SUMMARY NOTE

Production

Climate Bonds Initiative

Supported by

Gordon and Betty Moore Foundation

Agriculture Sustainable Finance State of the Market

Brazil's green bond market has exponentially grown since 2015, going from USD564 to USD9bn. Over the past two years other labelled bonds, such as social, sustainability, sustainability-linked, and transition bonds, have also come to market. The land use category continues as the second most funded in Brazil across these sustainability-themed debt. This briefing covers green and sustainability debt labels issued from May 2015 to February 2021.

Thematic Labels

Green

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

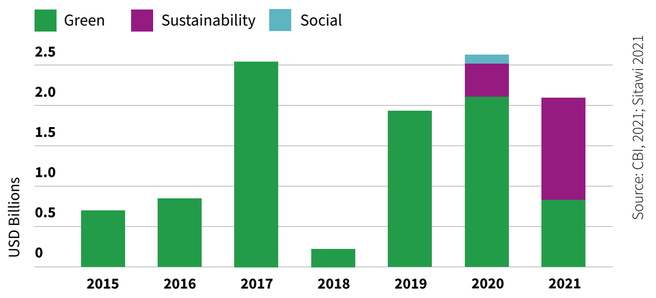
Includes use of proceeds and sustainability-linked. Entities or activities should be following a transition pathway in line with the Paris Agreement.

Brazil's growing sustainable debt market

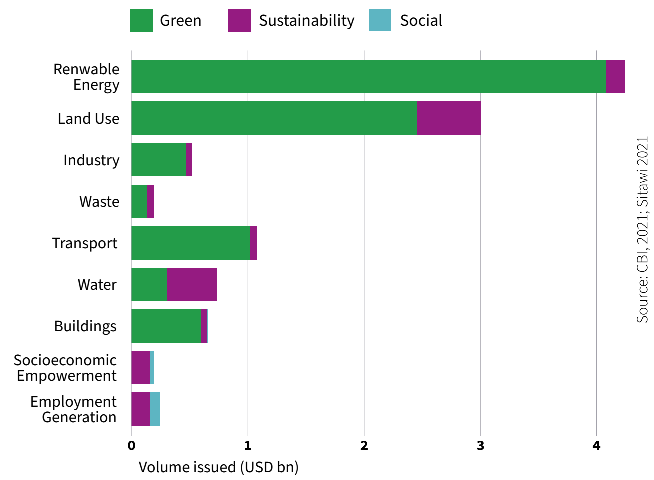
The Brazilian sustainable debt market has grown exponentially over the past seven years, with a cumulative **USD10.8bn**.

Green bonds continue to dominate the market. The green label represents 84% of the country's sustainable debt market, with a total USD9bn. Renewable Energy and Land Use continue as the two most funded categories in Brazil, with 45% and 27% of issuance volume.

Sustainable Debt Issuance by Theme



Use of Proceeds by Theme



Sustainable bonds represent 15% of the Brazilian labelled market, with USD1.6bn issued. Land Use issuances represent the largest share of deals under the sustainable label, with 33%, followed by Water with 25%.

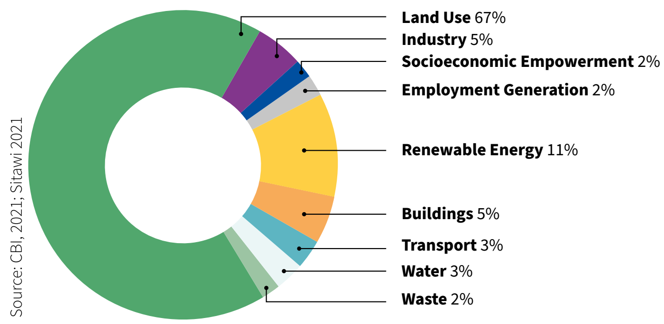
Social bonds represent the smallest share of the market, with 1%. The country's first social bond was issued in 2018 and to date USD111m have been issued, funding employment generation and affordable housing. Employment generation is the most funded category under the social label in Brazil, with 74%. The diversification in labels and sectors demonstrate the growing appetite for sustainable products.

