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# MAPPING THE POLITICAL ECONOMY OF THE BRAZILIAN FINANCIAL ECOSYSTEM

**AUGUST 2021**

1. Introduction to E3G's political economy mapping of the global financial ecosystem
2. Mapping the Brazilian financial ecosystem
  - Overview of key financial indicators
  - Policy and diplomatic calendar 2021-22
  - Opportunities and barriers to a green recovery
  - Assessing the greenness of economic response to Covid-19
  - Integration of climate-related risks into the financial system
  - National positions in multilateral institutions
  - Recommendations for action

# 1. INTRODUCTION

- > **Aim** - E3G’s political economy mapping of the global financial ecosystem takes stock of opportunities and challenges for systemic economic and financial reform for climate safety across 14 key countries and institutions (“venues”). It aims to better understand countries and institutions’ positions on key aspects of fiscal and monetary policy, and financial regulation, analyse the interactions between these venues, show the main champions and blockers of a progressive sustainable finance agenda, and assess opportunities for green reforms over the next 12-24 months.
- > **Method** – E3G is working with a number of in-country partners to develop this research. We have used a mixed-research methodology for each venue – a mixture of desktop research and semi-structured interviews with key stakeholders (policymakers, academics, civil society) following a series of defined research questions. E3G compiles the findings into a presentation for each venue, tests the results internally with other E3G colleagues and then presents the results as appropriate to external stakeholders.
- > **Usage** – This research will be used as an internal and external resource to inform civil society and financing strategies for specific countries.



## 2. BRAZIL: KEY FINANCIAL INDICATORS

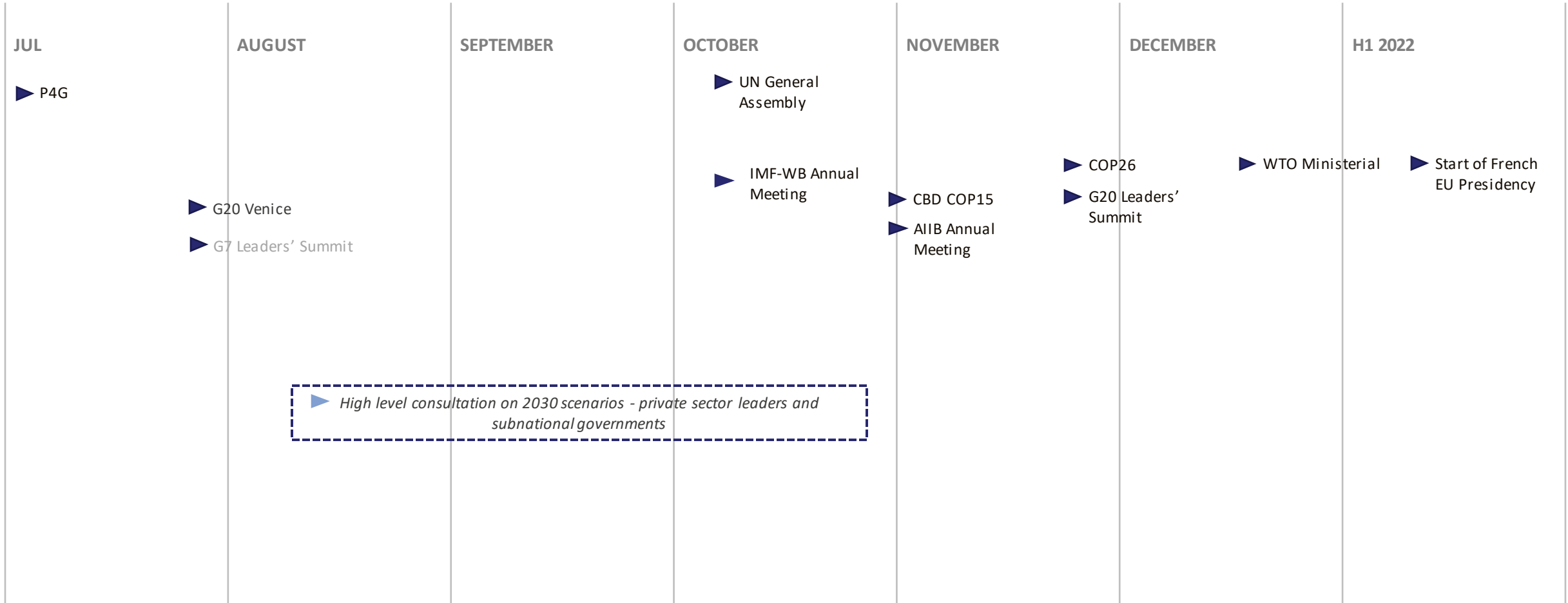


GDP (Current USD, 2021)	1.491 trillion
GDP growth (2020-21)	3.6 %
GDP per capita rank	83 / 195
Value add of finance sector to GDP (2020)	7.02 %
Share of public & private debt in GDP (2020)	89.3 % & 51.49 %
Human Development Index (HDI) Rank: (2019)	84 / 195
GHG Emissions: (Mt CO2, 2018)	406.25 (120 % higher than 1990)
Credit rating: (2020)	BB- (Fitch)

