



Workshop: Green Bonds in Emerging Market Economies
Panel II: Green Bond Transparency Platform – A Regional Perspective

Why have Brazilian companies stopped issuing green bonds, against global trend?

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1- STUDY CONTRIBUTIONS

- ❑ Elements that contributes to understand why Brazilian companies stopped issuing green bonds (GBs)
- ❑ The main characteristics of Brazilian sustainable bond issuances
- ❑ Evidences of lower cost of issuance for sustainability-linked bonds (SLBs) in comparison to conventional and GBs

2 - BRAZILIAN SUSTAINABLE BOND ISSUANCES – AN OVERALL PICTURE^[a]

Overall characteristics

- ❑ Currency, market of issuance and issuers type
- ❑ Representativeness in primary bond market
- ❑ Main financial instruments
- ❑ Frameworks' external reviews
- ❑ Credit rating

Green bond

- ❑ Issuances, issuers and sectors
- ❑ Representativeness in sustainable issuances
- ❑ CBI certification/Alignment with CBI definitions of green
- ❑ Presence in global and EME indexes

Sustainability-linked bond

- ❑ Issuances, issuers and sectors
- ❑ ESG pillars addressed in SLBs' KPIs
- ❑ KPIs per issuance
- ❑ Penalty for unachieved targets

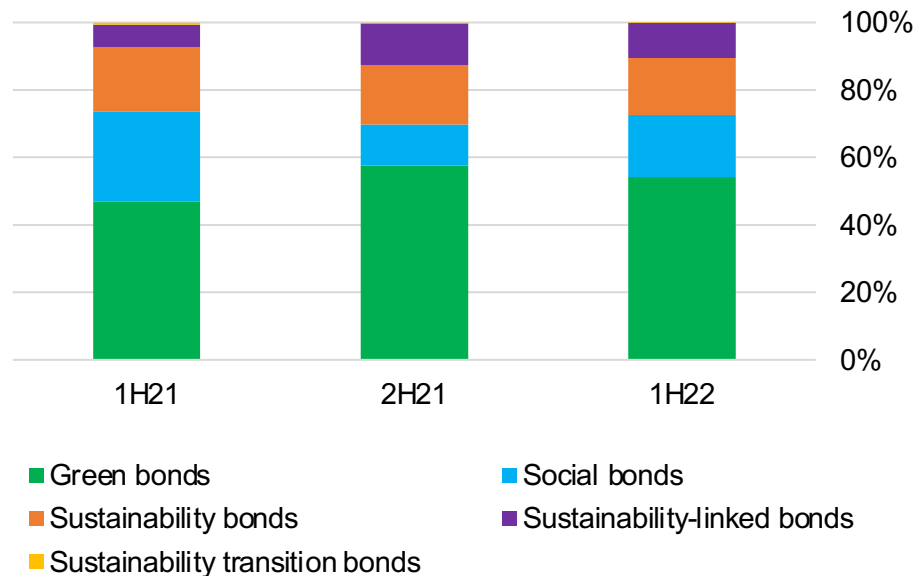
[a] A more detailed picture of Brazilian non-financial companies' sustainable bond issuances can be accessed in: Banco Central do Brasil (BCB) (2021). Emissões de títulos relacionados à sustentabilidade por empresas brasileiras no mercado internacional e doméstico. Relatório de Economia Bancária (REB) (2021). Boxe 4.

https://www.bcb.gov.br/content/publicacoes/boxe_relatorio_de_economia_bancaria/boxe_4_emissao_titulos_sustentaveis.pdf. This version is in Portuguese. English version is coming.

