Agriculture Sustainable Finance State of the Market

Brazil briefing paper

Prepared by the Climate Bonds Initiative

Supported by the Gordon and Betty Moore Foundation

About this Briefing

The Brazilian green bond market has grown exponentially since its inception in 2015. Over the past two years other labelled bonds, such as social, sustainability, sustainability-linked, and transition bonds, have also begun to come to market. The land use category continues to be the second most funded in Brazil across these sustainability-themed debt, and pulp and paper companies continue to lead these issuances. Most recently, agriculture and bioenergy companies have come to market demonstrating the growing appetite for sustainable financial products from these sectors. Against this backdrop, this briefing aims to provide an overview of how labelled bonds are being used to finance sustainable agriculture projects, assets and activities in Brazil.

Content

Green

Proceeds go to eligible green projects or assets. Dedicated environmental benefits.

Sustainability

Proceeds go to green and social projects and assets. Includes environmental and social benefits.

Sustainability-linked

Does not follow the use of proceeds format and is tied to explicit ESG commitments within a predefined timeline.

Transition

Includes both use of proceeds and ESG commitments within a predefined timeline. Entities or activities should be Paris-aligned and enable the transition to a low carbon economy.

Introduction

Brazil is one of the largest potential markets for green bond growth in sectors related to land use and renewable energy.[1] A Climate Bonds report "Unlocking Brazil's Green Investment Potential for Agriculture" from 2020 mapped an estimated USD163bn investment potential up to 2030.[2] Considering other labels beyond green, this potential can become even more significant. Sustainable finance mechanisms are becoming widely recognized as important alternatives.

The growing number of deals that have come to market to fund agriculture, bioenergy, forestry and livestock projects demonstrate the growing appetite for thematic labelled debt. With the recently published Criteria for agriculture,[3] Climate Bonds Initiative (Climate Bonds) expects to see an increase in issuances financing agriculture, as well as from more consolidated sectors such as bioenergy and forestry. There is further potential for 'labelled CRAs'[4] and deals from banks repackaging their sustainable agricultural lending portfolios. This briefing covers the green and sustainability debt labels as they are funding agriculture projects and assets in Brazil, including forestry and bioenergy. Issuance coverage includes bonds and loans from May 2015 to the end of February 2021. Climate Bonds manages the world's most comprehensive green bonds database[5] and is expanding data coverage to social and sustainability bonds, with a separate database on these labels due to be launched in 2021.

While the Climate Bonds databases do not yet extend to tracking and analysis of Sustainability-linked and Transition bonds, deals within these two labels were included in this brief to be presented separately, as they are becoming increasingly relevant for Brazil's agriculture sector.[6] Definitions on each label are detailed below.

Green bonds and loans, combined with other sustainable debt instruments, will play a vital role in shifting capital towards assets, projects and activities related to sustainable land use and agriculture. Therefore, this briefing explores how Brazil's sustainable debt market is developing within the agricultural sector. For this briefing agriculture includes agriculture and livestock production, food production, forestry and bioenergy.

Brazil's growing sustainable debt market

Brazil's sustainable debt market has grown exponentially in the past seven years, with a cumulative USD10.8bn issued across the green, social and sustainability labels. Green bonds continue to dominate the market, but other labels have recently emerged, particularly sustainability-themed bonds. This diversification in thematic labels and sectors demonstrates the growing appetite for sustainable products.

Green bonds

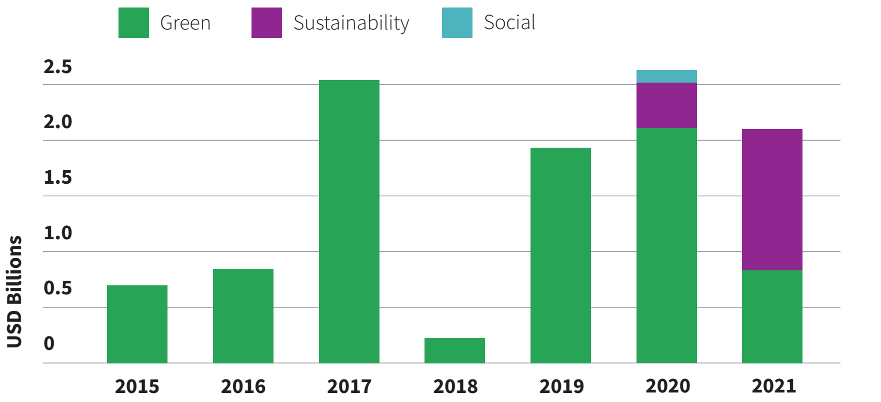
Green bonds and loans represent 84% of Brazil's sustainable debt market. Since the country's inaugural issuance in 2015, the market has grown from USD564m to USD9bn; placing Brazil as the largest green bond market in Latin America. 2017 was the record year, with nine bonds issued representing a total USD2.5bn. While issuance decreased in 2018 as a result of political uncertainty, it picked up in following years, with the number of deals increasing to 21 bonds in 2019, and 17 bonds and three loans in 2020; reaching USD2bn each year.

Onshore and local currency issuance is prevalent – USD also popular. Most (76%) of Brazil's green issuances have been domestic and the remaining 24% international, with benchmark-sized bonds (USD500m or more) issued by Brazilian entities such as BRF (USD549m), Suzano (USD700m), Klabin (USD500m), Rumo (USD500m), FS Bioenergia (USD550m) and BTG Pactual (USD500m). **BRL and USD-denominated bonds represent 98.4% of issue volume**, with larger deals tending to be in USD and smaller deals in BRL: 59% of issuance volume is in USD (5bn) and 35% in BRL (3bn). Brazilian deals have an average tenor of 5 to 10 years, particularly larger ones, 50% deals fall within this range. Deals with 5 years or less and 10 years to 20 years, represent the other 50%. Only six bonds have come out with over 20-year tenors (two pulp and paper, three renewable energy and one transmission).

Most deals are externally reviewed. External reviews are common in Brazil, particularly Second Party Opinions (SPO) and Certification under the Climate Bonds Standard.[7] Larger deals (eight out of 58) tend to have SPOs and smaller deals (11 out of 58) Certification. Of the total green bonds issued in Brazil, 40 have SPOs and 12 are certified.

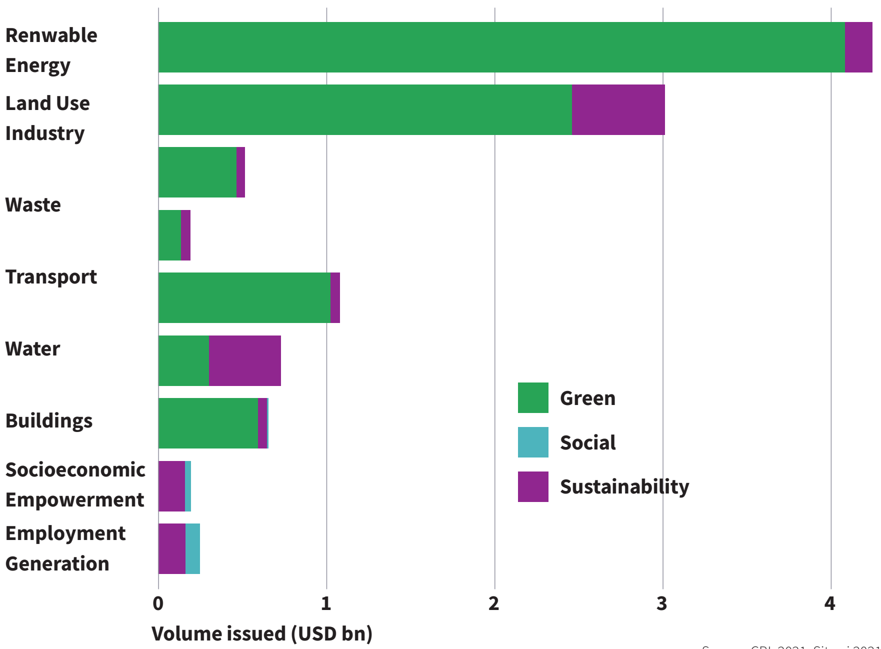
Renewable Energy and Land use continue as the two most funded green bond use of proceeds categories in Brazil. Following the global trend, renewable energy is the most 'popular' use of proceeds category representing 45% of the local market. Land use, particularly led by pulp and paper companies, is the second most prominent use of proceed category with a total of 27%. Transport,

Sustainable Debt Issuance by Theme



Source: CBI, 2021; Sitawi 2021

Use of Proceeds by Theme



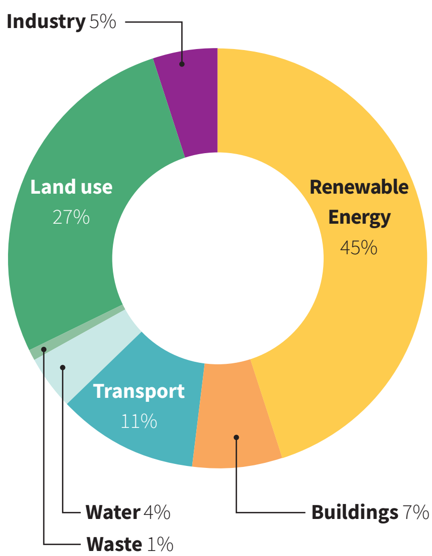
Source: CBI, 2021; Sitawi 2021

Buildings, Industry, Water and Waste categories have lower allocation from Brazilian issuers, with a combined 28% of the cumulative total.

