



Workshop on Sustainable Finance for Deforestation-Free Value Chains

Meeting Report and Key Messages

Date	26 January 2023, 09h00 – 15h00
Location	Residence of The Netherlands Embassy in Brasília

Introduction

The Embassy of the Netherlands, on behalf of the [Amsterdam Declarations Partnership](#) (ADP), organized a workshop with a selected group of active experts working on sustainable finance and agricultural production in Brazil to unlock strategic avenues for fast-tracking sustainable and deforestation-free supply chains, specifically cattle/beef and soy, and the role finance can play.

The aim of this event was to engage in strategic avenues for dealing with climate risks in and accelerating the business case for sustainably financing agricultural production in Brazil (impact vs highest percentage return on investment). Additionally, this event showcased good and bad practices in finance initiatives regarding sustainable and deforestation-free agricultural production. And lastly the role banks and the Amsterdam Declarations Partnership / Europe was explored in both facilitating and fostering finance for sustainable and deforestation-free supply chains in Brazil.

The role of the financial sector in sustainable and deforestation-free supply chains is of evident importance, be it via finance of value chains to producers directly; via financing of the consumer goods industry, or through traders. Climate and sustainability challenges are coming more and more to the forefront of financing agricultural production and beyond. There are challenges. Deforestation, for example, is increasingly seen as a risk by financial institutions – not only to act in the best interests of beneficiaries but it is also seen as a reputational risk (societal sustainability demands), and a regulatory risk (inability to adapt to changing requirements/license to operate). The sustainability pressure will most likely increase in the coming years, also in Brazil, due to regulatory, societal and market factors. And will probably ask of financial institutions to be more transparent about its due diligence / its own risk analysis when it comes to these challenges and issues. But the changing times we live in also provide opportunities to contribute to more sustainable practices in finance, in agriculture and eventually to a more future-proof world for us and generations to come.

How can we build on this momentum and interlink finance more with fast-tracking sustainable and deforestation-free supply chains in Brazil?, was one of the main questions during the discussion.

The Amsterdam Declarations Partnership, a partnership of nine European countries, strives to enhance the dialogue with major consumer and producer countries and enhance transparency and sustainability of supply chains. Seeing the importance of Brazil in the cattle and soy sector a.o. and the role finance can play, the ADP brought together a selected range of multi-stakeholders.



Part 1: Showcasing Good & Bad Practices

The first part of the day consisted of three presentations by financial stakeholders on the challenges and opportunities in financing soy and cattle producers, showcasing good practices. Next, there was an intervention on low-hanging fruits, gaps and long-term solutions.

The first presentation kicked off with the challenging question of how to produce more food for a growing population whilst emitting less. Through sustainability policy, this stakeholder aims to reduce emission from its investment portfolio. With blended finance, they can connect into impact funds and share risk with impact investors. A good practice in sustainable finance is the case of Mato Grosso where investments in forest protection and renovation of degraded pastureland have taken place. Also, there are pilots running in Brazil for using the carbon credit market for any kind of precision agriculture.

The second presentation discussed the opportunities and challenges of long-term finance to producers that are committed to deforestation-free commodities. Reaching zero-deforestation is seen as a challenge. The issue of traders is that there is no traceability. For clients, they set targets and provide green investments if all the KPIs are inserted. A good practice is an example of Brazilian food processing company that needs to show that they are achieving their commitments.

The third presentation focused on their role in controlling, financing and supervising the system. Through the Department of Regulation, they supervise and control rural credit operations. A big opportunity for Brazil is to invest more in traceability mechanisms building upon registration of property, analysis and validation of the Rural Environmental Registry (*Cadastro Ambiental Rural – CAR*).

The intervention highlighted the risks of deforestation and the opportunities for the financial sector to engage more with these issues. It focused specifically on the new EU legislation, which does not distinguish between illegal and legal deforestation. In Brazil, most deforested areas are illegal and it is difficult to authorize the deforestation. The current challenge is not the lack of data on deforestation, but checking the legality of deforestation. The great majority of financial institutions only make use of the data from IBAMA, but there is more out there such as state government data on embargos. A solution could be to invest in a national database, and align all stakeholders to cooperate. Another challenge within the value chain is to monitor the different levels of this chain. Financial institutions can contribute by banking regulations, investing in risk management, and promoting due diligence and the location of data. In order to move from the restriction scenario to an improvement scenario, initiatives for compliance need to be created in the form of ‘sticks and carrots’.

Part 2: Strategic Avenues for Climate Opportunities

The second part consisted of a panel discussion between panellists who first spoke about the opportunities for getting sustainable finance into the core of the business.

The first panellist argued that conditions on deforestation-free criteria need to be widened. In doing so, it is not only about banks but also about other players such as private funds and stakeholders



within the value chain. The ambition of the organization this panellist is representing is to push commitments towards deforestation-free beef.

