

Halting financing fueling deforestation in the Amazon and Cerrado – Recommendations for Brazilian banks

Fair Finance Guide Brazil Analysis – October 2020 Summary

GuiaDosBancos[®]
Responsáveis

The compilation of three studies developed by the Fair Finance International (FFI) network from August to October 2020 reveal that financial institutions in the Netherlands, Germany and Norway invested more than US\$ 11 billion in 26 leading Brazilian agribusiness, wholesale and retail companies, selected from companies that operate with high risk of involvement with deforestation in the Cerrado (Brazilian savannah ecoregion) and in the Amazon, in the meat and soy sectors.

According to the research carried out in the three countries, investments from 31 financial institutions were identified, including insurance companies, banks, asset managers and pension funds that made investments or loans totaling more than US\$ 11 billion in these agribusiness-related companies.

If Chinese and European companies that consume Brazilian agribusiness products (mainly soy, meat and feed) are counted, the number of companies raises to 59 and the amount invested or borrowed increases to US\$ 20,9 billion.



90% of the primary vegetation lost in Brazil in the last 35 years has been due to agricultural activities. Land is cleared of forest in order to raise beef cattle, and primarily soy, cotton, sugarcane and maize crops.

The most representative study for the Brazilian market is the Dutch. It identified nearly \$3.2 billion in investments in shares and bonds of companies operating in these sectors. Almost half of this amount went to the 26 leading Brazilian agribusiness companies, an amount of US\$ 1.4 billion.

In addition to the investment value, these companies operating in the Brazilian market received an additional US\$ 7.8 billion in loans that are still in force and another US\$ 1.1 billion in underwriting of shares and bonds between 2015 and 2020. Considering investments, underwritings and loans, 19 financial institutions operating in the Netherlands have allocated almost US\$10.4 billion to companies in Brazil that lead agribusiness and the distribution of their by-products.

In the case of Germany, the amount found is smaller, but no less relevant: US\$ 764.1 million destined for companies operating in Brazilian agribusiness, wholesale and retail, in addition to nearly US\$ 2 billion that went to those that benefit meat and soybeans in China and Europe. In Norway, the survey found US\$ 292 million invested in companies operating in Brazil, in addition to another US\$ 419 million for companies in Chinese and European markets.

Summary of total values identified in FFI studies, in millions of dollars

Country	Type of investment	Type of financial institution	Amount allocated to 59 selected companies	Amount allocated to the 26 leading Brazilian agribusiness companies
Germany	Shares and bonds	Insurers and their asset managers	2.760,9	764,1
Netherlands	Shares, bonds, subscriptions and loans	Pension funds, insurance companies, banks and their asset managers	17.987,6	10.394,7
Norway	Shares and bonds	Banks and their asset managers	711,1	292,2
Total	Shares, bonds, subscriptions and loans	Pension funds, insurance companies, banks, asset managers	20.936,7	11.231,0

Although the categories of financial institutions surveyed in each country are different, the volumes are striking. The withdrawal of these investments, although partial, would have a significant impact on national companies such as JBS, Marfrig, Minerva, Terra Santa and SLC Agrícola. The absolute values of the investments can be found in full in the study, linked at the end of the report.

The studies aimed to identify the degree of action that the financial institutions of each country are taking to avoid involvement in deforestation and its related effects and the engagement they have with companies known to be involved - directly or indirectly - in conversion of forests into pasture and plantation, or in the sale of the products of these companies to the foreign market (export) or consumer market (retail). They conclude that the European financial institutions lack details on how they analyze the companies in which they invest and how they engage with these companies to adopt sustainable practices.

What about Brazilian banks?

In Brazil, the situation is even worse: while most of the country's 9 largest banks in assets (Banco do Brasil, BNDES, Bradesco, BTG Pactual, Banco BV, Caixa, Itaú-Unibanco, Banco Safra and Santander Brasil) report the number of cases or clients undergoing socio-environmental analysis, none of them declares which companies they finance or invest in. Brazilian banks often publicly report the percentage of assets under management that undergo this analysis. However, they rarely detail the result of the engagements they make based on these analyzes.

In Brazil, only a few banks describe typical cases of engagement with companies financed in their reports. However, they never name the companies, with the exception of BNDES. This practice established in the Brazilian market shows a low degree of transparency and accountability. Financial institutions do not yet feel obliged to explain what they have achieved while engaging with companies they finance or invest in; or even worse, they do not name the companies to which they are linked.

Large banks often have "exclusion lists" where they put names of companies that are prohibited from being financed because of their involvement in corruption, deforestation or pollution, among other violations. None of the Brazilian banks do so. Here the exclusion lists do not name companies, but activities considered prohibited, with which the bank does not involve itself. In addition, banks do not finance companies mentioned in the *Dirty List of Slave Labor* maintained by the Ministry of Economy. However, they do not guarantee that companies listed for the use of labor similar to slavery are not part of the supply chain of companies they invested or financed.

The responses to the problems related to deforestation are already largely present in the public debate and need to be effectively implemented. It is up to the banks to move towards their progressive integration, in a sufficiently short period of time given the urgency of the topic and the delay they had for an assertive action.

Seven steps against deforestation

In recent months, Brazilian private banks have evolved their measures in response to deforestation, bringing concrete examples of what a policy in this sense should look like. Commitments still prevail at the expense of effective actions. But little by little the commitments

come to fruition, as when Bradesco, Itaú and Santander appointed an advisory board of pro-Amazon experts to support the development of policies for the biome.

To guide Brazilian banks in their commitments to promote sustainable development, we have identified the main criteria to be considered. They are inspired by the recommendations of the Dutch study, but have undergone adjustments for Brazil's national context.

Fair Finance Guide Brazil recommends seven steps for Brazilian financial institutions to provide meaningful progress in their measures to contain investments that may be linked to deforestation:

- 1) Analysis, engagement and accountability;
- 2) SMART goals;
- 3) Monitoring;
- 4) Transparency;
- 5) Involvement of all stakeholders;
- 6) Exercise of voting rights; and
- 7) Anticipate trends.

Access the [full study](#), in Portuguese.

The logo consists of a dark, rounded, speech-bubble-like shape. Inside this shape, the text "FairFinance" is written in a bold, white, sans-serif font, with "Fair" in a regular weight and "Finance" in a bold weight. Below "FairFinance", the word "International" is written in a smaller, white, sans-serif font.

FairFinance
International