

Sustainable Finance in Brazil

Finanças Brasileiras Sustentáveis – FiBraS II

Supporting Brazil’s financial system in the process of aligning with social, environmental, climate-related and economic sustainability

Context

Achieving the Sustainable Development Goals (SDGs) and the targets of the Paris Climate Agreement requires substantial investments in an environmentally sustainable and socially inclusive economic transformation. It demands a transformation of economic and financial systems toward greater sustainability, with effective framework conditions, incentives and instruments that facilitate the redirection of private and public capital into activities and assets with positive social and environmental outcomes. While the transformation to sustainable economies opens new business and investments opportunities, it is also pivotal to address the growing economic and financial risks stemming from climate change, environmental degradation and social inequalities.

Given Brazil’s highly important role for achieving the global climate targets and its high natural capital wealth, protecting Brazil’s tropical forests and other biomes, fostering sustainable land use and agriculture, as well as greening its industry, transport infrastructure and buildings sector will be crucial to deliver on national and global sustainability goals.

While this transition requires massive investments, Brazil’s huge green economy potential can stimulate innovation, productivity growth and employment creation, making key economic sectors such as agriculture and its industry more competitive and resilient in a decarbonizing world. To reduce structural social inequalities, it will be crucial to minimize negative impacts on vulnerabilized and most affected groups, and strengthen their participation in the socioeconomic opportunities of the transition process.

The financial sector has a crucial role in facilitating and accelerating this transformation to a green and socially inclusive economy by helping channel capital to sustainable activities and assets such as to regenerative agriculture and the bioeconomy,

Project name	Green Financial Market Regulation and Green Bonds II (FiBraS II)
Commissioned by	Federal Ministry for Economic Cooperation and Development (BMZ)
Implementing partners	Ministry of Finance (<i>Ministério da Fazenda</i>) Central Bank of Brazil (<i>Banco Central do Brasil</i>)
Country	Brazil
Implementing Agency	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
Political partners	Ministry of Finance
Budget	€ 5.400.000
Duration	07/2023 - 06/2026

green technologies, low-carbon, climate-resilient infrastructure, sustainable production and renewable energy generation.

Sustainable finance in Brazil can serve as a powerful tool to contribute to the Paris Agreement, including the target of aligning capital flows (Art. 2.1.c), and to the finance-related sub-targets of the 2030 Agenda, including SDG 13 (climate action), SDG 15 (life on land), SDGs 6 and 7 (access to affordable and clean energy and water), SDGs 8, 9, 12 (sustainable economic growth, infrastructure and production), SDG 10 (reduced inequalities), as well as SDG 17 (partnerships).

Objective

Support Brazil’s financial system in the process of aligning with social, environmental, climate-related and economic sustainability.



Left: Eletrosul Solar Megawatt Project Florianopolis, Brazil.

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Right: Brazil nut fruit

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Photo © R. Pocard-Chapuis.

With better practices, farmers can focus on more suitable areas, allowing the forest to grow back. Springs of the Potirita River in Pará.

Approach

Finanças Brasileiras Sustentáveis – FiBraS is a Brazilian-German technical cooperation project implemented by the *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ) in partnership with the Brazilian Ministry of Finance and the Central Bank of Brazil, with funds from the German Federal Ministry for Economic Cooperation and Development (BMZ). FiBraS' objective is to support the process of aligning Brazil's financial system with social, environmental, climate-related and economic sustainability.

The project operates along three components:

1. Strengthening social, environmental and climate-related sustainability aspects in financial sector policies;
2. Deepening the integration of social, environmental and climate-related sustainability aspects in regulatory and supervisory processes and capacities;
3. Disseminating practical knowledge on sustainable finance instruments, products and services in the Brazilian market.

● FiBraS provides the following services:

- Technical assistance and advisory on sustainable finance policies, regulation and supervision, e.g., in the analysis, elaboration, revision and implementation of policies and regulations, as well as supervisory instruments;
- Technical assistance on the development, adoption and upscaling of sustainable finance approaches, e.g. through the identification, evaluation and promotion of effective sustainable finance instruments, products and good practices, and support to pilot projects;
- Capacity building trainings, seminars, workshops;
- Research and analysis, development of studies, methodologies and their application;
- Financial and organisational support to sector networks such as Brazil's *Financial Innovation Laboratory* (Lab) to foster public discourse, exchange and cooperation between the financial sector, policymakers and regulators, academia and civil society organizations.

Impact

In the first project phase (10/2018 - 10/2022), the project contributed to the following selected impacts and results:

- Preparation of proposals for improving sustainability-oriented financial market policy and regulatory reforms;
- Improvement of the Central Bank's supervisory process concerning financial institutions' socio-environmental risk management systems – contributing to an increase of the share of financial institutions meeting qualitative regulatory expectations from 38% to 62%;
- Implementation of training programmes on sustainable finance, climate risk analysis and other subthemes;
- Development of three innovative sustainable finance products and instruments;
- Development of an SDG integration methodology piloted by 3 development finance institutions, together with the Brazilian Association of Development Institutions (ABDE);
- Publication of 17 reports and realization of six events;
- Lab contributions to 12 regulatory consultations, 7 pilot projects, 28 publications and 38 webinars (since 2017).

Outlook

The second project phase (07/2022-06/2026) focusses on:

- Development of the Brazilian Sustainable Taxonomy;
- Climate risk analysis and stress testing in micro- and macro-prudential supervision of the financial sector;
- Improvements in the monitoring system to control compliance with environmental regulations and indigenous land rights in rural credit operations;
- SDG integration in development finance institutions;
- Dissemination and upscaling of SF solutions;
- Research project on just transition finance;
- Pilot Project on payments for environmental services for indigenous and traditional peoples and communities;
- Capacity building, research, indicators, methodologies.

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