Second Green Bond Workshop in Brazil
Organized by CEBDS, GIZ and SEB

4 & 5 April 2017, São Paulo

After a Green Bond symposium in June 2016 and the successful launch of the workshop series on Green Bonds in Brazil last December, the Strategic Alliance (STA) by GIZ and SEB on Green Bond Market Development in G20 Emerging Economies returned to São Paulo and conducted the second workshop with support of its local partner CEBDS, the Brazilian Business Council for Sustainable Development. The two workshops, held at the premises of Itaú Unibanco on 4 & 5 April 2017, focused on the topics of Monitoring, Reporting & Market Aspects and attracted about 150 participants from a wide range of Brazilian private and public institutions such as banks, companies, investors and environmental consultancies.

The workshops, which covered the same content on both days, were moderated by Laura Albuquerque, Project Coordinator of Climate Change and Sustainable Finance at CEBDS. Denise Hills, Director of Sustainability (day 1), and Maria Eugênia Sosa Taborda, Sustainability Manager (day 2) from Itaú, welcomed the audience and underlined the relevance of green bonds and events like these for jointly advancing the Brazilian market to raise the required capital for a green transformation.

The keynote speech was given by Annelise Vendramini from the Sustainability Centre at FGV, who provided an overview on climate finance, recent developments and efforts undertaken by regulators and policymakers in Brazil. She pointed out the high value of natural resources for the Brazilian economy and the great potential in various sectors, while she named the lack of good projects as a main challenge that needed to be addressed. Moreover, she urged the Brazilian market participants to prepare now to take advantage once the market environment becomes more supportive again.

Christine Majowski, Project Manager at GIZ of the Strategic Alliance with SEB, introduced the STA’s objective and approach, which offers public capacity building workshops like today’s but also bilateral advisory support and other activities to support the development of prospering and sustainable Green Bond markets in G20 emerging economies subject to the principles of transparency and integrity of procedures and environmental credentials.

An overview on the green bond market in Brazil, which has seen five issuances till date, was given by Beatriz Stuart Secaf, Sustainability Advisor at FEBRABAN, who also presented the Guide for Issuing Green Bonds in Brazil launched by CEBDS and FEBRABAN in 2016. The guide does not represent a regulation but intends to provide information to the market, for instance on the benefits of green bonds, the market environment, eligibility criteria, expectations related to external verification and how to communicate key information to the market. Lastly, she described the enormous Brazilian market potential, specifically in the sectors of agriculture and forestry, renewable energy and infrastructure.

The latest market development was complemented by Mats Olausson, Senior Advisor on Climate & Sustainable Financial Solutions at SEB, who gave a global market update, inter alia
highlighting the continued exponential growth in 2016 that was mainly driven by Chinese financial issuers but also included a new issuer group – sovereigns – entering the green bond market. He expects continued strong growth, with SEB’s issuance projections ranging between USD 125 and 150 billion for 2017. Moreover, Mats provided a brief recap of the first workshop on Definitions, Selection & Verification.

Mats continued in session 2 sharing with the audience the key steps towards issuing a green bond. He urged potential issuers to get familiarized with the Green Bond Principles (GBP), which represent voluntary, internationally recognized process guidelines that are commonly followed by both issuers and investors as well as second opinion providers. The GBP’s recommendation to obtain a second opinion or other form of external review should be understood as requirement in order to transparently demonstrate towards investors and the public the environmental and procedural integrity of the issuance. Turning towards the workshops focal topics, he explained the required features for monitoring and reporting of the use of proceeds and their environmental impact. While the monitoring and reporting of the use of proceeds is quite straightforward as of the GBP – requiring issuers to earmark or otherwise track proceeds, disclose the amount/share of allocated proceeds as well as the temporary use of unallocated proceeds, and ideally provide assurance through external audits – the reporting of the environmental impact requires more work. Emphasizing to keep an impact report simple but sound, Mats discussed different features of reporting best practices to be considered including the frequency (at least annually) and channels (e.g. investor letter, dedicated impact report and/or integrated into the annual report), level (project-by-project vs. on portfolio basis), indicators (both qualitative and possibly quantitative), transparency on assumptions and methodology. For reference, he pointed to the Harmonized Framework for Impact Reporting, which has been developed by the major development banks for guidance. As best practice example, he presented the World Bank’s Impact Report but emphasized that this level of detail would not be expected from each green bond issuer. Investors understood the diversity of issuers (e.g. regarding sector, size, history, capacity, regulatory frameworks) and implications for their impact reporting capacity. Being transparent and demonstrate a clear direction towards enhancing the impact report one step at the time, were the key principles for simple and prudent impact reporting, he summed up.

A practical example from a Brazilian green bond issuer for monitoring and reporting was given by Guilherme Hirata, Director of Corporate Finance at Suzano Papel e Celulose. Having issued two green bonds in 2016 – one in international markets, a second one in the domestic market, the first ever Brazilian domestic issue – Suzano’s first green bond report is currently in work. Guilherme described the process for establishing such reporting structures that include the disclosure of information on (i) the use of proceeds, i.e. for the preservation of certified areas and expansion of the certified forest base, (ii) the structures for selecting and evaluating these, and (iii) the environmental impact, i.e. the value of certified wood delivered for production, the forest area certified or in preparation. He emphasized that it continues to be an evolutionary process and scrutiny is required to ensure everything is prepared and disclosed correctly in order to safeguard reputation.