Corporate issuers lead the way. Non-financial corporates continue to dominate Brazilian green bond issuance, accounting for 52 of the 58 bonds issued and 69% (USD6bn) of the total amount issued. Non-financial corporates represent the largest number of repeat issuers. Other types of issuers include:

- **Development bank**: BNDES issued a USD1bn bond in May 2017 to finance wind power projects. It also issued a USD178m Green Financial Letter (LFV, in Portuguese) in October 2020 to finance wind and solar projects.
- **Government-backed entity**: state-owned transmission system operator ISA issued two green bonds, one each in 2018 (USD179m) and 2019 (USD 99m), to finance renewable energy transmission projects;

Top Green Categories

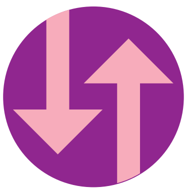


Source: CBI, 2021; Sitawi 2021

- **ABS**: Suzano issued the first green CRA in 2016 and since then another five have been issued to fund bioenergy and sustainable agriculture; this includes issuers such as FS Bioenergia (USD39m), Rizoma Agro (USD5m), Bioenergética Aroeira (USD29m), The Forest Company (USD10m), and SLC Agrícola (USD94m) – see page 10 for further details.

Since 2020, Brazilian financial corporates have entered the green bond market, with deals from Banco Votorantim (USD50m) to finance wind and solar energy; Bradesco (USD232m) to finance renewable energy, energy efficiency, clean transport and green buildings; and BTG Pactual (USD550m) to finance categories ranging from renewable energy to sustainable water and wastewater management and affordable housing. So far, no issuances have been made by local governments due to debt issuance restrictions and the need for federal guarantees. However, alternatives such as pooled finance mechanisms are being assessed to facilitate the access to green funding. More information will be available in the 2021 Climate Bonds Report “Pooled Finance: Brazil’s Opportunity to Finance Subnational Sustainable Infrastructure”.

Sustainability bonds



Sustainable bonds represent 15% of Brazil’s sustainable debt market. The first sustainability bonds from Brazilian issuers came to market in 2020, but the market grew quickly nearly quadrupling from USD412m to over USD1.6bn by the end of February 2021. Most (88%) of Brazil’s sustainability-themed issuances, were domestic and the remaining 12% international, with two benchmark-sized bonds from Itaú (USD500m) and Amaggi (USD750m). Local deals were smaller, with entities such as Iguá Saneamento (USD168m), BRK Ambiental (USD193m), Tabôa (USD200k) and BDMG (USD50m) coming to market.

Predominance of local issuances in 2020 with 80% of issuances (four deals) domestic and 20% international (one deal). In 2021, all issuances (two deals) thus far have been international. Thus, all sustainability issuance is denominated in BRL and USD, with benchmark-sized bonds tending to be in USD and smaller deals in BRL. Of the seven bonds issued, 22% of volume issuance was in BRL (363m) and 78% in USD (1.3bn) Brazilian green bonds have an average tenor of five to 10 years, and the same holds for sustainability bonds, only one of which was over that mark: a 14-year tenor deal came from Iguá Saneamento, to finance water treatment, distribution and supply, as well as universal access to sanitation services.

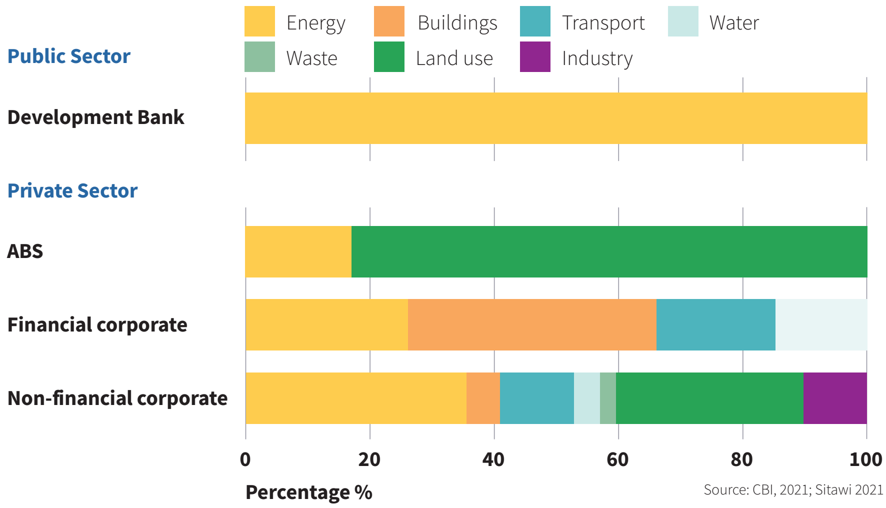
Land Use represents the largest share of deals under the sustainability label, with 33% of the cumulative volume. This is followed by issuance to fund Water). Second Party Opinions (SPO) have been carried out for all seven sustainability bonds.

Non-financial corporates dominate sustainable deals accounting for 5 of the 7 bonds issued. Of the non-financial corporate issuers, Iguá Saneamento, a water and sanitation management company, was the only one that issued more than one bond, with two issuances in 2020 totalling USD168.7m. However, other issuers have also come to market:

- **Government-backed entity**: The Minas Gerais Development Bank (BDMG) issued a sustainability bond of USD50m in 2020..
- **Financial Corporates**: Itáu Unibanco issued a USD500m bond in 2021, making up for half of the sustainability bond issuances of the year.

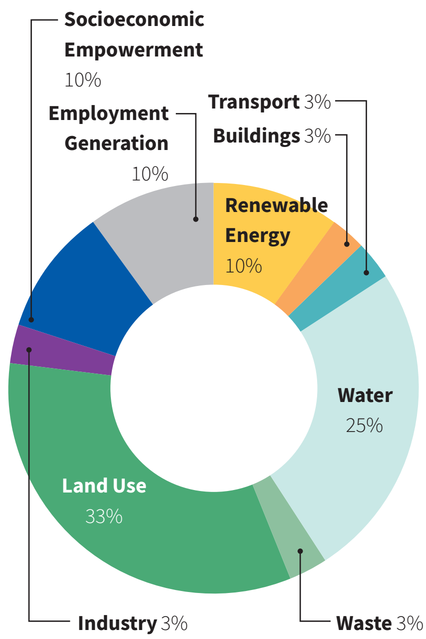
Sustainability bonds continue to expand amongst Brazilian issuers. As most labels in this theme incorporate both environmental and social objectives, they can offer a broader range of eligible use of proceeds, thus being more suitable for some issuers..

