

# Transparency and accountability of financial institutions toward a deforestation-free economy

Banco do Brasil, the largest Brazilian bank for agribusiness expands environmental disclosure beyond climate change

Case Study 2022



# 20%+

of Brazil's GDP linked to agribusiness, financial institutions in the region should be aware of these exposures and establish policies to address risks and engage with clients.

**The World Economic Forum (WEF) highlighted that more than half of the global GDP is dependent on nature, which is why nature-related risks and opportunities must be accounted for in business and investment decisions.**

Financial institutions are exposed to nature-related risks through investments, insurance and banking services. With these risks come opportunities to incentivize the transition to deforestation-free production that will benefit climate, nature and business. The agricultural sector alone accounts for over 70% of global tropical deforestation. With more than 20% of Brazil's GDP linked to agribusiness<sup>2</sup>, financial institutions in the region should be aware of these exposures and establish policies to address risks and engage with clients.

In 2021, Banco do Brasil (BB), the oldest and largest bank in Brazil<sup>3</sup>, participated in CDP's Financial Services Climate Change & Forests Pilot. BB is a privately-owned, publicly traded corporation, controlled by the Brazilian Federal Government, which holds 50% of the shares. As one of the **largest financiers for agribusiness in Brazil, with 54% of rural credit market share** and the largest credit operator of the Family Farming (Pronaf) and Low Carbon Agriculture (ABC) Federal Programs, the bank can make a significant impact on sustainable commodity production.



**As the biggest player in financing the Brazilian agribusiness, we play the role of leading the transition to a low carbon economy. So, it is crucial measuring and understanding the risks and opportunities involved in our activities. And CDP's pilot questionnaire helps us to take an overview of all involved steps in that journey.**

**Henrique Leite de Vasconcellos,**  
Sustainable Business Manager



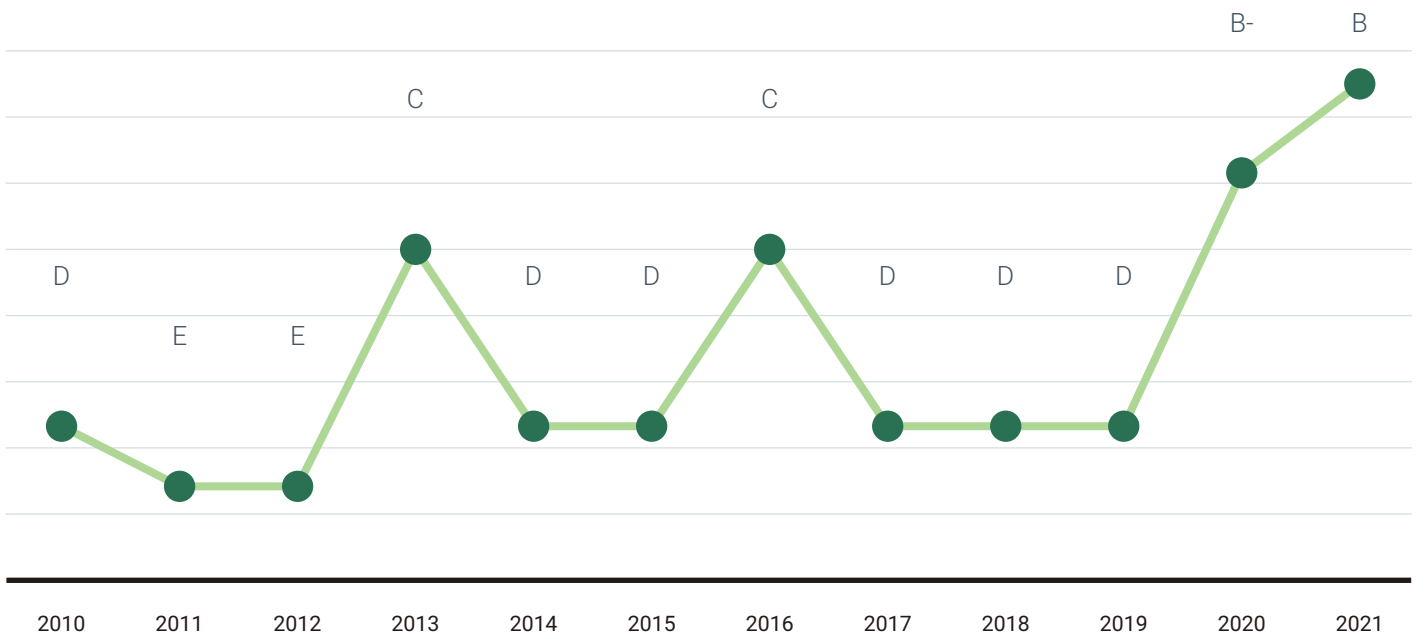
<sup>1</sup> World Economic Forum. Retrieved from: <https://www.weforum.org/press/2020/01/half-of-world-s-gdp-moderately-or-highly-dependent-on-nature-says-new-report/>. Access in 17/03/22.