# BRAZIL – POLICY AND DIPLOMATIC CALENDAR 2021



▶ Domestic    ▶ International    □ Timing to be confirmed



# BRAZIL: OPPORTUNITIES AND BARRIERS TO A GREEN RECOVERY



## Opportunities

- > Both the Brazilian Central Bank and the Securities and Exchange Commission (CVM) are championing the green agenda and attempting to align with international best practices. Currently, public consultations are open to contributions from financial institutions and market players on how to make Brazil's monetary policy a greening force.
- > Other champions, including investors, CEOs of large companies and former economic authorities have been advocating for a comprehensive strategy to green stimulus and to advance in the direction of a steady recovery, in line with IMF's recommendation to Brazil to green its recovery
- > There is room for improving the supply of green investment opportunities, but Brazil lacks a robust pipeline of infrastructure projects aligned to a green taxonomy and there is risk of greenwashing

## Barriers

- > Brazil's GHG emissions have been growing, despite the social isolation measures adopted during the pandemic
- > Political forces shaping Bolsonaro's government support governmental stimulus to deforestation activities and deforestation in the Amazon region reached a 12 year high in 2020
- > The same forces resulted in slashing the environment ministry's budget by 24% between 2019 and 2020
- > In this scenario of weakened implementation of the country's climate policy, Brazilian prestige has been severely damaged, and deforestation became recognized as a systemic risk, driving off investments and trade agreements.
- > The privatization of ELECTROBRAS risks increasing its reliance on fossil fuels and raising energy costs for Brazilians

# BRAZIL: ASSESSING THE GREENNESS OF ECONOMIC STIMULUS / RESPONSE TO COVID-19



- > Brazil has become the world's epicenter of the pandemic in 2021. The COVID-19 economy measures implemented since March 2020 were quite standard: loosening fiscal and monetary policy, emergency cash-transfers to informal workers and mother-led families, and expansion of credit lines to small and medium-size companies.
- > The Executive branch of the Brazilian government did not adopt any specific green measure in the pandemic response package, nor the National Congress.
  - The OECD green recovery dataset logs that only 0.3% of the government recovery spending has a clear positive impact on the environment (USD 351 million).
  - Instituto Talanoa's review of this dataset found policies with clearly negative impacts. Our review found it is related to a reduction of royalties paid by small and middle-sized companies exploring oil and gas. Such a measure shows a clear connection with the divestment plan of PETROBRAS, which includes the sale of mature oil fields.
- > Civil society and the private sector created space in the public opinion to promote green recovery as a concept. However, no specific or structured policy agenda has been put forward to parliamentarians and society at large.
- > The Bolsonaro government is seeking a recovery based on the private sector's long-term investing, especially in infrastructure. In this context, although the executive branch lacks a climate policy, the issuance of green bonds aims to leverage part of these investments.

# BRAZIL: INTEGRATION OF CLIMATE-RELATED RISKS INTO THE FINANCIAL SYSTEM



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- > **The Brazilian Central Bank (BCB)** is introducing an ambitious series of reforms to help integrate climate risks into the financial system:
  - adopting TCFD disclosure guidelines and making them mandatory for all institutions under its supervision
  - implementing a liquidity credit line for sustainable assets
  - mandatory integration of climate risks into stress-tests
  - inclusion of environment criteria into the selection of international partners to the management of BCB's international reserves
  - Public consultation to revamp Resolution 4,327/2014 in order to make it more specific regarding climate and transition to a low carbon economy risks, statement of E&S risk aversion and stress test procedures.
  - Upgrading the current System of Rural Credit Transactions through the creation of a green rural credit bureau to identify green credit operations and expediting their green certification. The expedition of the green certification process can foster the green bounds market
- The need to access cheap foreign credit is, by far, the **current driving force** of the ESG agenda in the financial sector in Brazil, both for the government and for the private sector. Brazilian financial stakeholders understand that without a strong ESG risk framework, the Brazilian market is less attractive to foreign investors and the cost of capital rises.
- Beyond the Central Bank: **Brazilian Federation of Banks (FEBRABAN) self-regulation role.** In 2014, through the Self-Regulation Norm SARB N°14, FEBRABAN set standards for the implementation of E&S governance and due diligence regarding the assessment of E&S impacts. In December 2020, FEBRABAN conducted a review of self-regulatory commitments to manage social and environmental risks in financial institutions. One of the highlights of the update is the new requirement for managing and reporting the risks and opportunities of climate change in the institutions' businesses.