Recent developments in sustainable finance include the emergence of labels beyond the established use of proceeds model. The first is Sustainability-Linked Bonds (SLB) and Loans (SLL), which are performance- or KPI-linked instruments. 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. While there have been concerns over the two labels, they are not insurmountable and with clear guidance the market could benefit from these types of deals. Both SLBs and SLLs are present in the Brazilian market as relatively recent additions. The Sustainability-Linked Label has reached USD5bn in less than two years, with Land use and Transport are the two most funded themes. Transition bonds has reached USD669m with Land Use as the most funded theme, followed by Energy.

Sustainable Finance Market and Agriculture

The land use change category, which covers agriculture and livestock production and forestry, is significant across the green, sustainability, sustainability-linked and transition labels, representing 67% of 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%.

UoP: Volume of Issuance by theme



Issuances by Theme

Forestry	Bioenergy	Agriculture	Livestock	Food Industry	Financial Institutions
Size: USD6.4bn	Size: USD832m	Size: USD848m	Size: USD530m	Size: USD612m	Size: USD1bn
Number of issuers: 4	Number of issuers: 3	Number of issuers: 4	Number of issuers: 1	Number of issuers: 4	Number of issuers: 3
Number of bonds: 13	Number of bonds: 7	Number of bonds: 4	Number of bonds: 2	Number of bonds: 4	Number of bonds: 4
Largest issuer: Suzano	Largest issuer: FS Bioenergia	Largest issuer: Amaggi	Largest issuer: Marfrig	Largest issuer: BRF S.A.	Largest issuer: BTG Pactual and Itaú

Forestry is the leading theme within Brazil's land use and agro-industry sustainable finance universe. The majority (69%) of the issuances have received the green label; with the remaining receiving the sustainability-linked label. The proceeds of the green bonds have gone towards pulp and paper production and a smaller portion to conservation efforts; while sustainability-linked indicators have taken into account GHG emissions reduction and other sustainability issues, such as water, industrial waste, waste reduction, gender equality.

Bioenergy is the second largest investment category with a total USD832m. 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 operational expenditure to cover costs with crops, biomass and other agricultural products. The indicators set for the sustainability-linked financial instruments have focused on the reduction of greenhouse gas emissions, water consumption, increase in certified sugarcane, improvement in transparency, and reduction in the carbon footprint.

Issuances dedicated to **agriculture** are still incipient. Since August 2020, four deals totalling USD848m have come to market. 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, silos for biological inputs, and efficient equipment for digital and low carbon agriculture practices, and no-tillage systems and crop-livestock integration. Whereas the proceeds for the sustainability 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.

Livestock issuances represent total USD530m. The predominant labels – transition and sustainability-linked – are 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 proceeds from livestock deals have gone towards the purchase of cattle under specific environmental and social procurement criteria, and look to eliminate deforestation from supply chains.

Food production also represents a considerable share of issuances, with a total USD612m across green and sustainability labels. 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.

These sectors have also been included in issuances by **financial institutions**, with USD1bn. Issuances under this theme are comprised of green and sustainability labelled bonds with proceeds financing bioenergy, forestry, agriculture and livestock.

Looking ahead

Brazil's sustainable land use and agro-industry bond market is maturing and the pipeline of green bonds and loans is expanding, alongside other thematic labels. Measures that can help provide scale to Brazil's sustainable bond market include:

- **Eligibility criteria for sustainable agriculture**. Climate Bonds published the Agriculture Criteria in August 2020 which provides guidance on eligible projects and assets for agriculture and livestock production. Certification under the Criteria can provide greater comfort to investors on the green credentials of agriculture projects.
- **Detailed transition pathways.** While there is a growing appetite for transition bonds, there is yet to be a single definition of what this means for different sector. The Climate Bonds Initiative has developed a transition framework and is developing transition pathways for different sectors, including agriculture and livestock.
- **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 for international investors.
- **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. The Brazilian Central Bank has also proposed a regulation that defines sustainability criteria for projects financed through rural credit, under its Sustainability Agenda.
- **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.

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. The land use sector has an important role in Brazil's sustainable finance market, and thematic labels from issuers across all agricultural themes has the potential to increase and place the country on the map as the largest sustainable agriculture bond market.

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.