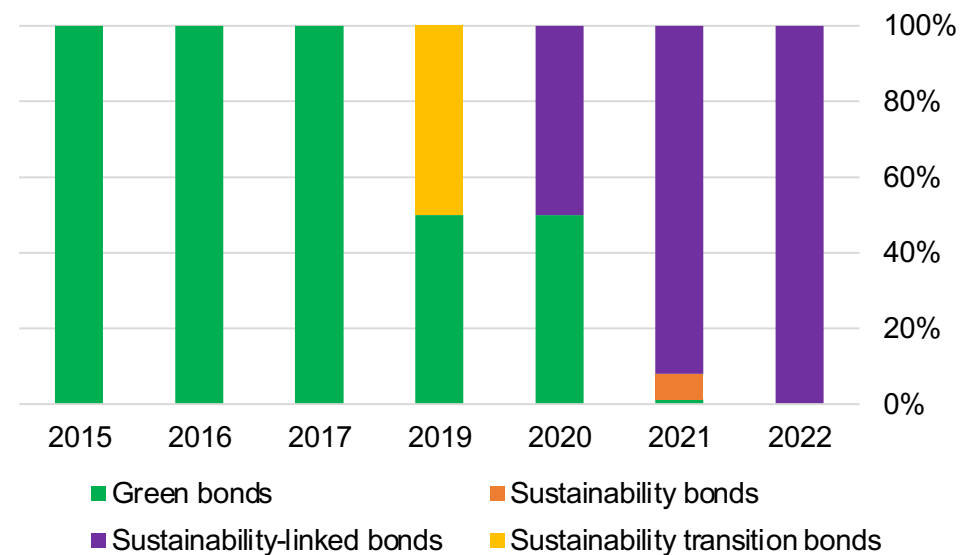
3 - THE RESEARCH PROBLEM

- Brazilian companies' green bond issuances in hard currency have experienced a gradual decrease since 2015, the year of the first issuance. This behavior goes against global trends.

Global sustainable bond issuances by bond type



Brazilian corporate sustainable bond issuances by bond type



Source:

On the left: Environmental Finance Data: Sustainable Debt Roundup: Q3 2021; GSSS Bond Roundup: Q4 (October-December) 2021; Sustainable Bond Roundup: H1 (January-June) 2022 - Author's elaboration




On the right: Refinitiv and Companies' websites – Author's elaboration.

3 - THE RESEARCH PROBLEM

- ❑ After the GB issuance, some GB issuers kept financing themselves by means of sustainable financial instruments, and there was an apparent replacement to SLBs.

Timeline of bond issuances by GB issuers:

	2015	2016	2017	2018	2019	2020	2021
Issuer 1	1	1			1	2[a]	
Issuer 2						1	2 [b]
Issuer 3			1				
			1				
Issuer 4			1		1	1	1
					2		
Issuer 5		1	1 [c]	2	3	2[e]	2
			1[d]				
Issuer 6			1	1		1	1

	Conventional bond issuance
	Green bond issuance
	Sustainability-linked bond issuance

[a,b,c,d] indicate re-opening of an initial issuance.

Source: Refinitiv and Companies' websites - Author's elaboration

4 - MAIN FINDINGS

Why Brazilian companies stopped issuing green bonds, against global trend?

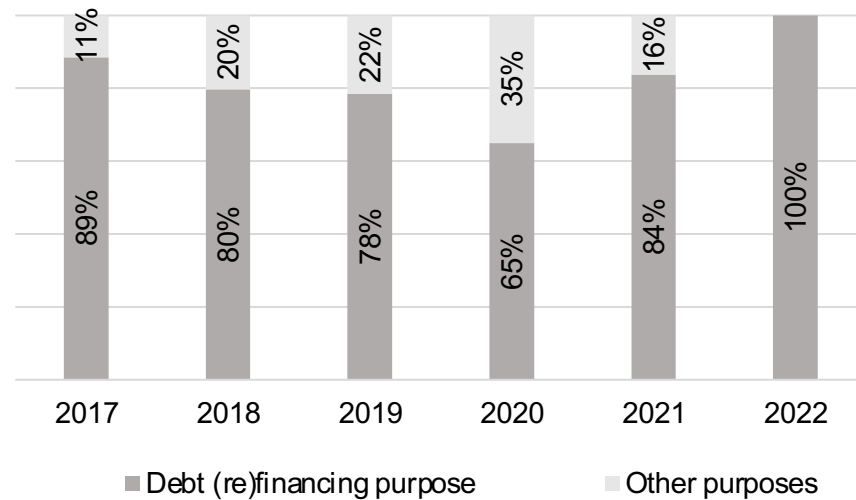
The main elements contribute to understand the research question:

- ❑ A lower cost (coupon at issuance) for SLBs in comparison to conventional and green bonds
- ❑ The higher flexibility of SLBs regarding use of issuances' resources and
- ❑ The historical usage of bond issuances' proceeds

