

A Sustainable Banking Network (SBN)  
Flagship Report  
Addendum to SBN Global Progress Report

October 2019

# Country Progress Report

## Brazil



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# 1. Country progress summary – Brazil



## **SBN Member:**

- [Central Bank of Brazil \(CBC\)](#) (member since 2012)
- [FEBRABAN](#) (member since 2017)

**SBN Working Group:** Measurement Working Group, Green Bond Working Group

## **Key policy documents:**

- Brazil Protocolo Verde (FEBRABAN, 2008)
- Measuring Financial Resources for the Green Economy (FEBRABAN, annually from 2013 to 2019)
- Resolution 4327 on Social and Environmental Responsibility (CBC, 2014)
- Framework for the creation and implementation of a socioenvironmental Responsibility Policy – SARB Framework (FEBRABAN, 2014)
- Guidelines for Issuing Green Bonds in Brazil (FEBRABAN and Conselho Empresarial Brasileiro para o Desenvolvimento Sustentável - CEBDS, 2016)
- Financial Institutions and Deforestation Risk Management (FEBRABAN, 2018)
- Implementing the TCFD recommendations: a roadmap for the Brazilian banking sector (FEBRABAN, 2019)
- Climate Risk Sensitivity Assessment Tool - Implementation Guide for Banks (FEBRABAN, 2019)

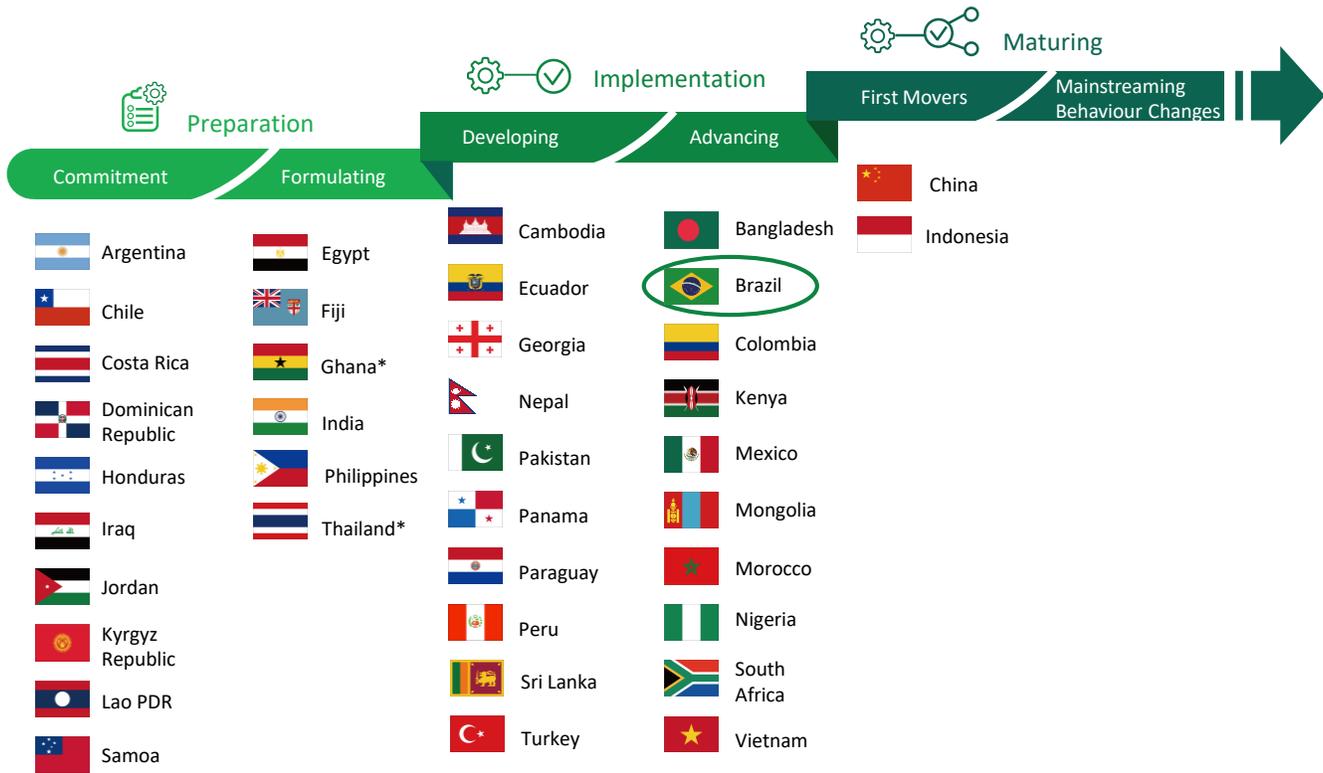
## **Key milestones since 2018 SBN Report:**