<sup>2</sup> Agribusiness in Brazil. Retrieved from: <https://www.pwc.com.br/pt/publicacoes/setores-atividade/assets/agribusiness/2013/pwc-agribusiness-brazil-overview-13.pdf>. Access in 17/03/22.

<sup>3</sup> In total assets up to 22/11/2021, according to the Brazilian Central Bank. The total assets are estimated at R\$1.74 trillion. Retrieved from: <https://www3.bcb.gov.br/infdata/>. Access in 12/05/22.

BB has been reporting on its climate change operational impacts through CDP since 2005. In 2017 it began to monitor and engage with its supply chain through CDP's Supply Chain program. In 2020, the bank disclosed through our financial sector questionnaire, which introduced a financed emissions focus, and scored a 'B' (more than 85% of FIs invited to report received a C score or lower).

**Figure 1. Evolution of Banco do Brasil CDP scores from 2010**



In 2021, along with 20 other Latin American financial institutions, BB was invited to participate in our Financial Services Questionnaire: Climate Change & Forests Pilot. The bank was among the six responders that assessed their policies, portfolio exposures and related impacts on forest-risk commodities across their lending and financing activities.

# Highlights from Banco do Brazil's disclosure on portfolio impacts



## Implementing policy



Comprehensive internal policies are a good indicator of how advanced an organization's approach is to environmental integration. In general, policy coverage is more comprehensive on climate impacts, with partial references to forest impacts, particularly on risk management. For instance, BB includes climate change across all aspects of its environmental, credit/lending and risk policies, while deforestation impacts are included within credit/lending policy for specific commodities or industries. While the bank does not currently require clients to set any sustainable production targets, they are expected to have traceability systems to cover production within their operations. For all forest commodities, the bank expects supply chain operations to

exclude, among others:

- ▼ illegal sourcing from the Amazon Biome;
- ▼ conversion of natural ecosystems;
- ▼ gross deforestation; and
- ▼ conversion of High Conservation Value areas.

At the same time, BB's policies and guidelines for climate change and forests are currently applicable to credit and lending. These should also be extended to corporate investments and insurance underwriting. Together with a more explicit focus on deforestation impacts, this will strengthen the bank's assessment and strategies for the low carbon transition.

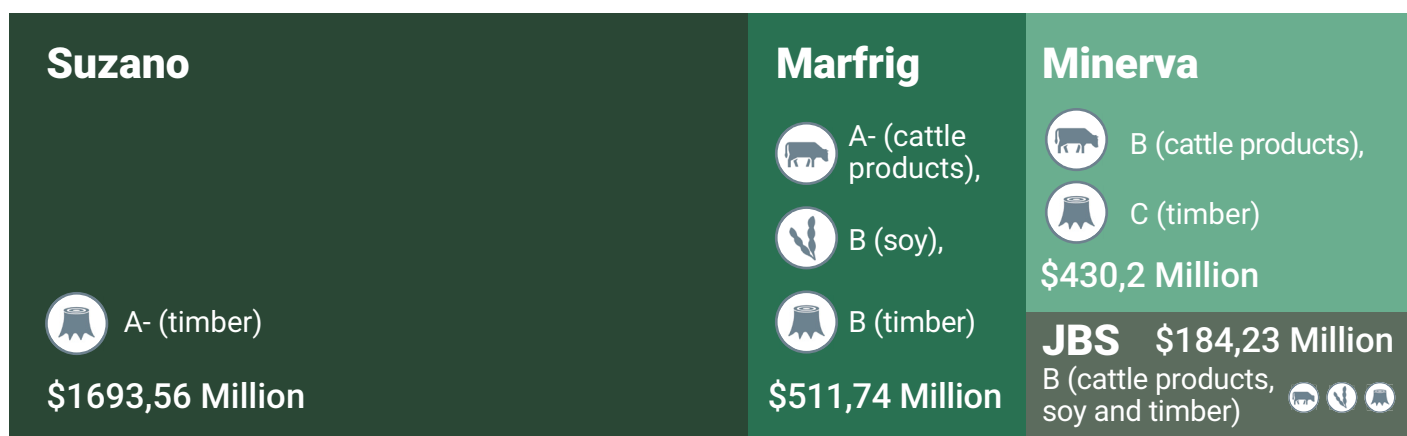
**Table 1.** Inclusion of climate change and forests into BB's environmental policies

