

Amsterdam Declaration Partnership: engagement with financial sector in promoting deforestation-free value chains



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Deforestation risks and financial sector

▶ Legal deforestation X illegal deforestation – a matter of focus

The EU regulation on deforestation-free agricultural commodities does not distinguish, but most banks do. Rabobank is the only exception thus far.

In practice, some sources say that more than 90% of deforestation in Brazil is illegal. Last [annual data from Mapbiomas](#), for example, show that there's suspicion of illegality in 98% of deforestation in 2021.

▶ The **mandate to authorize deforestation** in the cases that Forest Code allows it and apply penalties for illegal deforestation (and most of the environmental violations) is from **State environmental agencies**, not from IBAMA (the main federal environmental agency). However, the great majority of banks only use IBAMA's databases.

▶ The **availability of environmental data (especially online) at State level** is a challenge. Only around 6 States provide this information online, but this includes Amazon States of Pará and Mato Grosso, and most banks still do not use them.

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► Availability of deforestation data is not a challenge

INPE (PRODES) provides the data online for free. Global Forest Watch (from WRI) and Mapbiomas (in Brazil) do the same, among others. Information is complete and updated in most of the time. For rural loans, banks already have the location data, because the regulation requires it.

Is it worth to face the transaction costs of checking the legality? If it is, then checking has to be made at State level. In Mato Grosso, for example, the number of embargoed areas is 10 times higher at State level than at federal level. Using the data that are already available online is the low hanging fruit. But the information that is not available online also can be provided by the potential borrower (clearance certificates).

► Possible strategic avenues for the long term

Environmental Ministry and/or Central Bank should create a national database that integrates federal and State data (such as the national portal for environmental permits)

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- ▶ **Real gaps/challenges on information/data side: the value chain, other sources of funding and the location of rural properties**

Banks do not lend only to farmers, but also to companies that purchase raw materials or their products from them. Banks usually do not know (or ask) who these suppliers are, according to the assessment recently made through www.rasa.org.br (if they do, they do not report this engagement anywhere). Other companies sell inputs to farmers involved with deforestation. So, **banks due diligence should extend to value-chain.**

Moreover, these companies have more relevant sources of funding beyond lending: they are mostly funded through investments (capital markets) and **investors only start to make questions about the value-chain.**

Actually, better than checking which are the due diligences made by companies (who can always mention the right databases, without actually using them), banks and investors need to ask about the **location of the value-chain (farmers) and then cross-check this with deforestation data.**

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► The different levels of value-chain

Other diligences are needed to make sure that all the relevant levels of the value-chain (rural properties) are included.

Selo Verde, in the State of Pará, is a very relevant initiative because it monitors the transportation of cattle across the State. Professor Raoni Rajão (UFMG), who coordinated the team who developed the technical project, is now Director in the Secretary of Combat to Deforestation, from the Environment Ministry. It monitors up to 5 levels of the value-chain.

► How banking and institutional investors regulations could contribute?

Regulation on environmental due diligence by banks should include verification of the location of the value-chain

► How capital markets regulation could contribute?

Regulation on environmental disclosures by companies who issue securities should include the obligation to disclose the location of the value-chain

To keep in touch

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Thanks!