- FEBRABAN implemented the first phase of an institutional project to support Brazilian banks in the adoption of the recommendations published by the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board in 2018.
- CBC has started to compare, through questionnaires, banks' E&S risk evaluation and action plans with its own views and evaluations since 2018.
- FEBRABAN issued the "Implementing the TCFD recommendations: a roadmap for the Brazilian banking sector" and "Climate Risk Sensitivity Assessment Tool - Implementation Guide for Banks" (2019).

**SBN and IFC role:** IFC has provided capacity building to support BCB implement its policy, in partnership with Canada. Through IFC/SBN, BCB and FEBREBAN have shared their experience with other SBN members and benefited from the collective SBN experiences.

**Figure 1: SBN Progression Matrix with Assessment Results<sup>2</sup>**

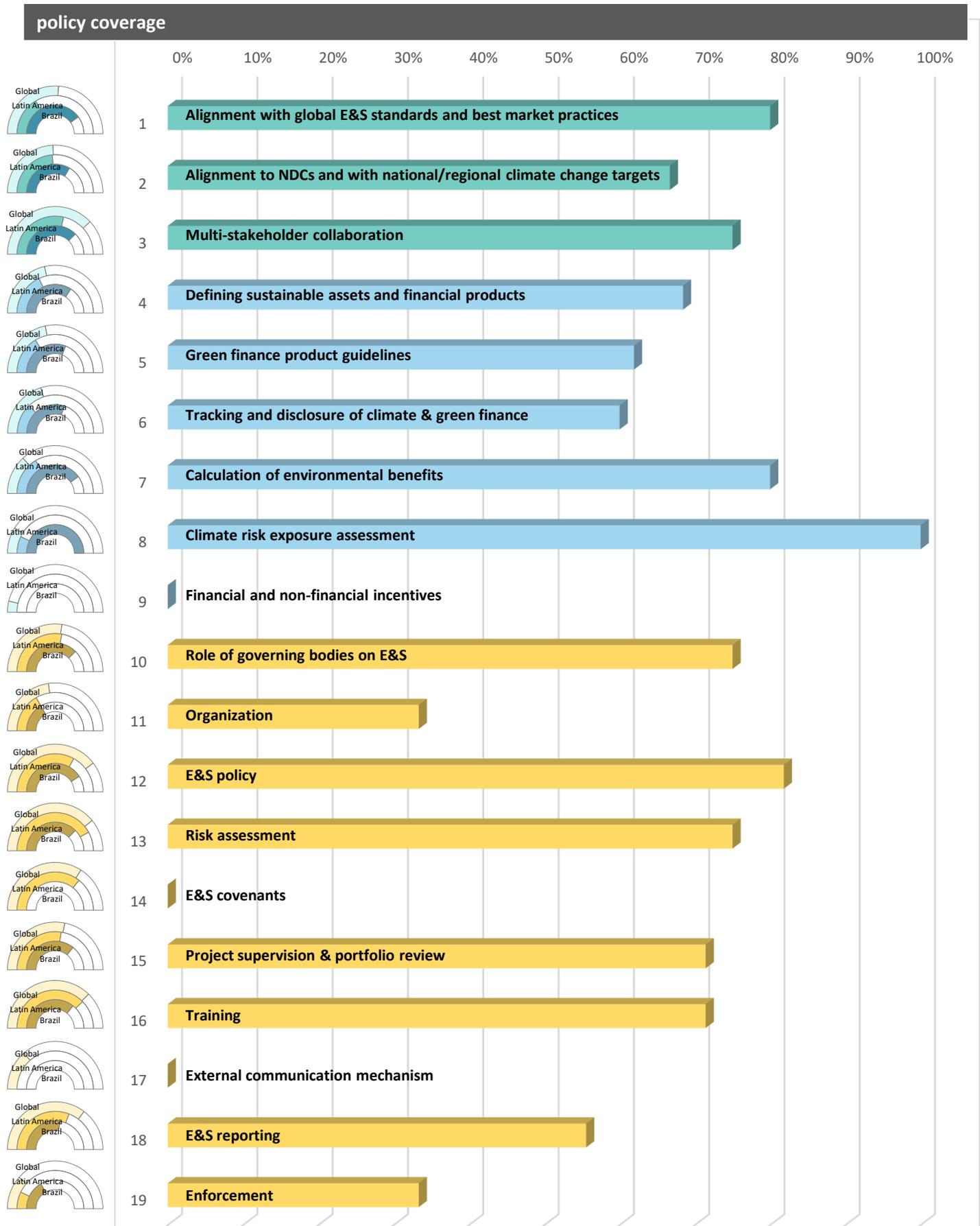
Assessment based on progress up to and as of June 2019<sup>3</sup>



