Agriculture and Livestock Annual Plan (Plano Safra) 2023/2024: brief analysis of the requirements and incentives for the sustainability of the agricultural sector

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The Agriculture and Livestock Plan (Plano Safra) and the Agriculture and Livestock Plan for Family Agriculture (Plano Safra da Agricultura Familiar) 2023/2024 brought some important news. In addition to the largest volume of resources in the history of agricultural policy (R$ 442 billion for business and family agriculture), it brought mechanisms to promote socio-environmental attributes of agricultural production and prevent illegalities in the granting of credit.

This document presents an analysis of the main points of the Plans aimed at the sustainability of the agricultural sector, the main changes arising from the resolutions of the National Monetary Council - CMN published on June 29, 2023 (which will be incorporated in the Rural Credit Manual - MCR), in addition to highlighting some identified gaps and a vision of the future for agricultural policy.

Resources made available

The resources to be made available will come, in large part, from the increase in demand deposits (including for family farming) and Agribusiness Letters of Credit (LCA), in addition to “free resources”¹. These, by the way, have been increasing their participation in the total volume of contracted resources (estimated at 41% of the BRL 323 billion taken in 2022/2023, against 15% of the BRL 170.5 billion contracted in 2017/2018).

Of the volume announced by the Agriculture and Livestock Plan (for medium and large rural producers), resources for investment credit operations sum R$ 92.1 billion, R$ 61 billion of which with controlled resources². For working capital and commercialization, of the R$ 212.12 billion announced, R$ 186.42 billion will be with controlled resources. For family farming, entirely operated with controlled resources, R$ 71.6 billion were announced for the Program for Strengthening Family Agriculture - Pronaf, in addition to a sum of R$ 6.1 billion for actions such as public purchases, technical assistance and rural extension, Minimum Price Guarantee Policy for Sociobiodiversity Products (PGPM- Bio), Crop Guarantee and Proagro Mais.

The Ordinance of the Ministry of Finance authorizing the payment of interest rate equalization in rural financing granted under the 2023/2024 Crop Plan has not yet been published until the closing of this document.

¹ “Free resources” mean a source of funding provided by financial institutions that is not directed by the agricultural policy (not controlled interest rates and without subsidies).
² “Controlled resources” mean a source of funding that the agricultural policy directs to rural financing, with or without subsidies.
Social, environmental and climate impediments

In order for the producer to contract rural credit, he/she must comply with social, environmental and climate requirements set out in CMN Resolution No. 5081/2023. These rules were incorporated into Section 9 of Chapter 2 of the Rural Credit Manual (MCR 2-9). Among the main changes, it is worth mentioning:

1 - Compliance with restrictions on access to credit related to socio-environmental aspects for all rural properties, not just the project or area being financed (beginning on July 3rd, 2023);

2 - The Rural Environmental Registry - CAR canceled or suspended will make it impossible to take credit (beginning on August 1st, 2023);

3 - Inclusion of environmental embargoes issued by state agencies, not just federal ones and not just for the Amazon biome, but for all biomes (beginning on January 1st, 2024);

4 - Rural credit will not be granted to an enterprise located in a rural property wholly or partially inserted in Public Forest Type B (Non-Designated) registered in the National Registry of Public Forests of the Brazilian Forestry Service, except for rural properties with title of ownership and for those with up to 4 (four) fiscal modules with request for land regularization analyzed and granted by the National Institute of Colonization and Agrarian Reform – Incra (beginning on January 1st, 2024).

A bigger step is still expected from the impediments in granting credit to include verification of illegal deforestation in biomes, not embargoed and without authorization from the competent bodies, preferably with the incorporation and automatic verification of official data (such as deforestation disclosed by PRODES and DETER of the National Institute for Space Research - INPE) in SICOR - Rural Credit Operations System and Proagro especially after 7/22/2008, considering the cutoff date of Law n. 12,651/2012 - Native Vegetation Protection Law or Forest Code.

