

# Sustainable Finance in Brazil

"...companies ought to assume an active role of shared responsibility for building a new economic and social model offering the possibility of an equilibrium between profit, people, and the planet. For us, this vision triggered the need to review how we manage our business, since we believe that CSR and sustainability have a part to play in each procedure in our organization, in each managerial decision, and in the way of thinking of each of our professionals."

Fabio Barbosa, President,  
Banco Real ABN AMRO Bank

The Brazilian financial industry has taken a series of initiatives in the field of sustainability that are remarkable in both number and quality. One of Brazil's largest banks recently trained its entire 800-branch network on environmental and social (E&S) risks and opportunities, in partnership with a major international NGO. Some banks have already incorporated E&S safeguard policies and guidelines into their credit approval process. Others are devoting substantial resources to developing micro-credit businesses that are sustainable at the bottom line.

In the field of asset management, Brazil is both home to the world's first sell-side stock brokerage research service for socially responsible investing (SRI) and the birthplace of the first emerging market SRI fund. Several of the largest pension funds are studying ways to incorporate E&S criteria into their stock selections. The São Paulo Stock Exchange is discussing the launch of its Sustainability Index.

This collection of experiences is unique to Brazil. Why are financial executives paying so much attention to sustainability here, compared to other emerging market countries? President Lula has helped stimulate the effort, but the drive was there before the Workers' Party came to power.

Brazil spent the eighties and nineties going through what many call two "lost decades." Sluggish GDP growth, unemployment, inflation, and high rates of deforestation distinguished this period from the seventies. However, during this period Brazil also saw great gains in

## the brief

democracy, freedom of the press, civil society activism, and the birth of a liberal corporate elite. The downside helped foster the good side. Recession plus the E&S unrest in the eighties led the liberal corporate elite to join forces with workers to press for a return to democracy. The nineties witnessed the creation of several reputable corporate think tanks and partnerships between companies and NGOs. This scenario created an ideal atmosphere for a Corporate Social Responsibility (CSR) movement that permeated all sectors of the economy, but had a more sophisticated manifestation in the financial industry.

In addition to macro-level trends and the CSR movement, sustainable finance in Brazil was triggered by several drivers unique to the financial industry:

- ▶ Reputational and credit risks
- ▶ Access to funding from multilateral institutions
- ▶ Market differentiation
- ▶ Development of new products and services
- ▶ Extension of banking services to underserved communities
- ▶ Exploration of Brazil's biodiversity pool
- ▶ New markets
- ▶ Expansion of NGO campaigns to private financial institutions
- ▶ Realization that the financial industry must play an important role in CSR
- ▶ Growth of sustainability reporting, which attracted the attention of civil society

### WHAT'S NEW

- ▶ Unibanco becomes the first emerging market bank to adopt the Equator Principles (June 2004)
- ▶ Ethical Fund: \$4.3 million net worth
- ▶ Development of the Bovespa Sustainability Working Group: a multi-stakeholder group discussing the launch of Bovespa's new index
- ▶ Real-ABN Training on E&S Credit Risk: 1,100 branch and middle market managers in 800 branches
- ▶ Unibanco: \$21 million methane gas project (22 MW), enough to power branches in São Paulo



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## THE BOTTOM LINE

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- ▲ Sustainable development will be fundamental for FIs that aim to be world class
- ▶ Market incentives are vital for the incorporation of sustainability
- ▲ Civil society activism plays a key role in the awareness process
- ▲ Scarcity of free goods (water, land, forestry) will continue to pressure companies to adopt sustainability

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## FUTURE FORECAST

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- § Sustainability Index launch will be a major driver
- § E&S assessment will further proliferate in the industry
- § E&S policies for project finance will move into the mainstream

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## OPPORTUNITIES

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### New Products & Services

- ▲ Financing for new environmentally friendly products
- ▲ Renewable energy
- ▲ Carbon finance
- ▲ Financial advisory services
- ▲ Certification
- ▲ Micro-finance
- ▲ Bio-prospecting
- ▲ Non-timber forest products
- ▲ Alcohol and bio-diesel fuel
- ▶ Social Security Reform may expand capital market as a whole and boost SRI
- ▶ Community outreach investments offer potential application of SRI criteria
- ▶ Bovespa Sustainability index may stimulate E&S research & rating

### Credit & Risk Management

- ▲ Access to multilateral funding
- ▲ Reduced legal liabilities, reputational hazards, repayment default
- ▲ Client/employee retention
- ▲ Research & credit rating
- ▲ E&S indicators
- ▲ Training, auditing
- ▲ IT tools for E&S risk assessment

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## RISKS

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- ▼ Limited data; lack of transparency
- ▼ Short-term investments long-term sustainability objectives
- ▼ Subsidies for unsustainable traditional activities (e.g., oil products, coal)
- ▼ High interest rates, complex regulatory framework, taxes, certification
- ▼ Insufficient market incentives

### Cultural Barriers

- ▼ Lack of entrepreneurship culture
  - ▼ FIs feel that solving E&S problems is not their responsibility
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