Note:

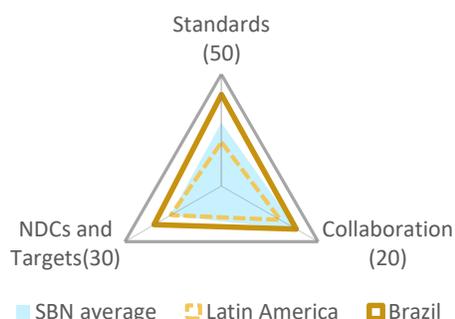
1. Please refer to the SBN Global Progress Report for an explanation of the Progression Matrix.

## 2. Overview of policy coverage by indicators



### 3. Policy coverage developed

#### Pillar I: Strategic Alignment



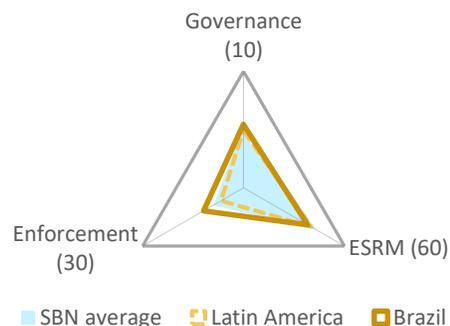
Indicator	Policy requirement	Reference
<b>Alignment with global E&amp;S standards and best market practices</b>		
<b>Indicator 1</b>	<p>Existing policies and guidelines refer to international E&amp;S targets and risk management standards.</p> <p>FEBRABAN’s 2018 report on implementing the TCFD’s recommendations also aims to provide Brazilian banks with a Roadmap steering them towards alignment with global best practices.</p> <p>Furthermore, many FIs have gone beyond the requirements of the current framework in aligning themselves with global standards. For instance, 37 FIs have signed the Global Compact, 5 of the largest banks have signed the Equator Principles, and 48 FIs have signed the UN PRI.</p>	<p>Guidelines for Issuing Green Bonds in Brazil (FEBRABAN and CEBDS, 2016) – Introduction; Framework for the creation and implementation of a socioenvironmental Responsibility Policy – SARB Framework (FEBRABAN, 2014), Section II – Article 14; Implementing the TCFD recommendations: a roadmap for the Brazilian banking sector (FEBRABAN, 2019); Climate Risk Sensitivity Assessment Tool (FEBRABAN, 2019)</p>
<b>Alignment to NDCs and with national/regional climate change targets</b>		
<b>Indicator 2</b>	<p>FEBRABAN published a number of studies in 2018 intended to align banks’ operations with Brazil’s commitments under the UN Framework Convention on Climate Change. These studies aim to help FIs analyze E&amp;S risks and identify opportunities associated with the green economy.</p>	<p>Guidelines for Issuing Green Bonds in Brazil (FEBRABAN and CEBDS, 2016) - page 19</p>
<b>Multi-stakeholder collaboration</b>		
<b>Indicator 3</b>	<p>The framework involves both the banking association, and the regulator.</p>	<p>Brazil Protocolo Verde (FEBRABAN, 2008) ; Framework for the creation and implementation of a socioenvironmental Responsibility Policy – SARB Framework (FEBRABAN, 2014); Implementing the TCFD recommendations: a roadmap for the Brazilian banking sector (FEBRABAN, 2019)</p>