Green Non-Financial Corporate vary UoP



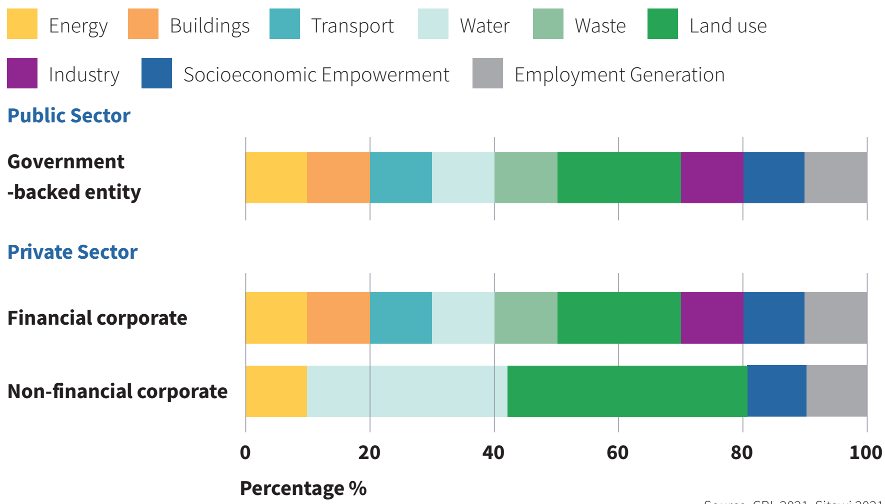
Source: CBI, 2021; Sitawi 2021

Top Sustainable Categories



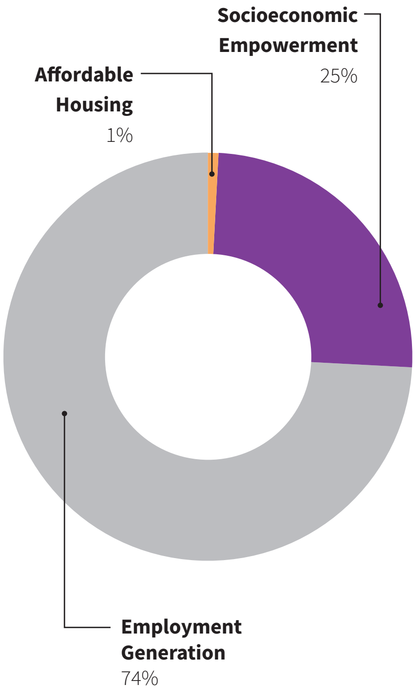
Source: CBI, 2021; Sitawi 2021

Sustainability Non-Financial dominated by Multi-Sector UoP



Source: CBI, 2021; Sitawi 2021

Top Social UoP categories



Source: CBI, 2021; Sitawi 2021

Social bonds

Social bonds represent 1% of Brazil's sustainable debt market. The country's first social bond was issued in 2018 by Vivenda (USD1m) to fund social housing projects. Since then, the market has reached a total USD111m. Brazil's three social issuances - one in 2018, and two in 2020 - were domestic and all below benchmark size. All volume was **BRL-denominated**. While green and sustainability bonds have an average tenor of five to ten years, all social bonds had tenors of five years or less.

Employment generation is the most funded category under the social label in Brazil, with the use of proceeds of two of the three bonds going towards Small and Medium-Sized Enterprises (SMEs). The net proceeds of the Banco ABC (USD100m) bond from 2020 are earmarked for loans to SMEs in less developed regions to support employment generation and the health sector as a response to the COVID-19 crisis. The use of proceeds of the Gyra+ (USD9m) bond aims to finance employment generation, particularly SMEs and companies in less developed regions. The second-largest category under the social label is affordable housing, with the USD1m bond issued by Vivenda. Second Party Opinions (SPOs) are also market practice for Brazil's social bonds, with two of the three issuances receiving an external review. Financial corporates are the dominant social bond issuers, followed by non-financial corporates.

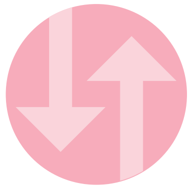
Performance-linked-instruments and transition labels

Recent developments in sustainable finance include the emergence of labels intended to facilitate market expansion beyond the established use of proceeds model. The first is Sustainability-Linked Bonds (SLB) and Loans (SLL), which are performance- or KPI-linked instruments. As opposed to financing a specified pool of assets and projects, finance raised with these mechanisms goes to general corporate purposes. Within these labels the coupon/interest depends on the borrower's performance against predetermined sustainability-related KPIs. Therefore, instead of financing specific assets, sustainability-linked bonds or loan aim to encourage the issuer or borrower to achieve wider Sustainability Performance Targets (SPT) at the issuer level. The second are transition bonds, which follow a similar approach at the entity level, as they consider the issuer's climate commitments within a predefined timeline. However, labelled transition bonds may also include a use of proceeds approach to meet these targets.

There have been concerns over the two labels on targets and ambition. On sustainability-linked bonds or loans the central concerns have been over the KPIs, which are entity-specific and therefore difficult to benchmark against peers or wider global goals, such as the Paris Agreement. An additional concern on loans it that there is very limited transparency, making it difficult to assess the impact and ambition of each loan. These concerns are not insurmountable and with clear guidance the market could benefit from these types of deals, particularly to enable entity-level transitions.

Equally, there have been concerns transition bonds, particularly regarding the relevance, reliability and availability of transition pathways for issuers at the sector-level. Being able to demonstrate requisite ambition in terms of pathways and the choice of the most advance and suitable technology - not necessarily the most commercially viable - will be key for the credibility of transition strategies and related finance.

Sustainability-Linked finance in Brazil



Both SLBs and SLLs are present in the Brazilian market as relatively recent additions: the first SLB in Brazil was issued by Votorantim Cimentos in 2019. Since then, the volume of issuances has grown from USD269m to USD5bn. The sustainability-linked mechanism is gaining popularity among Brazilian issuers and borrowers as it can provide greater flexibility on the use of proceeds, particularly towards general purpose financing. Eight of the 15 deals were issued in 2020 alone, and the total issuance volume was USD1.7bn. This year, five deals have already come to market as of February, totalling USD3.2bn.

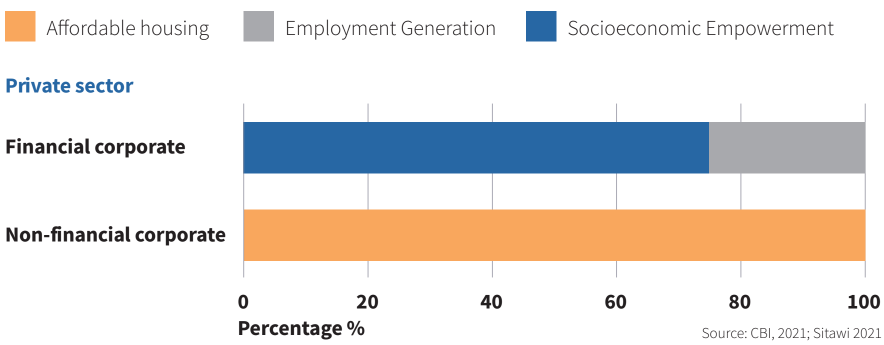
Around 67% of Brazil's sustainability-linked deals were issued internationally, and the remaining third domestically. Six of the ten international deals were benchmark-sized, from companies such as Movida (USD500m), Simpar (USD625m), Klabin (USD500m) and Suzano (USD500, USD750m, USD1.6bn). Eight of the 15 sustainability-linked deals are loans, and the average tenor of all sustainability-linked deals is ten years.

Transparency and use of proceeds

While external reviews are market best practice across thematic labels, they have not been widely used for these types of deals. Of the fifteen deals, only one loan and four bonds received an SPO; all were also issued abroad. This adds to the concern around the lack of transparency with performance-linked instruments, especially as proceeds are not ring-fenced for specific assets. Additional market guidance and education is required to ensure that external reviews are considered an integral part of SLBs and SLLs as they are with green bonds.

Land use and Transport are the two themes most funded with SLBs and SLLs based on the issuers' core businesses. Non-financial corporates make up all these deals so far. This is to be expected: they are best suited to benefit from this type of funding to improve the

Social Financial Corporates dominated by Employment Generation



Source: CBI, 2021; Sitawi 2021

environmental credentials of their operations in the real economy. SLBs and SLLs are poised to continue to attract interest from Brazilian non-financial corporates looking to facilitate their transition to lower-carbon and otherwise more sustainable activities.

Transition bonds

The transition label is also quite recent and has gained traction in the last three years. The first labelled transition bond was issued by Brazilian beef producer Marfrig (USD500m) in 2019 Despite this benchmark-sized deal, the issuance of transition bonds has remained modest with another two bonds, totalling USD169m, issued in 2020. This is also due to the need of further discussions by the market on defining credible transition pathways. Climate Bonds launched the "Financing Credible Transition Whitepaper" in September 2019 to provide further guidance for transitions bonds and will undertake further work on setting a transition standard and sector criteria, including for agriculture-related activities.[8]

The Marfrig bond (see page 14) was the only benchmark-sized bond and was issued offshore, whereas the two other transition bonds from Eneva were domestic. All bonds were issued by non-financial corporates. In addition to Marfrig, natural gas operator Eneva issued the two other transition bonds worth USD67m and USD103m in September 2020. Thus, BRL and USD-denominated bonds represent all issued volume, with larger bonds in USD and smaller deals in BRL. In line with the trend across other labels, the tenor of transition bonds falls within the five to 10-year range. Only one bond issued by Eneva had a 15-year tenor. Land use is the most funded category considering issuance volume, and Energy comes in second. Second Party Opinions (SPO) have also been carried out for all three transition bonds issued in Brazil to date.

Enabling credible transitions

Transition bonds, an emerging new labelled debt instrument, are targeted at emission-intensive industries. There is no single definition on what a transition bond can finance – raising some concerns around greenwashing – but there is an emerging consensus that any labelled transition bond should be ambitious, not "light green" or aimed at marginal improvements. This means making deep emissions cuts to existing activities in the short term while transitioning whole entities to a pathway consistent with the Paris Agreement. Transition bonds can allow companies in emission-intensive industries to raise capital with the goal of decarbonising their value chains at the speed required by the joint goals of the Paris Agreement.