The second panellist argued that it is hard to fix individual banks as it is the central bank that needs to sustain regulation. The big elephant in the room is the pressing problem of the Amazon and its landowners and tenures. The role of the financial sector, and especially financial instruments, can trigger the transition from pilot projects to usable products. Only through a multi-stakeholder, multi-level value chain approach, this is achievable.

The third panellist argued that for tackling the issue of deforestation it is necessary to look at the territory in the context of the landscape for the region, as it is context-specific. Additionally, there are many different links in the value chain and technical assistance for land regularization is essential for improving the role of the financial sector.

The fourth panellist discussed the challenges of climate change in Brazil, and the issue of large-scale cattle rangers who don't believe in these issues. The risks of climate change have increased with 30% in the last 15 years. Brazil is a little bit on the border of the transition from traditional farming. If the world – and Brazil – fails to combat climate change, Brazil will not continue to play a role as one of the biggest food producers in the world. In order to develop a more resilient system, investment is needed for regenerative farming as it is more lucrative and it allows farmers to upscale. The fourth panellist argued that there is tremendous potential for a new bioeconomy in which the quality of biodiversity is maintained. It is now time to invest in the health of agriculture sector.

A follow-up question after these insights was to explore why the financial sector is not investing in regenerative farming. This was followed by a discussion among all stakeholders participating in this event, who shared their ideas about the focus of sustainable finance and the importance of bringing more innovation to the sector.

The second panellist argued that there is a lack of knowledge; a lot of stakeholders are not knowledgeable on the risks. Also, there is a lack of technical assistance to implement regenerative models into traditional farming systems.

The first panellist argued for financial seclusions and the potential for carbon credits.



Part 3: Finance for a Sustainable Future

The third part began with a discussion in different break-out groups and ended with a plenary wrap-up with conclusions and possible steps forward for accelerating the deforestation-free agenda.

1st Break-Out Group Discussion: How can the agenda on sustainable finance and deforestation-free supply chain be fast tracked?

What should be the focus?	Clarification
Technical assistance	<ul style="list-style-type: none"> • There is currently lack of technical assistance, for example to accelerate the transition from traditional farming to regenerative farming. • Invest in technical assistance. • Enable conditions for farmers to take decisions to take part in the transition towards a low carbon agricultural system. • Include educational programmes. • Invest in valorisation of forested areas.
Legal framework	<ul style="list-style-type: none"> • A public policy on transparency and traceability is needed. • Create more legal security. • Allocate public territories. • Bring the legal security ‘stick’ through the market (due diligence). • There needs to be a better guideline to be able to support sustainable land use.
Knowledge platform	<ul style="list-style-type: none"> • Transparency and traceability are key in bringing the role of sustainable finance for a deforestation-free value chain to a higher level. • To do this, it is essential to create a centralized platform. • Adopt international best practices and frameworks (TCFD, TNFD, ISSB). • Engage more with academia and knowledge institutions. • Dig out the local models that are already working. • Integrate a database system where every farmer can input information.
Broaden the focus	<ul style="list-style-type: none"> • The new EU legislation on anti-deforested commodities could be a step in conserving forested lands, but the EU is not the only (and main) export destination. Brazil also exports a lot of commodities to China.



	<ul style="list-style-type: none"> • Public agents and diplomacy need to keep engaging with Chinese authorities and companies. • Support innovations such as market and ecosystem payment services.
Levels in the value chain	<ul style="list-style-type: none"> • Acknowledge that there are different markets and levels within the value chain, that need to be approached in a context-specific way.
Sticks and carrots	<ul style="list-style-type: none"> • Incentivize sticks and carrots, especially focused on financial reputation for those who go beyond compliance. • Create (price) incentives for sustainable-linked projects. • Make the bridge between farmers and consumers. • Work closely with the demand side to generate higher valuation. • Invest in public agents for command and control.

Combination of the 2nd and the 3rd Break-Out Group Discussion: What role should/could different stakeholders play in fast-tracking deforestation-free agenda? And how can the different stakeholders present today concretely support those efforts from tomorrow onwards?

Stakeholders	Potential Role and Task
ADP-member countries	<ul style="list-style-type: none"> • Link and connect different stakeholders. • Bring local-to-local together. • Support the financial sector, and especially the importance of blended finance. • Emphasize premium-price, and especially direct return to small-holders. • Make funds available for small-holders • Invest in law enforcement. • Prioritize climate finance to prioritize solutions for small holders. • Push for a carbon regulated market.
Banks	<ul style="list-style-type: none"> • Central bank can play a bigger role in some types of regulation. • Create incentives for farmers, and focus on a system approach to include small and medium farmers. • Enforce financial institution clients to comply with regulations.



Amsterdam Declarations Partnership

Towards deforestation-free
sustainable commodities



Government of the Netherlands

- Include sticks and carrots into the investment portfolio.
- Activate taxonomy, sectorial engagement and financial innovation.