## Pillar II: Climate and Green Finance



Indicator	Policy requirement	Reference
<b>Products and services</b>		
<b>Indicator 4, 5</b>	<p><u>Defining sustainable assets and financial products</u> The framework provides good definitions for green sectors and green bonds. In the latter case, definitions match international standards – the Green Bond Principles and the Climate Bonds Standard.</p> <p><u>Green finance product guidelines</u> The framework provides guidelines for green bonds, refers to existing standards, and recommends external party verification.</p>	<p>Guidelines for Issuing Green Bonds in Brazil (FEBRABAN and CEBDS, 2016) - Page 15, 36 and 44</p> <p>Guidelines for Issuing Green Bonds in Brazil (FEBRABAN and CEBDS, 2016) - Introduction &amp; page 44 – 5.2</p>
<b>Climate and green investment reporting</b>		
<b>Indicator 6</b>	<p>The current framework provides transparent aggregate measures of the annual allocations of finance to the 12 sectors that comprise Brazil’s green economy. Banks are encouraged to disclose publicly these allocations.</p>	<p>Guidelines for Issuing Green Bonds in Brazil (FEBRABAN and CEBDS, 2016) - Introduction, and Page 44 - 5.2; Measuring Financial Resources for the Green Economy (FEBRABAN, annually from 2013 to 2019)</p>
<b>Measurement</b>		
<b>Indicator 7, 8</b>	<p><u>Calculation of environmental benefits</u> The framework asks FIs to calculate environment benefits of their investments and provides a taxonomy of potential environmental impacts.</p> <p><u>Climate risk exposure assessment</u> FEBRABAN’s Roadmap for implementing the recommendations of the TCFD encourages banks to monitor climate risks at portfolio level, and provides references to specific methodologies. It also recommends incentivizing high-risk clients to meet voluntary climate-related commitments.</p>	<p>Guidelines for Issuing Green Bonds in Brazil (FEBRABAN and CEBDS, 2016) - page 22, 23 &amp; 24</p> <p>Implementing the TCFD recommendations: a roadmap for the Brazilian banking sector (FEBRABAN, 2019) - Bank’s exposure to climate-related risks; Climate Risk Sensitivity Assessment Tool (FEBRABAN, 2019)</p>
<b>Incentives</b>		
<b>Indicator 9</b>	-	-

## Pillar III: ESG Integration



Indicator	Policy requirement	Reference
<b>Governance of E&amp;S</b>		
<b>Indicator 10, 11</b>	<u>Role of governing bodies</u> Requirements set by the Central Bank and FEBRABAN both state the need for appropriate guidance, and for staff to have the capabilities to implement and monitor E&S policies and guidelines.	Resolution 4327 (Banco Central do Brasil, 2014) – Art.3 ; Framework for the creation and implementation of a socioenvironmental Responsibility Policy – SARB Framework (FEBRABAN, 2014) – Chapter IV
	<u>Organization</u> Policy defines roles and responsibilities.	Resolution 4327 (Banco Central do Brasil, 2014) - Article 3
<b>E&amp;S risk management</b>		
<b>Indicator 12 - 18</b>	<u>E&amp;S policy</u> Resolution No. 4,327 requires FIs to formalize an E&S responsibility policy for all their activities, and to assess and quantitatively record downstream E&S risks and impacts.	Brazil Protocolo Verde (FEBRABAN, 2008) - page 2 & 3; Resolution 4327 (Banco Central do Brasil, 2014) – Chapter II
	The framework encourages FIs to go beyond E&S requirements of local laws and regulations.	Framework for the creation and implementation of a socioenvironmental Responsibility Policy – SARB Framework (FEBRABAN, 2014) - page 2, Article 8
	The framework asks FIs to publicly disclose their E&S policy and its governance.	Brazil Protocolo Verde (FEBRABAN, 2008) - page 3 & 4;
	<u>Risk assessment</u> The framework requires FIs to carry out appropriate E&S due diligences at transaction level and at client level.	Brazil Protocolo Verde (FEBRABAN, 2008) - page 2 & 3; Resolution 4327 (Banco Central do Brasil, 2014) – Art 6; Brazil Protocolo Verde (FEBRABAN, 2008) – Page 3 – 2; Financial Institutions and Deforestation Risk Management (FEBRABAN, 2018)
	The same document, along with FEBRABAN’s Green Protocol and self-regulation SARB14, expects FIs to include E&S criteria in their risk assessment processes, and to categorize projects accordingly based on their E&S risks.	Resolution 4327 (Banco Central do Brasil, 2014) – Art. 3 & 6; Framework for the creation and implementation of a socioenvironmental Responsibility Policy – SARB Framework (FEBRABAN, 2014) – Page 6 – Chapter IX – Article 22
	Resolution No. 3,547 requires FIs to assess their E&S risk exposures, and their ability to manage them so as to maintain capital adequacy. Together with SARB14, it also requires public reporting of E&S risks.	
	<u>Project supervision &amp; portfolio review</u> The framework asks FIs to develop processes to manage E&S risks during supervision.	Resolution 4327 (Banco Central do Brasil, 2014) - Article 6
	<u>Training</u> The framework asks FIs to develop and maintain E&S capacity through regular training.	Resolution 4327 (Banco Central do Brasil, 2014) - Article 3
	<u>E&amp;S reporting</u> The policy requires FIs to report regularly on E&S or ESG performance, including publicly, to investors or to regulators.	Framework for the creation and implementation of a socioenvironmental Responsibility Policy – SARB Framework (FEBRABAN, 2014) - Page 6 - Chapter IX - Article 22