The Transition Principles proposed by the Climate Bonds Initiative state that transition strategies must be:

i) Established by science – all goals and pathways, climate or otherwise, must be led by scientific experts and not be entity - or country-specific. They should also be simple to evaluate rather than using black box scoring metrics;

ii) In line with a 1.5°C global trajectory – climate-related goals and pathways need to align with zero carbon by 2050 and nearly halving emissions by 2030. As above, it needs to be easy to evaluate entity progress in line with these goals, and

iii) Based on action not pledges – a credible transition is backed by operating metrics that a pathway is being followed rather than a commitment/pledge to follow a transition pathway at some point in the future. Given that SLBs are not related to pledges, the KPIs specified in the SLBs are a perfect opportunity to demonstrate these operating metrics publicly.

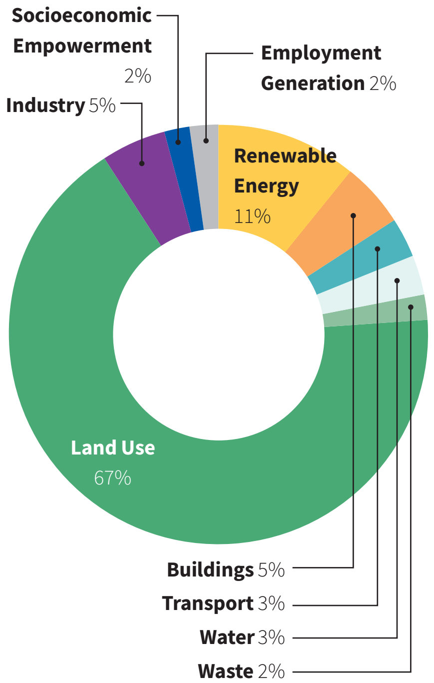
Climate Bonds Initiative is working with regulators, investors and other key market stakeholders to activate transition finance for segments that have largely been absent but offer huge emission reduction potential. Climate Bonds is starting a three-year programme on transition that will include the expansion of the existing Climate Bonds Standard and Certification Scheme to enable the certification of entity transition strategies.

Sustainable finance and agriculture

The Land use category of the Climate Bonds Taxonomy, which covers agriculture, livestock production and forestry, is significant across the green, sustainability, sustainability-linked and transition labels, representing 67% of the total volume issued across these labels in Brazil. Other agriculture related sectors, such as renewable energy (includes bioenergy), industry, buildings, water, waste and transport are also relevant across these labels and represent together 33% of Brazil's total issue volume across these four labels.

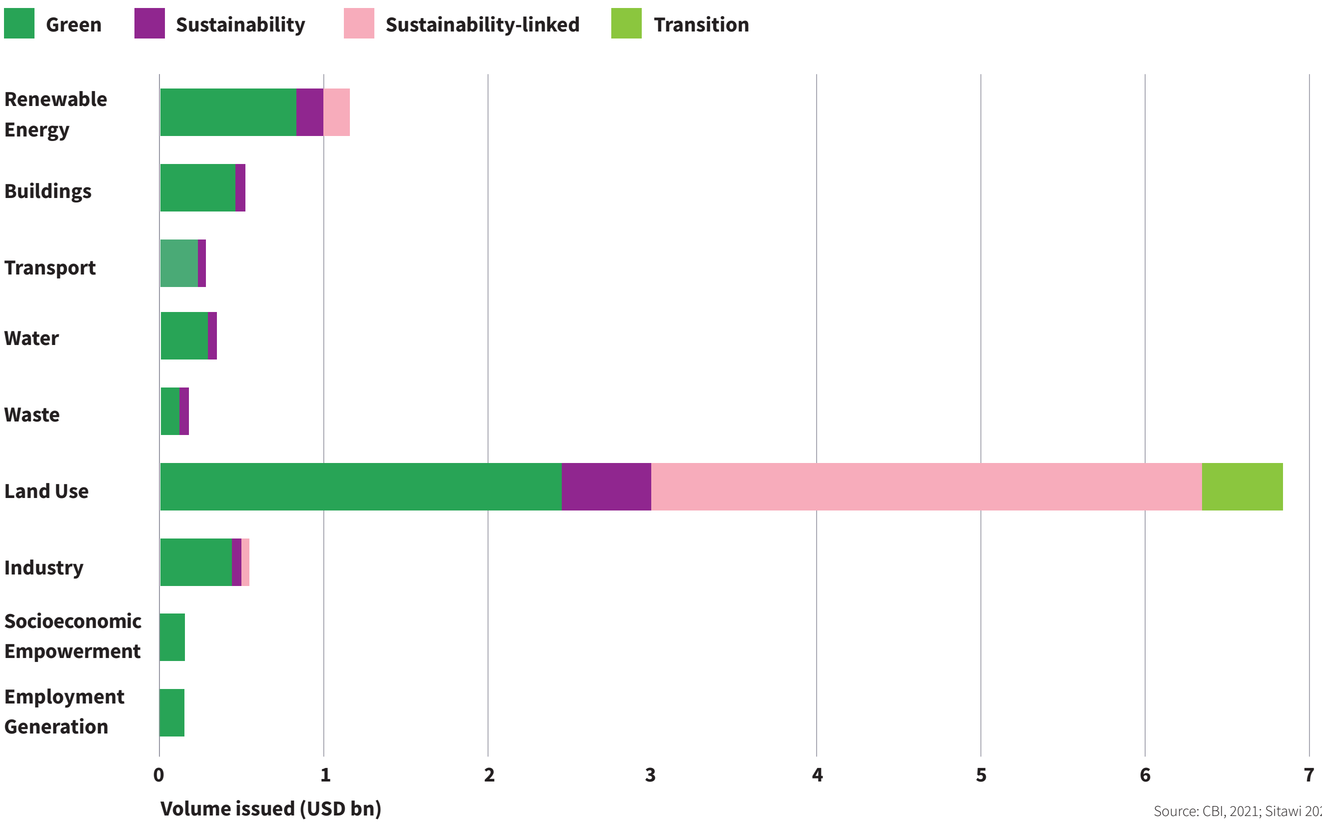
The following sections of this briefing explore issuances under the relevant agriculture categories (forestry, bioenergy, agriculture, livestock and food industry) and how the different thematic labels are being used by non-financial corporates, financial corporates, and government-backed entities to finance forestry, good industry, livestock, agriculture and bio-energy projects and assets – see graphs below for Brazil's sustainable agriculture debt issuances by theme and label.

UoP: Volume of Issuance by theme



Source: CBI, 2021; Sitawi 2021

Theme by label



Source: CBI, 2021; Sitawi 2021

Brazil's sustainable debt agriculture issuances from 2015 to 2021

Issuer name	Instrument	Amount Issued	Issue Date	Issuer type	Use of Proceeds
GREEN					
BRF SA	Euro Bond	EUR500m (USD564m)	Jun-15	Non-Financial Corporate	Renewable Energy, Energy Efficiency, Water and Waste Management, Forestry
Suzano	Global Notes	USD500m*	Jun-16	Non-Financial Corporate	Forestry, Water Management, Energy Efficiency, Renewable Energy
Suzano	CRA	BRL1bn (USD295m)	Nov-16	Non-Financial Corporate	Sustainable Forest Management
Suzano	Global Notes	USD700m	Jan-17	Non-Financial Corporate	Forestry, Water and Waste Management, Renewable Energy
Suzano	Private Placement	USD200m	Sep-17	Non-Financial Corporate	Forestry, Water Management, Energy Efficiency and Renewable Energy
Klabin	Global Notes	USD500m	Sep-17	Non-Financial Corporate	Forestry, Energy Efficiency, Agriculture, Transport and Adaptation
Klabin	Global Notes	USD500m	Apr-19	Non-Financial Corporate	Forestry, Renewable Energy, Energy Efficiency, Water and Waste Management and Adaptation
Celulose Irani	Debenture	BRL 505m (USD131m)	Jul-19	Non-Financial Corporate	Sustainable Forest Management and Recycling
The Forest Company	CRA	BRL39.4m (USD10m)	Oct-19	Non-Financial Corporate	Forestry
Klabin	Global Notes	USD200m	Jan-20	Non-Financial Corporate	Forestry, Renewable Energy, Low Carbon Transportation, Energy Efficiency, Waste and Water Management and Climate Adaptation
Rizoma Agro	CRA	BRL25m (USD5m)	Aug-20	Non-Financial Corporate	Agriculture production, Agroforestry, Silvopastoral Systems
Bioenergética Aroeira	CRA	BRL150m (USD29m)	Dec-20	Non-Financial Corporate	Bioenergy
FS Bioenergia	CRA	BRL210.26m (USD39m)	Feb-20	Non-Financial Corporate	Bioenergy
FS Bioenergia	Bond	USD550m	Dec-20	Non-Financial Corporate	Bioenergy
BTG Pactual	Bond	USD50m	Nov-20	Financial Corporate	Renewable Energy, Low Carbon Buildings, Low Carbon Transport, Water
Katyama Alimentos	Promissory Note	BRL12.6m (USD2.3m)	Nov-20	Non-Financial Corporate	Agriculture (Organic Fertilizer)
SLC Agrícola	CRA	BRL480m (USD94m)	Dec-20	Non-Financial Corporate	Agriculture (Digital and Low Carbon Farming Practices), Integrated Systems (Crop-Livestock)
BTG Pactual	Bond	USD500m	Jan-21	Financial Corporate	Renewable Energy, Low Carbon Buildings, Low Carbon Transport, Waterr
FS Bioenergia	Bond	USD50m	Jan-21	Non-Financial Corporate	Bioenergy