## BRAZIL: NATIONAL POSITIONS IN MULTILATERAL INSTITUTIONS

- > **G20:** Brazil was against the establishment of a Sustainable Finance Workgroup in the G20 (April 2021). Minister of the Economy, Paulo Guedes' inner circle still perceives sustainability requirements as economic barriers to Brazilian development.
- > **IMF:** Currently, Brazil has no outstanding debt with the institution. Brazil has not opposed the proposition for the new Special Drawing Rights (SDR) allocation to provide additional liquidity to the global economic system.
- > **MDBs:** Brazil has a huge need for foreign investment, especially in infrastructure, in which MDBs play an important role in financing. But it lacks a world class infrastructure pipeline, as the majority of projects are either outdated or generate large environmental or social externalities. MDBs also have a role in increasing the expertise of Brazilian actors in adopting best practices in financing green initiatives. For example, one of the standards that MBDs try to embed in their operations with Brazil is the International International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability (PS1-8):
  - **Inter-American Development Bank (IADB).** Brazil and Suriname are represented in the Board of Executive directors by José Guilherme Almeida dos Reis and have the third largest voting power at IADB, 11.44%. The active portfolio of Loans to Brazil amounts to USD 12.7 Billion (87 projects).
  - **The New Development Bank** Founded in 2014 by the four BRICS countries (Brazil, Russia, India, China, and South Africa) to mobilize investments in infrastructure and sustainable projects. Brazil is represented by its Minister of Economy (Paulo Guedes), who is one of the Governors at the Bank. The current President of the NDB. Mr. Troyjo, was a former Secretary of Paulo Guedes' Ministry. Currently, there are 5 projects whose main focus is to promote renewable energy, sustainable infrastructure and environment conservation with a joint value of approximately USD 1.1 billion.

# BRAZIL: RECOMMENDATIONS FOR ACTION



## > **Develop an integrated climate finance strategy**

- The Ministry of Finance should work with their counterparts in other line ministries and the Brazilian Central Bank to devise an integrated climate finance strategy. Such a strategy would: estimate the investments required to enable decarbonisation, clarify the scale and pace required; outline revenue sources; align state actors' roles and responsibilities in spending; advance public policy, regulation and standards required to enable expansion of zero carbon technologies and processes; and define a roadmap to integrate climate considerations across national planning and decision making. This would be tied to Brazil's NDC targets.

## > **Accelerate the integration of climate risks into the financial system and other aspects of greening financial regulation**

- The Brazil Central Bank should continue to accelerate its ambitious series of reforms and look to other aspects of greening financial regulation such as credit steering and collateral frameworks
- In addition it should look to mandate "double materiality" disclosure requirements for all large listed entities and mandate all large listed entities to provide transition plans within the next few years
- The Brazil government should take a position on developing a taxonomy or classification system for sustainable investments and work to align or coordinate that with similar international efforts

## > **Enhance engagement in international institutions**

- Brazil should become a member of the Coalition of Finance Ministers for Climate Action and continue to enhance its engagement within other sustainable and green finance fora, such as the NGFS, the, FC4S and IPSF

## ACKNOWLEDGEMENTS

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Instituto Talanoa is a policy think tank dedicated to climate change policy in Brazil.

E3G is an independent climate change think tank accelerating the transition to a climate-safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.



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# ANNEX

# REFERENCES



- > GDP: IMF, <https://knoema.com/IMFWEO2021Apr/imf-world-economic-outlook-weo-database-april-2021?country=1000220-brazil>
- > Share of public debt in GDP: Brazil Central Bank
- > Private debt to GDP: <https://www.ceicdata.com/en/indicator/brazil/private-debt--of-nominal-gdp>
- > HDI provides a more holistic measure of a country's development, encompassing life expectancy, years of education and national income per capita: <http://hdr.undp.org/en/countries/profiles/BRA>
- > GHG emissions: IEA <https://www.climatecorecard.org/2020/12/120-24-increase-in-greenhouse-gas-emission-levels-in-brazil-since-1990/>
- > Credit rating: Fitch, <https://www.fitchratings.com/research/sovereigns/fitch-affirms-brazil-at-bb-outlook-negative-27-05-2021#:~:text=Fitch%20Ratings%20%2D%20New%20York%20%2D%2027,%2D'%20with%20a%20Negative%20Outlook.>
- > For all other citations, please contact E3G.