An investor perspective and expectations regarding monitoring and reporting were presented by Helena Lindahl, Senior Portfolio Manager at Storebrand, a leading Nordic asset manager (with EUR 60billion AUM) that only invests in sustainable assets. Driven by the recognition of sustainability risk as material financial risk, the emergence of green bonds, she explained, has given asset managers a great opportunity to implement their green investment strategy more easily, which has already become mainstream in the Nordics. She pointed out the importance of presenting investors a high-quality second opinion by a trusted provider. Recognizing the complexity of monitoring and reporting in an efficient manner, Helena supported Mats recommendation to produce an impact report on “best effort basis.” Even though the majority of
potential issuers does not have the resources and capacities for providing an impact report as elaborate as the World Bank or the European Investment Bank, they should not shy away from issuing a green bond. For green bond issuers, she underlined, there was always a special door, open to engage in a dialogue with investors like Storebrand.

In the following Q&A session, the three foregoing panelists gave their view on the consequences when **failing to fulfill the green commitments**. The heightened visibility of green bond issuers and alertness in the markets had a self-regulatory dynamic that is enforced by reputational damage with serious implications for funding prospects. In Suzano’s case a loss of their climate bond certificate further goes along with it.

The role of external review providers, specifically **second opinions**, was presented by Gustavo Pimentel, Director of the Sustainable Finance Department at Sitawi, who described Sitawi’s approach and procedure towards providing a second opinion on the issuer’s green bond framework. Key areas of review include (i) how issuers identify and evaluate eligible projects (referring to selecting and evaluating in the GBP), and (ii) how project impacts are measured and communicated (referring to monitoring and reporting). Gustavo emphasized the importance to put serious efforts into building a sound framework, involving all relevant departments, experts and also lawyers from the beginning.

Thatyanne Gasparotto, Project and Relationship Manager of the Climate Bonds Initiative in Brazil, talked about the **priority sectors** with the largest potential for green bond financing in Brazil, that is agriculture and forestry, renewable energy and infrastructure. To unleash the potential of green bonds, an enabling environment is however strongly required. To advance necessary steps, she referred to the initiative of the newly established Brazilian Sustainability Council composed of CEOs of large companies and investment firms, which joined forces to develop a national plan presented to the government for facilitating green finance opportunities in Brazil.

An important step in supporting the development of a local green bond market is currently being taken by BNDES, Brazil’s development bank, with the launch of a **sustainable energy fund** scheduled for October. As presented by André Mendes, Head of the Capital Markets Development Department of BNDES, the fund with a target volume of BRL 500 million aims to align one of the country’s priority sectors for development, i.e. infrastructure, with its sustainability agenda. It will prioritize certified green bonds, for which BNDES identified a BRL 5 billion project pipeline in 2017/18 in wind and other sectors. With the fund, for which BNDES provides half of the funding, the development bank intends, inter alia, to absorb smaller projects and attract more local investors.

In order to apply the knowledge gained on monitoring and reporting, workshop participants had the opportunity to read and discuss the impact reports published by the World Bank and Export Development Canada (EDC). In lively discussions, participants identified, compared and assessed the key components, strengths and weaknesses of both reports.

Mats Olausson from SEB provided in session 5 further technical details on different **market aspects** including the questions related to typically **better market access** (investor diversification in number and regional outreach, longer maturities, currency diversification, larger volumes, format), **liquidity** (typically lower in secondary markets due to buy-and-hold strategy), **investor allocation** (ranging from dedicated green to non-green mainstream investors) and **marketing** strategies. Regarding the question of **pricing** advantages, he explained the two perspectives, that is equal pricing based on the bond’s risk-return profile vs. better pricing due to an surplus demand by investors. Beyond anecdotal evidence, there currently exist however no robust data or research proving a green bond premium. As investors increasingly price envi-
ronmental risks into their models, non-green bonds would ultimately require a higher risk-adjusted return though, he predicts.

Renato Issatugo, Superintendent of Corporate Development – Fixed Income at BM&FBOVESPA, explained the process and requirements for issuing and listing green bonds in Brazil. The listing process at the stock exchange follows the same steps as for regular bonds. He mentioned the different types of bonds in the Brazilian market (such as the CRA) and focused particularly on the features, requirements and respective benefits of making a public offer vs. a private placement.

The workshop was wrapped up by Frederick Johansson, Representative of SEB in Brazil, who recognized the efforts undertaken by the various actors present at the workshops in building a green bond market through market initiatives. This showed that people are actually in control of creating a more sustainable future based on their “knowledge, efforts, and engagement.”

Lastly, he invited participants to continue the dialogue on green bonds and engage with the STA for individual tailored advisory support and cooperation.

All presentations are available on [www.emergingmarketsdialogue.org](http://www.emergingmarketsdialogue.org). Videos of some presentations can be found on [https://www.facebook.com/CEBDSBR/](https://www.facebook.com/CEBDSBR/).