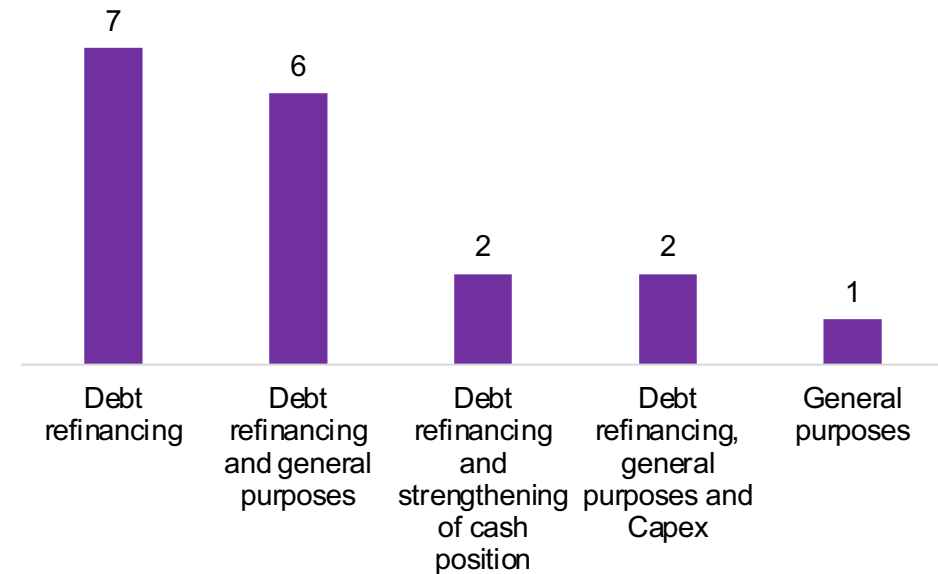
4 - MAIN FINDINGS

- Historical destination of bond issuances' proceeds: debt (re)finance is the main use of resources for both conventional and sustainability-linked bonds.

Percentage of conventional bonds issuance proceeds destined to debt (re)financing



Use of proceeds reported on SLBs' issuances



Source of destination of issuances proceeds: Companies' websites (Investor Relations: documents 'Material Facts' and 'Notice to the market'); press releases; issuance prospects; offering memorandum - Author's elaboration.

Debt refinance: includes repurchase, repayment/redemption and refinancing.

4- MAIN FINDINGS

- ❑ Pricing of bond issuances: evidence of lower cost to SLBs issuances.

	Conventional	Sustainability-linked
Positive spread	<ul style="list-style-type: none">▪ Green bond issuers	<ul style="list-style-type: none">▪ All issuances▪ Green bond issuers▪ Pair of issuances
Negative spread	<ul style="list-style-type: none">▪ Pair of issuances▪ All issuances	-

4- MAIN FINDINGS

- ❑ Pricing of bond issuances: evidence of lower cost to SLBs issuances.

Green bond's spread over SLBs and Conventional bonds
Difference between coupon at issuance

	GB minus SLBs	GB minus Conventionals	SLBs minus Conventionals
All issuances	1.65	-0,24	-1.89
Green bond issuers	2.62	0.26	-2.36
Pair of issuances	1.1 to 2.0	1.5; -0.3 to -1.6	-1.7 to -2.6

5- METHODOLOGY

Historical usage of bond issuances' proceeds and SLBs' use of proceeds

- ❑ The destination of bond issuances' proceeds was accessed in the documents material facts, notice to the market, issuance prospects.
- ❑ Data analysis evidenced two main use of proceeds: (i) debt (refinance) and (ii) other destinations.

Pricing of bond issuances

All issuances

Weighted average cost of coupons, by bond type, for all issuers.

Green bond issuers

Weighted average coupon for the securities issued only by GB issuers.

Pairs of issuances

Coupon (%) at issuance for pairs of issuances with similar face value and term, for GB issuers.

6 - FINAL REMARKS AND CONCLUSIONS

- ❑ Evidence of negative spread for green bonds in comparison to conventional bonds
- ❑ Evidence of lower cost of issuance (coupon) for SLBs in comparison to GB and to conventional bonds
- ❑ Debt (re)financing as the main destination of resources of for SLBs issuances
- ❑ Destination of resources of SLBs issuances due its main flexible characteristics and the lower cost when compared to GBs, contributes to explain the scarcity of GB issuances by Brazilian companies

Thank you for your time and attention!