, Brazil is a targeted country for climate-related blended finance transactions, and instruments and mechanisms are increasing in number and volume.
- Challenges for fostering climate-related blended finance includes **high transactional costs**; difficulties for **scaling up**; investors' **low risk appetite**; lack of **project pipeline aligned to the funding criteria** of large fund providers and **impact monitoring**. An important step towards increasing blended finance operations and its volume is to **establish a proper regulatory framework**.
- **Brazilian DFIs are key players in terms of blended finance opportunities.** Despite offering several solutions that leverage private capital, most of them are not familiar with blended finance as a concept. Building internal capacity, as well as sharing best practices and lessons learned, are relevant steps to increase their engagement.

Challenges and Opportunities

- One of the country's barriers concerning tracking climate finance is the lack of common language to monitor climate related financial flows. There are no current consensual taxonomies that are used by either public or private sector, which makes the tracking of climate related expenses challenging in both cases.
- Agriculture and Land Use are both Brazil's biggest source of GHG emissions and the sector with the most potential to support achieving the country's NDC. The sector still faces challenges when it comes to leveraging climate finance, including compliance with best practices and standards.
- Although Brazilian regulation in regard to green and sustainable finance has evolved in recent years, most agents have still to adhere to new legislation and have been facing technical difficulties in doing so.





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