In this sense, the National Bank for Economic and Social Development - BNDES has incorporated deforestation data organized by MapBiomas since February 2023 (SUP/ADIG Circular nº 57/2022-BNDES), suspending credits when there are signs of deforestation, “operations where deforestation is identified without proof of regularity of the situation”.

The required information is the Authorization for Suppression of Native Vegetation - ASV, Degraded Area Recovery Project - PRAD, Conduct Adjustment Term - TAC or other document that proves the regularity of the suppression. Also, if there is deforestation after the credit is granted, the release of funds will be suspended and the financial institution must settle the operation in advance if regularity is not proven within a period of twelve months. In addition, all these information could be automated and unified to facilitate this verification and avoid undue suspensions.

In other words, what is observed is an effort to integrate agricultural policy instruments and environmental policy management mechanisms. The understanding that these
policies should be complementary is essential for improving the underwriting of socio-environmental and climate risks in the financial system.

General conditions for rural credit

CMN Resolution n. 5078/2023 introduces changes to the general conditions for rural credit, set out in Section 1 of Chapter 2 of the Rural Credit Manual (MCR 2-1). The requirements for the granting of rural credit to finance agricultural activities in the municipalities that make up the Amazon biome (Item 11) were also expanded to the “rural property where the enterprise subject to rural credit is located”, except for artisanal fishermen and extractive activities’ beneficiaries who are not owners of the rural property and who are not occupants of Conservation Units: lack of embargoes on the economic use of illegally deforested areas on the property; inexistence of restrictions to the beneficiary settled by the practice of illegal deforestation; veracity and validity of documents upon verification with the issuing body.

In practice, the provisions of CMN Resolution n. 5081/2023 described in the previous paragraphs in relation to environmental embargoes go beyond the provisions of the general conditions for rural credit granted to beneficiaries of the Amazon biome, by including embargoes carried out by state agencies (not only federal and other verifications), especially related to non-financing when the CAR overlaps with non-designated public forests. This verification could even be done by the National System of Rural Environmental Registry – SICAR. Data mapped by Agroicone in 2021 suggest that there are 19 million hectares of CAR overlapping non-designated public forests, which requires, in practice, actions to control land use and occupation and the granting of credit for illegal activities.

In the general conditions, the observance of the ZARC - Agricultural Zoning of Climatic Risk for the concession of working capital (costing) credit in general has not yet been included. The requirement was only maintained when the beneficiary adheres to the Agricultural Activity Guarantee Program - Proagro (medium producers) and Proagro Mais (family farming), to access the discount bonus of the Price Guarantee Program for Family Agriculture - PGPAF (list of crops), to beneficiaries of the Funcafé Credit for the Recovery of Damaged Coffee Plantations (MCR 9-7-1-“d”) (as amended by CMN Resolution 5078 of June 29, 2023). In addition, CMN Resolution n. 5080/2023 included compliance with the ZARC to expand the credit conditions for funding the Pronaf Microcredito Produtivo Rural – “Group B”, as well as the right to a timely payment bonus (also conditional on accessing Proagro Mais).

Incentives for the environmental sustainability of agriculture

Among the incentives to promote the sustainability of agricultural production, the inclusion as a financeable costing item (MCR 3-2) of “expenses for placing numbered earrings and microchip capsules on animals” stands out, promoting traceability instruments in livestock production. Also included was the financing of “expenses for
network infrastructure, platforms and digital solutions for data management and connectivity, when related to the financed activity”, promoting digital agriculture and improving productive and property management.

The ability of agricultural policy instruments to influence the environmental management of the territory comes up against the challenges of the Forest Code, with the validation of the CAR by the states playing a crucial role. The inclusion of incentives for beneficiaries of rural credit whose financed enterprise is in a rural property that has an analyzed CAR (in accordance with the Forest Code), in environmental regularization, in compliance and subject to the issuance of an Environmental Reserve Quota - CRA) was already in force in the 2022/2023 harvest.