SUSTAINABILITY					
Issuer name	**Instrument**	**Amount issued**	**Issue Date**	**Issuer Type**	**Themes**
Tabôa	CRA	BRL1m (USD200,000)	Dec-20	Non-Financial Corporate	Agriculture
BDMG	Bond	USD50m	Dec-20	Government-Backed Entity	Renewable Energy, Low Carbon Buildings, Low Carbon Transport, Water, Waste, Land Use and Industry/ Socioeconmic Empowerment and Employment Generation
Itaú	Bond	USD500m	Jan-21	Financial Corporate	Renewable Energy, Low Carbon Buildings, Low Carbon Transport, Water, Waste, Land Use and Industry/ Socioeconmic Empowerment and Employment Generation
Amaggi	Global Notes	USD750m	Jan-21	Non-Financial Corporate	Renewable Energy and Land Use/ Socioeconomic Empowerment and Employment Generation
SUSTAINABILITY-LINKED					
Suzano	Bond	USD750m	Sep-20	Non-Financial Corporate	Forestry
Suzano	Bond	USD500m	Nov-20	Non-Financial Corporate	Forestry
Suzano	Loan	USD1.57bn	Feb-21	Non-Financial Corporate	Forestry
Klabin	Global Notes	USD500m	Jan-21	Non-Financial Corporate	Forestry
Tereos	Loan	USD105m	Jun-20	Non-Financial Corporate	Bioenergy
FS Bioenergia	CRI	BRL1390m (USD26m)	Jun-20	Non-Financial Corporate	Bioenergy
FS Bioenergia	Loan	BRL180m (USD33.31m)	Jun-20	Non-Financial Corporate	Bioenergy
Frimesa	Loan	BRL70m (USD12m)	Sep-20	Non-Financial Corporate	Industry
Lar Cooperativa	Loan	BRL180m (USD33m)	Sep-20	Non-Financial Corporate	Industry
Marfrig	Loan	USD30m	Feb-21	Non-Financial Corporate	Livestock
TRANSITION					
Marfrig	Global Notes	USD500m	Jul-19	Non-Financial Corporate	Livestock

Source: CBI and Sitawi Databases, 2021. February 2021 cut-off date.

Across the agriculture themes

This section breaks down data into the main 'themes' to which funding is being directed, considering the Climate Bonds Standard and Taxonomy.

Forestry

Size: USD6.4bn
Number of issuers: 4
Number of bonds: 13
Largest issuer: Suzano

Forestry is the leading theme within Brazil's agriculture sustainable finance universe, with USD6.4bn primarily to fund pulp and paper companies. Since 2016, companies from the sector have been active green bond issuers, with Suzano being the first to enter the market in September 2016 through the issuance of a green CRA. The majority (69%) of the issuances under the Forestry theme have received the green label; with the remaining 31% receiving the sustainability-linked label; including loans.

All issuances across both labels went to products certified by either the Forest Stewardship Council – FSC or PEFC. The proceeds of the green bonds have gone towards pulp and paper production and a smaller portion to conservation efforts; while the indicator in SLBs related to GHG emission reduction and other sustainability issues, such as water, industrial waste, waste reduction and gender equality. Suzano and Klabin are the two major issuers, with seven and four issuances, respectively representing USD4.5bn and USD1.7bn.

Issuances from pulp and paper companies are likely to continue to prevail in the sustainable debt market, as these companies continue to improve the sustainability of their production, and utilise their previous experience with labelled issuances. However, there is significant potential for the financing of low carbon projects and assets, which may include sustainable forestry use and management, conservation, restoration, agroforestry, and non-timber projects, among others. The "Unlocking Brazil's Green Investment Potential for Agriculture" Roadmap identified a further USD11.9bn of debt that could be labelled across these themes.[9] Guidance for these types of issuances is available in the Climate Bonds Standard and Certification Scheme website,[10] which can also support sustainability-linked issuances. Best practices and guidance for SLBs and SLLs are also available through ICMA and LMA.

Bioenergy

Size: USD832m
Number of issuers: 3
Number of bonds: 7
Largest issuer: FS Bioenergia

Bioenergy is the second largest investment category with a total USD832m. The share of bioenergy issuances in Brazil within the Renewable Energy category is increasing, though the space is still dominated by the wind and solar sectors. The first green Climate Bonds Certified deal to finance biofuel production was structured by Ecoagro in 2019. However, due to market circumstances in Brazil's bioenergy sector, the deal was not settled. Later, in February 2020 FS Bioenergia issued the first bioenergy deal that did come to market, and over the past two years a number of issuances have been made by biofuel companies. Once again, most issuances – around 57% - have received the green label and the other 43% were sustainability-linked.

The proceeds of green issuances financed either corn or sugarcane ethanol production, including cogeneration. Proceeds have also been used for the processing and industrialisation of feedstock, as well as operating expenditure to cover costs with crops, biomass and other agricultural products. On the other hand, the indicators set for sustainability-linked financial instruments related to bioenergy – mainly SLLs – have focused on the reduction of greenhouse gas emissions, water consumption, increase in certified sugarcane, improvement in transparency, and reduction in the carbon footprint. FS Bioenergia is the main issuer, with five issuances representing a total USD698m.

Bioenergy issuance across the different labels and mechanisms is expected to increase in Brazil over the coming years due to the country's leading role as a major biofuel producer and exporter. There are significant investment opportunities in feedstock production and in the expansion of new and existing units; the "Unlocking Brazil's Green Investment Potential for Agriculture" Roadmap identified potential of USD30.6bn.[11] Bioenergy production is aligned to the country's climate commitments and the decarbonisation of its transport sector. The constant challenge for the sector is to continue upholding and communicating its sustainability standards, particularly to address global concerns over competing land use (fuel versus food), biodiversity and deforestation. Agroecological zoning was a central component to consolidating biofuel production and co-generation in Brazil. While electrification is also perceived as the most effective solution by European and North American markets, projections point to that a significant penetration of light duty vehicles in Brazil will only begin in 2035.[12] This highlights the importance of biofuels for decarbonising transport, considering 78% of the Brazilian light-duty vehicle fleet are flex-fuel – a share which is forecasted to reach 90% by 2030.[13] Certification of financial instruments related to biofuel production under the Climate Bonds Standard can provide greater comfort on how to address these issues.

Agriculture

Size: USD848m
Number of issuers: 4
Number of bonds: 4
Largest issuer: Amaggi

Issuances dedicated to agriculture are still incipient. Since August 2020, four deals totalling USD848m have come to market. The first issuance was a certified green CRA by Rizoma Agro. This was not only the first Certified issuance under the Climate Bonds Standard Agriculture Criteria in Brazil, but also worldwide. Following Rizoma Agro's green issuance, another green CRA was issued by SLC Agricola. Green bonds represent half the deals under the agriculture theme. The other two issuances, labelled as sustainability bonds, cover both environmental and social benefits.

The proceeds from the green issuances financed organic regenerative production, siloes for drying grains and storage, the production of biological inputs, more modern and efficient equipment for digital and low carbon agriculture practices, and no-tillage systems and crop-livestock integration. The proceeds for the sustainability-labelled issuances went to renewable energy production, expansion of rural properties, grain procurement, Research & Development (R&D) for environmentally friendly crop management process, protection of natural habitats, socio-economic advancement and empowerment, employment generation, food security and sustainable food systems, and family agriculture. Amaggi is the largest issuer in the sector, with one deal at USD750m

With Brazil's role as a major agricultural commodity producer there is significant potential for further labelled issuances. The country has a pipeline of eligible projects and assets that can attract green and sustainable financing, such as soil and land use management through practices like zero-tillage, integrated crop-livestock-forestry

(ICLF) systems, biological nitrogen fixation, as well as the production of biofertilizers and biopesticides. Just the last two represent investment potential of USD1.6bn [14]. The Climate Bonds Standard Agriculture Criteria brought specific guidance to the market on green credentials, covering the central concerns over agriculture production, specifically deforestation and land use. This is expected to support market development, including for other sustainable labels.

