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Agriculture and Livestock Plan (Plano Safra) 2023/2024 creates a new phase to foster sustainable agriculture

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Agriculture and Livestock Plan and Algriculture and Livestock Plan for Family Farmers (Plano Safra) 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 farming), it brought mechanisms to promote socio-environmental attributes and prevent illegalities in the granting of credit. This article discusses some of the innovations aimed at sustainability in the agricultural sector and their possible implications and challenges.

A first highlight is the expansion of social, environmental and climate requirements set out in BCB Resolution No. 140/2021, updated by CMN Resolution No. 5081/2023 for access to rural credit (effective from 07/03/2023 to 01/01/2024 , depending on the rule):

1 - Compliance with restrictions on access to credit related to socio-environmental aspects for the <u>entire rural property</u>, not just the project being financed;

2 - Rural Environmental Registry - CAR canceled or <u>suspended</u> will make it impossible to take credit;

3 - Inclusion of environmental embargoes issued by <u>state agencies</u>, not just federal ones and not just for the Amazon biome, but for all biomes;

4 - Rural credit will not be granted to enterprises located in rural properties wholly or partially inserted in Public Forest Type B (Non-Destined), except for rural properties with title deeds and for those with up to 4 (four) fiscal modules with a request for regularization analyzed and approved by the National Institute of Colonization and Agrarian Reform – Incra.

The ability of agricultural policy instruments to influence the environmental management of the territory comes up against the challenges of adapting to the Forestry 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 CAR analyzed (in accordance with Law 12.651/2012 - Law for the Protection of Native Vegetation or "Forest Code"), in environmental regularization, in accordance with and subject to the issuance of an Environmental Reserve Quota - CRA) was already in force in the 2022/2023 harvest. The change is that there will be a (minimum) discount of 0.5 percentage points on funding 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.

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 analysis of CAR and the implementation

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of Environmental Regularization Programs – 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.

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 points in funding 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 the bodies on proving the adoption of good practices and their respective additionalities. For example, the no-tillage system, widely spread among grain producers, can have an important impact on the economic subsidy of current credit (except with non-subsidized resources). A major challenge is to assess how this practice is actually being implemented in the field.

There are discussions among specialists about the time without disturbing the soil, the need for rotation, consortium or succession of cultures with different species and botanical families, among other criteria.

Despite the expectation of pragmatism in the standard and easy verification, the adoption of sustainable practices is not that simple. In any case, this initiative must be understood as a first step, with improvements over time.

At the same time, there is also an incentive planned for Family Farming: farmers who produce organic, socio-biodiversity, bioeconomy or agroecology products will have an interest rate of 3% p.y. for funding and 4% p.y. for investment. Currently, there are almost 200,000 registered producers, whether cooperatives or individuals.

In the set of proposals that were presented by Agroicone, improved and endorsed by the Green Finance Task Force of the Brazilian Coalition on Climate, Forests and Agriculture, we suggest some ways to guide incentives and to improve the underwriting of socio-environmental and climate risks in rural credit and insurance operations. A parallel to the suggestions presented with the incentives for sustainable practices would be the observance of pasture quality in credit operations for the acquisition of cattle.

Transaction costs will increase in the short term, but as more information on rural properties and practices adopted is collected and reported to SICOR – Rural Credit and Proagro Information System, the greater the alignment of rural credit with sustainability attributes and the greater the benefits granted to the rural producer.

To face climate issues in agriculture, it is necessary to share information, risks and costs between the actors and institutions within the supply chains. Aligning incentives with the Forest Code and with practices that promote low carbon emissions and climate resilience is the role of the agricultural policy. Financial institutions need to capture information and share it in SICOR, both to grant incentives and for their own integrated risk management.

Thus, in the near future, the mainstream of agricultural production will be proven to be resilient and low-carbon, and agricultural policy incentives will be increasingly directed towards “market failures” and the management of climate risks not fully covered by incorporating the best production practices. A special look was lacking for rural insurance, which is so important to mitigate the impacts of increasingly frequent extreme weather events and for the very longevity of credit policy incentives, avoiding debt renegotiations when there are adverse weather conditions.