The change was that there will be a (minimum) discount of 0.5 percentage points on interest rates (except for operations within the scope of Pronaf and cooperatives), as of October 2, 2023, and no longer the increase in the credit limit of up to 10% (which also depended on the evaluation of the financial institution to grant such an increase and could not exceed the maximum limits set forth per beneficiary). When funding credit operations are with mandatory resources or with resources subsidized by the Union, the maximum discount will be 0.5 percentage points on the maximum interest rate, according to the beneficiary's profile.

As much as this incentive in practice affects only a small portion of rural properties, it emerges from Article 41 of the Forest Code, whose implementation is very much awaited by rural producers, and signals the relevance of deepening the validation of CARs and the implementation of Environmental Regularization – PRA in the states. It is worth considering the role of the Ministry of the Environment and Climate Change and the Ministry of Management and Innovation in Public Services to guide and accelerate the dynamic analysis of the CAR and the effective advancement of adequacy based on adherence to the PRA that needs to get off the ground.

Agricultural policy incentives were also incorporated into some credit lines, through differentiated conditions. For the National Program for Strengthening Family Agriculture - Pronaf, the lowest interest rate for working capital of 3% pa included the cultivation of socio-biodiversity products (listed in Section 6 in Chapter 7 of the MCR, CMN Resolution n. 5082/2023), products inserted in agroecologically based production systems or in transition to these systems and organic production systems. Currently, there are almost 200,000 producers registered and certified as organic, whether cooperatives or individuals who can readily benefit from an initiative of this nature (as long as they are family farmers).

Fostering agroecologically based production in Family Farming is not limited to interest rate discounts. R$50 million are programmed for economic subsidy to sociobiodiversity products through the Minimum Price Guarantee Policy for Sociobiodiversity Products - PGPMP-Bio. In addition, the National Pact for Technical Assistance and Rural Extension - ATER, announced in the Agriculture and Livestock Plan for Family Agriculture, provides the allocation of resources for the structuring of technical assistance aimed at
agroecological production, based on extension and research in a regionalized manner. In total, R$ 200 million are planned for ATER in family farming.

ATER policies are essential to promote the transition of technologies and practices such as those advocated by the ABC+ Plan. The Pronaf investment credit lines labeled in the 2022/2023 harvest as “Pronaf ABC+” remained as such (CMN Resolution n. 5080/2023). There was a reduction in interest rates for lines labeled “Pronaf ABC+” and for Pronaf Jovem and Pronaf Mulher, compared to other investment credit lines, and the Plan also included access to credit for family farming for indigenous people and quilombolas (Pronaf A). Additionally, credit limits per beneficiary were changed for the Pronaf ABC+ Floresta and Semiarid credit lines.

The ABC+ Program for medium and large producers was changed to “RenovAgro” (CMN Resolution n. 5079/2023). RenovAgro includes, as recovery of degraded pasture areas, the conversion to other uses (RenovAgro Recovery and Conversion) in order to stimulate the expansion of agriculture over degraded pasture areas. Also, according to CMN Resolution n. 5082/2023, with an interest rate of 7% pa, equivalent to RenovAgro Ambiental (for environmental regularization of rural properties, including recovery of Legal Reserves, Permanent Preservation Areas - APP, acquisition of CRA, etc.).

The other RenovAgro subprograms will have an interest rate of 8.5% pa, the same as the 2022/2023 Agriculture and Livestock Plan, but the amount announced for RenovAgro sum R$ 6.93 billion, 12% higher than that announced in the previous plan, this which was already a historic record.

It is worth noting that part of the mandatory resources (cash deposits) can be allocated to RenovAgro, a rule that has been maintained since the 2021/2022 harvest (CMN Resolution n. 4917/2021). However, the use of this source of fund is still very small by financial intuitions for the ABC+ Program (now RenovAgro), adding up to less than R$ 600 million in the last two crop-years. Based on the authors' estimates, in the 2022/2023 harvest alone, the authorized value was R$ 1.8 billion, which would be from this source of funds, based on the announced value and those described in Ordinance of the Ministry of Economy n. 6,454/2022.