Livestock

Size: USD530m
Number of issuers: 1
Number of bonds: 2
Largest issuer: Marfrig

There have been two labelled issuances from livestock producers, totalling USD530m. The first labelled issuance was a sustainable transition bond from Marfrig in July 2019. The Climate Bonds Initiative did not include this issuance in its Green Bond database due to its lacking climate credentials, yet did view is as positive example of an issuer influencing its broader supply chain and sending a signal to the wider market on its intent to transition to lower-carbon operations. The second example in the livestock sector is also from Marfrig, who signed a USD 30m SLL in February 2021.

Compared to the limited issuance volume, the livestock theme is already demonstrating a wide variety of labels, mainly based on key performance indicators. This can be explained due to the nature of cattle farming that requires a shift towards a low carbon business model. The Marfrig Sustainable Transition Bond is directed towards the purchase of cattle under specific environmental and social procurement criteria. The company's SLL comprises similar criteria looking to eliminate deforestation from supply chains.

Livestock remains one of the most challenging sectors to decarbonise, yet green and sustainability labels can support the transition to more efficient production models in the interim. With beef production projections indicating a continuous growth trajectory, there are opportunities to improve productivity and more efficient use of natural resources through integrated crop-livestock-forestry (ICLF) systems and the recovery of degraded pastures. For poultry and pork there are opportunities for limiting the use of water, animal feed, waste treatment and composting. The "Unlocking Brazil's Green Investment Potential for Agriculture" Roadmap identifies USD78.4bn potential across these areas.[15] In addition, the Climate Bonds Initiative recently approved the Livestock Criteria as part of the Agriculture Criteria, providing guidance to the market on the green credentials required for livestock projects and assets – the updated version of the Criteria will published by July. This should support new issuances from the sector. With requisite ambition the livestock production industry can also use transition bonds as a mechanism to limit its harmful effects on the environment. Additional information on transition bonds can be found in the Climate Bonds Initiative "Financing Credible Transition White Paper".

Food Production

Size: USD612m
Number of issuers: 4
Number of bonds: 4
Largest issuer: BRF S.A.

Brazil's inaugural green issuance was made in 2015 by BRF, a global food producer and the first non-financial corporate to spend the majority of its use of proceeds on any type of industrial production (classified under Industry in the Climate Bonds Taxonomy). Issuances under this theme total USD612m across green and sustainability labels. Half of the issuances are green bonds and the other half SLLs.

The proceeds from the green issuances have gone towards energy efficiency, greenhouse gas emission reduction, renewable energy, water and waste management, resource efficiency, forestry and organic fertilizers. Although there is no publicly available information on the conditions of SLLs, much like other loans, the coupon remains conditional to the key performance indicators; this may result in a stepping up or down of the coupon.

There is significant potential for labelled bonds to finance agri-food industry, retail sector and supply chains, particularly greenhouse gas intensive sub-sectors. Eligible projects include the processing, commercialisation and industrialisation of agricultural products, inputs and equipment. Globally, food security and sustainable food systems are also benefiting from sustainable financing. For instance, since March 2019, the World Bank has issued 35 Sustainable Development Bonds to address food loss and waste reduction[16]. Tackling food loss and waste can directly impact the rates of land use conversion and help reduce greenhouse gas emissions.

Financial institutions

Size: USD1bn
Number of issuers: 3
Number of bonds: 4
Largest issuer: BTG Pactual & Itaú

Labelled issuances by financial institutions are growing in Brazil, with USD1bn partially going towards the categories explored in this section. Issuances under this theme are comprised of green and sustainability labelled bonds with proceeds financing a wide range of projects and assets across different categories. The issuers under this theme are financial sector institutions or state development banks funding their portfolios in forestry, bioenergy, agriculture, livestock or other land use and conservation projects and assets. Half the issuances are green and the other half sustainability; having come to market over the past five months.

Of the three issuers, two are commercial banks and the other is the Minas Gerais Development Bank (BDMG, in Portuguese). Financial institutions can play an important role in attracting funding to green and sustainable portfolios, in addition to being structuring agents and underwriters. Banks are increasingly incorporating environmental, social and governance credentials into their decision-making processes and can access international capital markets to finance or refinance sustainable and green portfolios, as well as providing sustainability and green loans to agriculture producers and companies.

A review of market transactions

Several sustainable agriculture issuances have come to market over the past three years. This section reviews a selection of recent deals considering the green, sustainability, sustainability-linked and transition labels. It provides further detail on the use of proceeds and labelling process.

Green bonds

Since 2017, **Klabin** has issued four green bonds. The company first entered the green bond market in September 2017 with a USD500m deal. The bond was aligned to the Green Bond Principles (GBP) and received a Second Party Opinion (SPO)[17]. The proceeds were directed to projects under the following categories, sustainable forest management, restoration of new native forest and conservation of biodiversity, renewable energy, clean transportation, energy efficiency, waste management, sustainable water management, eco-efficient and circular economy adapted products, production technologies and processes and climate change adaptation. Klabin has also published three annual reports for 2018[18], 2019[19], and 2020[20] covering resource allocation on the investments and respective environmental impacts. In April 2019, the Company issued another benchmark deal at USD500m under the same SPO. The bond was the first with a 30-year maturity for a Brazilian company. In January 2020, Klabin reopened the bond raising an additional USD200m.

Celulose Irani issued a green bond in July 2019 for USD131m. The bond was labelled via a Second Party Opinion[21] with the use of proceeds going towards sustainable forest management, certification and refinancing of a paper recycling plant. In August 2020, the company published a post-issuance report[22] that stated that 97% of the proceeds were allocated to the eligible projects and assets; and that also measured impacts on the certified areas, preserved areas and carbon stock.

The first Certified Climate Bond financing agriculture was issued by Rizoma Agro, the largest Brazilian organic grains producer, in August 2020 for USD5m. This was a milestone for green agri issuances, as it was the first dedicated deal for agricultural production. As a certified bond its green bond framework[23] was aligned with the Climate Bonds Standard Version 3.0, and to the Agriculture Criteria[24]. It also received an external review by Bureau Veritas. The company used the proceeds to fund row crops and agroforestry production, irrigation systems, the production of biological inputs, post-harvest infrastructure (silo drying and storage capacity), research and development and agriculture management platform. The deal was structured by Ecoagro as a green CRA and under this structure Ecoagro issues the CRA and transfers the funds raised to Rizoma Agro.

Bioenergética Aroeira was the first bioenergy company to issue a green CRA for USD29m in December 2020. The green CRA received a Second Party Opinion[25] and the use of proceeds were directed towards investment and operational cost for biofuel production and refining, as well as cogeneration. While the green CRA was not Certified, it was aligned to the Climate Bonds Standard Bioenergy Criteria[26], seen as market best practice.

FS Bioenergia, the largest corn ethanol producer in Brazil, also issued green bonds to fund biofuel production and co-generation. From February 2020 to January 2021, the company issued three green bonds. All deals received a Second Party Opinion[27], meaning they followed a use of proceed format and alignment to the Green Bond Principles[28]. It is important to acknowledge their alignment to the Climate Bonds Standard Bioenergy Criteria, particularly greenhouse gas emission thresholds and impacts on land use change and food security. The company's inaugural green bond was issued in February 2020 for USD39m. This was the first green CRA issued in the bioenergy sector, through Gaia Securitizadora. The proceeds were used to finance the production, commercialisation, processing and industrialisation of corn, eucalyptus biomass and other agricultural products[29]. Following this deal, FS Bioenergia issued a USD550m green bond in December 2020. The bond was 1.8x oversubscribed and the proceeds are also being used for the production, commercialisation, processing and industrialisation of corn, eucalyptus biomass and other agricultural products[30]. Another green bond was issued by the company in January 2021 for an additional USD50m for working capital towards the same use of proceeds.

SLC Agrícola issued the second dedicated deal for agriculture production in December 2020 at USD94m. The green CRA received a Second Party Opinion[31] and the use of proceeds were aligned with the Green Bond Principles and with the Climate Bonds Standard Agriculture Criteria, as market best practice. The use of proceeds will go towards digital and low carbon agriculture, including the purchase of modern and more efficient machinery and equipment, that require less non-renewable resource consumption and herbicides; no-tillage, and integrated crop-livestock (ICL) systems for soy and cotton. SLC Agrícola's SPO stressed the importance of these practices to reduce greenhouse gas emission, improve soil conservation, decrease soil erosion, and reduce fertilizer and herbicide consumption.