## Pillar III: ESG Integration (cont.)

Indicator	Policy requirement	Reference
Enforcement		
<i>Indicator 19</i>	Public reporting of FIs' E&S risks is required by Central Bank regulation and by FEBRABAN, using a standardised template.	Framework for the creation and implementation of a socioenvironmental Responsibility Policy – SARB Framework (FEBRABAN, 2014) - page 6, Article 22

## 4. Policy coverage to be developed

Pillar	Sub Pillar	Gaps	Areas for improvement
<b>Pillar I: Strategic Alignment</b>	Alignment with global E&S standards and best market practices	20%	➤ Requirement to seek external verification for E&S policies, practices, and results
	Alignment to NDCs and with national/regional climate change targets	33%	➤ Defined main climate risks for their local financial sector
	Multi-stakeholder collaboration	25%	➤ Collaboration with representatives of civil society
<b>Pillar II: Climate and Green Finance</b>	Products & services	35%	<ul style="list-style-type: none"> <li>➤ Definitions/examples for social/sustainable asset</li> <li>➤ Guidelines for green financial assets (excluding green bond)</li> </ul>
	Climate & green investment reporting	40%	➤ Requirement to report on climate risk exposure at portfolio level
	Measurement	10%	➤ Methodologies, tools, and/or templates to measure and report environmental impacts
	Incentives	100%	<ul style="list-style-type: none"> <li>➤ Incentives for green financial products/services</li> <li>➤ Financial incentives on green products/services</li> </ul>
<b>Pillar III: ESG Integration</b>	Governance of E&S	50%	<ul style="list-style-type: none"> <li>➤ Requirement for FI operational bodies to report to the governing bodies on implementation of the E&amp;S strategy</li> <li>➤ Highlight the roles of front officers and second lines of defense</li> <li>➤ Requirement to define competencies for each role</li> </ul>
	E&S risk management	40%	<ul style="list-style-type: none"> <li>➤ Requirement for FIs to set E&amp;S or ESG objectives and targets</li> <li>➤ Encouragement of site visits for high-risk transactions</li> <li>➤ Invitation to engage with clients to implement mitigation measures in case of negative impacts</li> <li>➤ Requirement to incorporate E&amp;S covenants and investment conditions into legal agreements with clients</li> <li>➤ Encouragement of a periodic review of E&amp;S risks at aggregate portfolio level</li> <li>➤ Highlight of the training of (i) front officers, (ii) second lines of defense (risk officers and/or compliance officers), and (iii) E&amp;S experts</li> <li>➤ Requirement of FIs to establish and maintain any inquiry/complaints/grievance mechanism in relation to E&amp;S or ESG practices</li> <li>➤ Requirement of E&amp;S or ESG reporting and disclosure to be more consistent across financial institutions through introducing principles, guidelines, or templates</li> </ul>
	Enforcement	67%	<ul style="list-style-type: none"> <li>➤ Financial and non-financial incentives for establishing ESRM systems</li> <li>➤ Sanctions/penalties/warnings in case of noncompliance</li> </ul>

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[www.ifc.org/SBN2019Report](http://www.ifc.org/SBN2019Report)