It is also interesting to note that a large part of the resources from cash deposits were allocated, in large part, after the suspension of ABC+ Program operations by the BNDES, due to the commitment of the subsidized resources authorized for these indirect operations. One of the reasons for the low allocation of funds from cash deposits, giving preference to other sources of funds, is due to the long grace period and return on financed investment projects, bringing a high opportunity cost for financial institutions, in addition to transaction costs.

In relation to the items financeable by RenovAgro, the “relocation of internal roads of rural properties for erosion control purposes, in addition to the purpose of environmental adequacy” was included. There was also an important change in the financing for the acquisition of cattle, buffaloes and goats, for the purpose of reproduction, rearing and termination, and of semen, ova and embryos of these species,
limited to 40% of the amount financed, conditioned to the certification of genetic material and genealogical record of matrices and reproducers for beef and dairy cattle. This alteration leads to the genetic improvement of herds, aiming at gains in productive efficiency.

A special look must be given to Constitutional Funds of Financing. CMN Resolution n. 5083/2023 establishes interest rates and credit limits with these funding sources. The conditions continued to be differentiated in cases where the financing includes conservation and protection of the environment, recovery of degraded or altered areas, recovery of native vegetation and development of sustainable activities in the scope of low carbon agriculture (ABC) and areas with certified production, low emission or carbon neutral, projects for technological innovation in rural properties, including the generation of energy from renewable sources, expansion, modernization, renovation and construction of warehouses.

However, the rules for framing the size of producers have not yet been changed, which are very different and superior to those in force for the National Rural Credit System - SNCR with the other sources of funds, generating not only distortions in the allocation of rural credit, but also the non-compatibility with the objectives of the Constitutional Funds of Financing. Furthermore, greater alignment of the credit lines operated by the Funds with those of the SNCR is expected. Both analyzes are highlighted in Policy Note 3 of the document with proposals for the 2023/2024 Agriculture and Livestock Plan.

The most innovative movement of the 2023/2024 Agriculture and Livestock Plan is the announcement of the interest rate reduction of (at least) 0.5 percentage point in working capital operations for beneficiaries who adopt environmentally sustainable practices, despite not being included in the published CMN resolutions on June 29, 2023.

This is possibly due to ongoing discussions between bodies and specialists on proving the adoption of good practices and their respective additionalities. For example, the adoption of no-tillage systems is widespread among grain producers, who are major borrowers of costing credit. Considering that BRL 88 billion was taken to fund soy and corn in the 2022/2023 harvest, representing 46% of the total (up to the closing of this document), this incentive could have an important impact on the economic subsidy of the rural credit (except with resources mandatory and others non-subsidized funding sources).

On the other hand, the great challenge is to assess how this practice is actually being implemented in the field. For example, would the no-tillage system with soy and corn 2nd crop and even brachiaria as 3rd crop be enough to reduce the interest rate? How many years did production take place without any soil disturbance? How many crops, plant species and botanical families were used in the last 3 agricultural years?

Despite the expectation of pragmatism in the regulation and easy verification, the adoption of sustainable practices is not that simple. Considering that most of the planted grain crops are rainfed and the fact that drought is the main event for the payment of
indemnities both under the Agricultural Activity Guarantee Program - Proagro and the Rural Insurance Premium Subsidy Program - PSR in the last 5 crop-years, the ZARC NM (Climatic Risk Agricultural Zoning – Stewardship Levels), which classifies climate risk considering soil management and resilience in relation to water stress, may be one of the ways. But there are still complexities for verifying its technical criteria.

In the set of proposals for the 2023/2024 Agriculture and Livestock Plan that were presented by Agroicone, improved and endorsed by the Green Finance Task Force of the Brazilian Coalition on Climate, Forests and Agriculture, we suggested some paths:

1 - Observance of the ZARC as a mandatory criterion for the credit for working capital (which we could start with a reduction in the interest rate after the end of the credit contract when the financed project complied with the ZARC);

2 - Differentiated condition for beneficiaries who present a current rural insurance policy with or without economic subsidy (it may also be discounted at the end of the credit agreement, avoiding insurance policy cancellations, directing incentives for the integrated management of risks in agriculture);