BTG Pactual, a Brazilian private bank, issued its first green bond in November 2020 for USD50m, as a private placement. The issuance was part of the Bank's Green, Social and Sustainable Framework[32]. The Bank sought a Second Party Opinion[33] to review its Framework, following market best practices. BTG Pactual also issued a benchmark sized bond in January 2021 at USD500m, being the first Latin American private bank to do such issuance. The proceeds of the bond are targeted at renewable energy, energy efficiency, sustainable water and wastewater management, clean transportation, and green buildings. The renewable energy category includes bioenergy projects that meet the following eligibility criteria, emissions restricted to 100gCO2/kWh, sustainably sourced feedstock certified under best practices as Bonsucro, RSB, FSC and ISSC, which do not deplete terrestrial carbon stock or compete with food production.

Sustainability bonds

Tabôa, a non-for-profit organization that provides credit lines to small agriculture producers, issued a sustainability CRA through Gaia Securitization for USD200,000. Their Sustainable Bond Framework[34] was aligned to the Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG) and received a Second Party Opinion[35]. The proceeds will be used to finance family agriculture cocoa production in the Mata Atlântica biome. Tabôa will provide resources for agroforestry systems and other practices that encourage the conservation, restoration and recovery of degraded area or reforestation of native vegetation. Eligible activities include the commercialization, processing and industrialisation of agriculture products, agriculture inputs and machinery that support projects such as the preservation and recovery of the Mata Atlântica biome through production systems. The social aspect of Tabôa's Sustainability CRA is focused on the strengthening of family agriculture, the empowerment of small producers, indigenous communities, Quilombola communities and agrarian reform settlements. It also considers gender and the inclusion of women and youth within the production process, as well as food security and sustainable food systems. Tabôa's issuance is an example of how small holders can access sustainable funding.

BDMG, the Minas Gerais Development Bank, was the first Brazilian public bank to issue a sustainability bond in December 2020 for USD50m. IDB Invest was the sole investor. BDMG prepared a Sustainable Bond Framework[36] and sought a Second Party Opinion[37]. The deal covers green categories - agriculture and natural resources, renewable energy and energy efficiency, water and wastewater management, clean transport and pollution prevention and control – and social categories – access to essential services (health, education and economic recovery after disasters), socioeconomic empowerment (gender inclusion), employment generation (SMEs), affordable basic infrastructure (inclusive and sustainable urbanization). The use of proceeds under agriculture and management of natural resources goes towards integrated crop-livestock-forestry systems and agroforestry projects; agricultural projects that reduce greenhouse gas emissions or water-use; BDMG specified a list of crop or activities that are eligible subject to the appropriate certification (e.g. Proterra, 4C, UTZ, Fairtrade).

Itaú Unibanco, the largest privately-owned Brazilian Bank, issued a USD500m sustainability bond in January 2021. The Bank published a Sustainability Finance Framework[38] setting the guidelines for green, social and sustainability bond issuance, and it received a Second Party Opinion[39]. The proceeds of the sustainability bond are being used for the financing or refinancing of eligible green and/or social projects included within the Bank's Framework. The green and social categories under the Framework include renewable energy and energy efficiency, clean transportation, sustainable water and wastewater management, pollution prevention and control, environmentally sustainable management of living natural resources and land use, green buildings, access to essential services and inclusive finance. Use of proceeds under the environmentally sustainable management of living natural resources and land use may be directed towards certified sustainable forestry projects (e.g. FSC, Brazilian Forest Certification Programme – Cerflor, PEFC); sustainable agriculture projects certified by the Rainforest Alliance or GlobalGAP; low carbon agriculture projects and technologies, such as soil recovery, restoration of degraded pastures, and biological nitrogen fixation.

Amaggi, the largest Brazilian grain trader entered the market in January 2021 with an issuance for USD750m. The company prepared a Sustainable Bond Framework[40] aligned to the Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Guidelines and received a Second Party Opinion[41]. The Amaggi issuance was also rated by Fitch and Moody, with a respective 'BB' and 'Ba3'. The bond was 4x oversubscribed. The use of proceeds went to multiple sectors including renewable energy, land use, climate change mitigation, socio-economic advancement and empowerment, employment generation and food security and sustainable food systems. Under these categories the Company will fund solar, biomass and small-hydro power generation; the purchase or lease of farms and investment in these properties, purchase of certified grains (Proterra, RTRS, 2BSvs and ISSC) and research and development into environmentally friendly crop management process; capacity building programmes that promote deforestation and conversion-free grain supply chain, among others. While the bond was seen as a sign of progress for commodity traders, it received criticism over deforestation within the supply chain, particularly as the company did not agree to a 2020 cut-off date for the Cerrado biome.

Sustainability-linked bonds

Suzano issued two sustainability-linked bonds (SLB) and one loan (SLL) over the past year. In September 2020, the Company issued a USD750m SLB. It was the first SLB in the Americas and in Emerging Markets, and only the second corporate in the world. The Company's Framework[42] followed the Sustainability-Linked Bond Principles and was the first SLB to receive a Second Party Opinion[43]. The Bond includes a 25bp step-up penalty tied to a 15% reduction in carbon emissions by 2030 (equal to or less than 0.190 tCO_2e/ton produced). Shortly after this issuance, in November 2020, Suzano issued a second SLB for USD500m. Both issuances were 8x oversubscribed and more than half of investors were ESG focused. In February 2021, Suzano took a SLL of USD1.57bn[44], at the cost of Libor +1.15% p.a, following the principles established by ICMA. The loan's key performance indicators are tied to the reduction of greenhouse gas emissions, and reduction of industrial use of water. Depending on whether these KPIs are met or not, the loan rate may fall to Libor +1.13% or raised to Libor+1.17%.

Klabin became the second corporate to issue a SLB in the Americas. The USD500m, rated BB+/BB+ by S&P and Fitch, came to market in January 2021 and was 10x oversubscribed[45]. Klabin prepared a Sustainability-Linked Bond Framework[46], aligned to the Sustainability-Linked Bond Principles, but did not seek a Second Party Opinion for this issuance. The bond is tied to the following key performance indicators: i) reduce water consumption per ton of production (equal or below 3.63m3), with a 20.8% reduction target for 2030; ii) increase reuse/recycling of solid waste (minimum of 97.5%), with a zero industrial waste to landfill target for 2030; and iii) reintroduction of at least two species of native animals in extinction to the ecosystem. There are distinct coupon step-ups if the indicators are not met; 12.5bp for water consumption, an 8.25bp for water reuse and recycling and a 6.25bp for the reintroduction of species.

Tereos took a USD 105m SLL in June 2020 to refinance debt amortising and supporting sugar exports. The loan includes an interest rate margin reduction if the sustainability targets are met by the company which could lead to savings of USD100 to USD150 thousand per year[47]. Tereos committed in meeting four key performance indicators, an annual reduction of greenhouse gas emissions per ton of processed sugarcane (3% per year); an annual reduction in water consumption per ton of processed sugarcane (5% per year); an annual increase in certified sugarcane (5%); and improved score for environmental, social & corporate governance (ESG) rating.

In addition to green bonds, **FS Bioenergia** has entered the sustainability-linked market. In June 2020, the company issued an ABS as a CRI (Real Estate Receivables Certificates) for USD26m; coordinated by Credit Suisse. This was the first SLB in the Brazilian capital market. If FS Bioenergia meets the sustainability-linked targets, the surcharge may be reduced by 0.21%. The Company's SLL was also taken in June 2020 for USD33m, with Santander. It was the first SLL transaction in Brazilian Reais. Both the SLB and SLL are tied to the following key performance indicators, i) improve the transparency of the company's sustainability report and obtain the Global Reporting Initiative (GRI) stamp; ii) obtain the Climate Bonds Initiative green bond certification; iii) remain among the ten biofuel producers with the lowest carbon footprint under the Renovabio Programme. The loan rate can be reduced up to 0.15%, for CDI plus 6.65%, if all targets are achieved[48].

In February 2021, Brazilian beef producer **Marfrig** borrowed a USD30m SLL from &Green Fund. The loan focuses on the Company's commitment in achieving deforestation-free supply chain in the Amazon and Cerrado Biomes. The loan is tied to the delivery of an Environmental and Social Action Plan[49] and Landscape Protection Plan[50] that sets targets for the inclusion of indirect suppliers, cattle traceability and mitigation of deforestation risks in the Amazon and Cerrado biomes. It also builds on the Company's Marfrig Verde+ Plan, developed in partnership with the Sustainable Trade Initiative (IDH) and SAIL Ventures. With the loan from &Green Fund, Marfrig aims to expand its deforestation monitoring system to include indirect suppliers, establish a traceability and compliance mechanism, encourage forest conservation, restoration and compensation and improve the use of low productivity areas. The loan supports the Company's commitments under its transition bond.