		 Climate Change	 Forests
<b>Socio-environmental Responsibility Policy</b>		Included	Not explicit
<b>Sustainability Guidelines for Credit Concession</b>		Included in 37 out of 52 guidelines	Included in 29 out of 52 guidelines. Covers 11 commodities
<b>Specific Policy of Climate Risk Management</b>		Included	Not explicit
<b>Socio-environmental Guideline</b>	<b>Restricted activities</b>	Fossil fuels and mining	Agrochemicals and pesticides; Agribusiness in the Amazon region; Indigenous lands; Fishing; Timber extraction from native forests.
	<b>Prohibited activities</b>	Carbon-intensive activity	Embargoed rural properties or irregular fires disclosed by the federal environmental regulator (IBAMA)

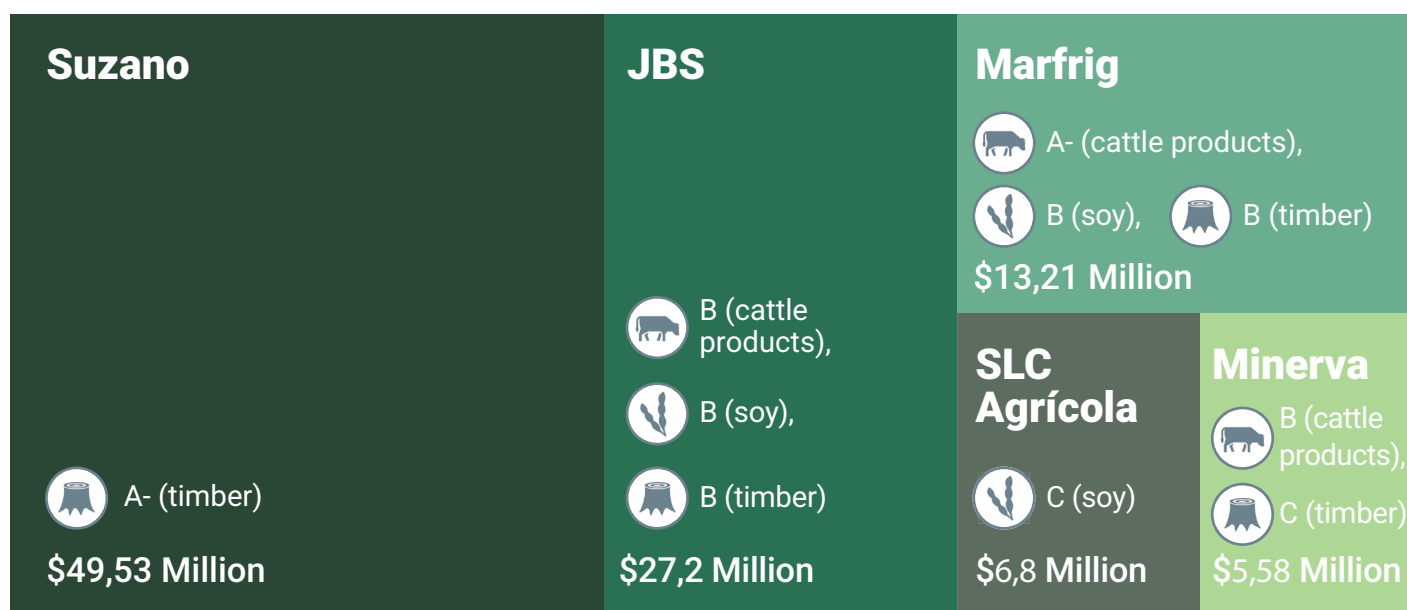
## Portfolio Impact

The major agricultural commodities responsible for deforestation in Brazil are cattle and soy. BB calculated and reported portfolio exposure to its carbon-related assets for its banking and investment portfolios. For forest-risk commodities, BB does disclose on commodity-specific exposures for timber and cattle but not for soy, which accounts for a little more than 10% of total assets exposure. This, in spite of the bank's exposure to some of the largest agribusiness companies in the region.

**Figure 2.** Main credit and subscription to clients with forest-risk commodities and its CDP forests scores from 2021<sup>4</sup>



**Figure 3.** Main share and bond holdings from companies with forest-risk commodities invested by Banco do Brasil and respective invested value and CDP forests 2021 scores<sup>5</sup>



BB does not yet calculate its financed emissions but has indicated intent to do so in two years. This is a critical step for the bank to progress on its climate strategy and further net-zero ambitions, and a first step towards an SBTi-approved Science Based Emissions Reduction Target (SBT). In 2021, BB was the first Brazilian financial institution committed to setting a SBTi-approved near term and net-zero SBT.

<sup>4</sup> Banco do Brasil. *Forest and Finance data from 2016 to 2021*. Retrieved from: <https://forestsandfinance.org/pt/bank-profile/?bank=Banco%20do%20Brasil>. Access in 28/02/22.

<sup>5</sup> Banco do Brasil. *Forest and Finance data from April 2021*. Retrieved from: <https://forestsandfinance.org/pt/bank-profile/?bank=Banco%20do%20Brasil>. Access in 28/02/22.

# Looking forward

**Banco do Brasil has taken welcome first steps in the transition to a low carbon and nature-positive business. The bank has opportunities to increase ambition, particularly with its forests' strategy, including:**



▼ **Implementing an engagement strategy**