3 - Compliance with the quality of the pastures in the costing credit contracts for the acquisition of cattle, when the production system is based on pasture (using the Atlas da Pastagem updated annually by the Laboratory of Image Processing and Geoprocessing - Lapig of the Federal University of Goiás);

4 - Compliance with the Irrigation Atlas of the National Water Agency - ANA in costing operations for irrigated crops;

5 - Evaluation of attributes on the property and practices adopted considering the information already available to be filled into SICOR, defining the requirements to grant rural credit rebate according to the financed enterprise (list available in the Policy Note 1 of the document with proposals for the Agriculture and Livestock Plan 2023/2024).

In any case, this announced initiative of the agricultural policy (for business agriculture) must be understood as a first step, even if it is below what is desirable for the sustainability criteria of rural property, which needs to be implemented and improved over time. Transaction costs will increase in the short term, but as more information on rural properties and practices adopted is collected and reported to SICOR, the greater the alignment of rural credit with sustainability attributes and the greater the benefits granted to the rural producer. Still, with open banking, the rural producer owning his information will have an incentive to grant it to financial institutions, increasing competition in the market that wanted to attract those who adopt the best production practices, in addition to promoting sustainable finance in a general way.

**Gap: what about risk management instruments?**

Another important point worth mentioning is the absence of announcement by the Plan involving climate risk management instruments. There was only the measure that the
Proagro Mais rates will drop 50% for food production (a fact that must be carefully monitored, since the observed Proagro claims and exposure to moral hazard were observed in the last years). There was no announcement about resources to supplement the Rural Insurance Premium Subsidy Program - PSR in the year 2023, in addition to no movement around the risk management agenda.

Additionally, it is necessary to continue the virtuous process of ZARC improvements observed in the updating of methodologies, the creation of ZARC Pro (based on productivity indices) and ZARC Stewardship Levels (which incorporates good practices in risk definition), in addition to other improvements such as those presented in Policy Note 2 in the document with proposals for the 2023/2024 Agriculture and Livestock Plan.

Furthermore, it is not yet known whether the announcement made in the 2022/2023 Agriculture and Livestock Plan that beneficiaries of the ABC+ Program (now RenovAgro) would receive a greater subsidy for the PSR premium will actually be valid for the current crop-year. Initiatives of this nature are fundamental in understanding that risk management instruments should be complementary to the adoption of good agricultural practices. Recently, Agroicone launched a study that explores exactly this possible complementary relationship, and it can be accessed here.

Rural insurance plays a fundamental role in facing the impacts of increasingly frequent extreme weather events and for the very longevity of rural credit policy incentives, avoiding debt renegotiations when there are adverse weather conditions.

Vision of the future for the Plano Safra: final considerations

Rural credit is the main instrument of Brazilian agricultural policy and the driving force to encourage changes that allow for the improvement of production systems. Advancing in the integration of technologies and practices that favor climate change adaptation and the reduction of greenhouse gas (GHG) emissions is a classic example, also pursued by important agricultural countries and regions, such as the United States and the European Union.

To face climate issues in agriculture, it is necessary to share information, risks and transaction costs between the value chains’ stakeholders. Aligning incentives with the Forest Code and with practices that promote low carbon emissions and climate resilience, anchored in the ABC+ Plan, is the role of agricultural policy. Financial institutions need to capture information and share it in SICOR, both to grant incentives and for their own management of climate and socio-environmental risks.

There is still a long way to go, but it is always necessary to take the first step and incorporate improvements over time. In addition to incentives for medium and large producers, it is necessary to look at family farming considering its heterogeneity and regionalities, working with credit lines and available sources of funds that have a relevant impact on production and on the beneficiary, but with less impact on the
economic subsidy, with emphasis on the resources of the Constitutional Funds of Financing.

Thus, in the near future, the mainstream of agricultural production will be proven to be resilient and low-carbon, and agricultural policy incentives, with a strong macroeconomic scenario, will increasingly be directed towards “market failures” and climate risks management not fully covered by incorporating good agricultural practices.