Transition bonds

Marfrig issued a 'sustainable transition bond' in July 2019 for USD500m. There was no guidance on best practices when the bond was issued. The bond was verified by Vigeo Eiris, and followed a use-of-proceeds format and included a framework[51] aligned with the Green Bond Principles. Under its sustainable transition bond, Marfrig set out environmental and social criteria for cattle purchase. This included only purchasing animals from farms that respect deforestation criteria and comply with Federal Protection Areas (e.g. National Parks, Indigenous Lands); and comply with labour legislation, including forced labour provisions.

Critics to the bond raised concerns over the appropriateness of the bond as a sustainable transition given livestock's high emission footprint, while others welcomed the transition approach for encouraging lower emissions from the beef sector. The alignment with legal standards and industry best practice may be considered a potentially robust approach if they directly address climate targets and other sustainable development goals. The concern with the Marfrig bond was that its climate credentials were considered insufficient to mitigate emissions. However, it did send a positive signal to market on how issuers can influence supply chains through sustainable financing.

Looking ahead

Brazil's sustainable agriculture bond market is maturing. 2020 was a positive year, and 2021 began with a high volume of labelled issuances. The pipeline of green bonds and loans are expanding, alongside other thematic labels. In addition to the number of deals, recent local policy developments have also provided a positive signal to the market on the role of sustainable finance. Measures that can help provide scale to Brazil's sustainable bond market for these sectors include:

1. Dissemination of eligibility criteria for sustainable agriculture. The Climate Bonds Standards published the Agriculture Criteria in August 2020. The document provides guidance on eligible projects and assets for agriculture and livestock production. The Criteria informs issuers on the requirements they should consider for labelled issuances, setting market best practices. Certification under the Criteria is encouraged to provide greater comfort to investors on the agriculture projects' green credentials. However, demonstrating alignment to the Criteria is also welcomed. There are also available Criteria for Bioenergy and Forestry, which should follow the same rationale.

2. Setting definitions for transition pathways. There has been a growing appetite for transition bonds. As this is a relatively new label, it is still being tested by the market. The Climate Bonds Initiative has developed a transition framework and is looking at developing transition pathways for different sectors, including agriculture and livestock. Brazil has the potential of setting the example for these two sectors and defining transition criteria. By defining a transition pathway, Brazil can further expand its pipeline of sustainable projects related to agriculture.

3. Building investor demand for agriculture. While there is demand for labelled bonds and loans, it is important to communicate sector specific opportunities to investors and build their understanding of eligible projects and assets. It is also important to understand their preferred instruments and also build capacity on dedicated agriculture instruments, such as CRAs; particularly for international investors.

4. Leveraging key policy developments. The Investment Fund for the Agricultural Sector (Fiagro) was recently approved by Brazil and aims to attract domestic and international capital towards agribusiness. As the fund includes different financial mechanisms, such as bonds, there is a significant potential to label it as green. The Brazilian Central Bank has also proposed a regulation that defines sustainability criteria for projects financed through rural credit, under its Sustainability Agenda. While this will still be implemented it indicates the importance of sustainable finance for the agricultural sector given its strong reliance on the banking industry.

5. Prioritising agriculture within a sovereign bond. The Brazilian National Treasury has begun discussions on building an ESG Framework. The government has signalled its intent to issue the first labelled issuance in 2021. Agriculture should be included within the issuance Framework, as this would enable the government to finance priority projects and assets. While this is an ongoing process, the announcement has already sent a strong signal to market.

The successful growth of sustainable finance for the key sectors that relate to agriculture will require continuous efforts from market participants. The adoption of thematic debt labels to finance the correct projects, assets and activities – in line with specific and ambitious pathways linked to national and global goals – can continue to add transparency to how issuers are addressing concerns raised by investors, particularly on agricultural and livestock production. These sectors have an important role in Brazil's economy and thus also the capital markets – including sustainable finance segments. The share of thematic bonds from issuers across all agricultural and land use themes has the potential to increase and place the country on the map as the largest sustainable agriculture bond market. Brazil has the scale and projects to lead the way

Step-by-step guide for issuing thematic bonds

STEP 1
Label and Strategies

Define what label the bond will carry based on the outcomes of the projects/ assets and the type of activities (re)financed by the proceeds of the bond

For bonds that follow a "used of proceeds" format, in which resources are exclusively allocated to finance/refinance projects and assets

Green bond
100% of proceeds finance eligible green projects/assets with positive environmental benefits*

Social bond
Proceeds finance projects/assets with positive social outcomes

Sustainability bond
Proceeds finance projects/ assets with social and environmental benefits

Develop a sustainability asset strategy at a corporate or institutional level

Sustainability-linked bond
Bonds with proceeds tied to explicit ESG targets within a predefined timeline and that are used for general corporate or institutional purposes. The step up or step down in coupon is connected to the achievement of these targets.

Transition bond
Bonds that finance carbon intensive entities or activities needed beyond 2050 and/or are able to set a trajectory towards zero-carbon emissions by 2050.

The popularity of Sustainability-linked bonds
Any type of financial instrument, even equity, can receive the "sustainability-linked" label. Issuers businesses that fall under the Transition category can use sustainability-linked instruments to finance the decarbonizing their activities and shift toward zero-carbon emissions.

*Green bonds issuers can highlight on their framework any intrinsic benefit linked to UN's SDGs and/or social impacts, although structurally, they are signalling to the market that their bond focuses on climate credentials and environmental benefits.

STEP 2
Bond Framework

Green bond
Social bond
Sustainability bond

Identify projects/ assets

Determine project/ asset selection strategy and the tracking/allocation of proceeds

Sustainability-linked bond
1. Set credible Key Performance Indicators (KPIs)
2. Determine Sustainability Performance Target(s) to each KPI
3. Disclose target setting and achievements

Transition bond
1. Evaluate the transition trajectory alignment with the Financing Credible Transitions report.
2. Determine the Paris aligned, science-based transition strategy and governance
3. Disclose the trajectory, targets and implementation strategy.

STEP 3
Pre-issuance: Verification Process

Green Bond issuers should engage with an approved Verifier to seek labelling against the only certification scheme in the world, run by the Climate Bonds Standard™

External review providers provide an external review of the bond based on their own methodology and international best-practices.

STEP 4
Bond Issuance

STEP 5
Post-Issuance

Come back to the approved Verifier to confirm the Climate Bonds™ Post-issuance Certification & report annually until the maturity of the bond

Report annually, until the maturity of the bond

Guidelines

Green Bond
- Green Bond Principles - GBP (ICMA)
- Climate Bonds Standard and Sector Criteria (CBI)

Social Bond
- Social Bond Principles – SBP (ICMA

Sustainability Bond
- Sustainability Bond Guidelines - SBG (ICMA)

Sustainability-linked Bond
- Sustainability-Linked Bond Principles -SLBP (ICMA)

Transition Bond
- Principles for Transition (CBI)
- Financing Credible Transitions White Paper (CBI)
- Climate Transition Finance Handbook (ICMA)

* Certified Climate Bond/Loan is fully alignment with the Green Bond Principles/Green Loan Principles. It can be considered as a subset of the green bond/loan market. However, Climate Bonds Certification can be applied widely, including, but not limited to, non-debt instruments, directly to assets or projects (with no debt wrapper), and private/confidential deals.

End Notes

1. The land use category includes agriculture, livestock and forestry, while renewable energy includes bioenergy.
2. CBI, 2020. Unlocking Brazil's Green Investment Potential for Agriculture.
3. The Climate Bonds Initiative published its Agriculture Criteria in August 2020 to guide the market on eligible projects and assets.
4. CRA (Agribusiness Credit Receivables Certificates) is a sort of asset backed security. A securitization debt instruments vastly used to fund the agriculture sector via capital markets in Brazil.
5. All green labelled debt instruments are screened for inclusion into the databases in accordance with the Climate Bonds Green Bond Database Methodology. Only bonds whose net proceeds are fully aligned with the green definitions based on the Climate Bonds Taxonomy are included in the Climate Bonds Green Bond Database.
6. The transactions that have been included meet the definitions and process rules of the Green Bond Database Methodology, thus some deals may have been excluded.
7. External reviews confirm alignment with the Green Bond Principles (GBP), Green Loan Principles (GLP), Sustainability Bond Principles (SBP) and Sustainability-Linked Bond Principles (SLBP). The most common external reviews are: i) Second Party Opinion, where the provider assesses the issuer's green bond framework, confirming GBP compliance, and ii) verification for Certified Climate Bonds, where an Approved Verifier completes a third-party verification – pre-and post-issuance – that confirms that the use of proceeds (assets, project and / or activities) adhere to the Climate Bonds Standard and the relevant Sector Criteria.
8. CBI 2020. Financing Credible Transitions. https://www.climatebonds.net/resources/reports/financing-credible-transitions-white-paper
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Supported by the Gordon and Betty Moore Foundation

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