for climate- and forest-related issues, especially with financial services clients, as most of the environmental impact associated with financial institutions occurs in the investment chain.



▼ **Governance**

established in 2021 the Corporate Sustainability Committee (Cosem), which advises the Board of Directors on matters related to Sustainability, considering the best market practices and the commitments voluntarily assumed by the bank.



▼ **Portfolio impact**

related to forest-risk commodities can be assessed, as well as its dependency on nature. This can give BB insights on corporate engagement and loans/investments alignment to ESG objectives.



▼ **Public commitment**

through the investor-led [Commitment on Eliminating Agricultural Commodity-Driven Deforestation](#), which is official from UNFCCC Race to Zero, for example.

# How to get started with disclosure

**For financial institutions new to disclosure and environmental assessment, it can be interesting to connect with other regional financial institutions for advice and to join collaborative platforms with the objective of building internal capacity and taking collaborative action with other stakeholders. When preparing to respond to the questionnaire, new disclosers can also learn by referring to public responses available on CDP's website for examples of good practices from A-list companies through CDP.**

For 2022, CDP's financial services questionnaire has been expanded to include a new module on biodiversity, a new module on water and new, forests questions and a much larger number of financial institutions have been invited to disclose. The addition of these questions are part of CDP's intention to track performance against a more holistic coverage of climate and nature-related risks. For more information on the latest financial services questionnaire, please refer to the [2022 Financial Services Reporting Guidance](#).

Put nature at the centre of your climate strategy. To learn more about CDP and our research on global environmental impact, visit <https://www.cdp.net/en>.

## ABOUT CDP

CDP is a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with more than 680 financial institutions with over \$130 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Over 14,000 organizations around the world disclosed data through CDP in 2021, including more than 13,000 companies worth over 64% of global market capitalization, and over 1,100 cities, states and regions. Fully TCFD aligned, CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero carbon, sustainable and resilient economy. CDP is a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda and the Net Zero Asset Managers initiative.

Visit [cdp.net](https://www.cdp.net) or follow us @CDP to find out more.

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