

# RESOURCES FOR FINANCING AGRICULTURE AND CLIMATE CHANGE

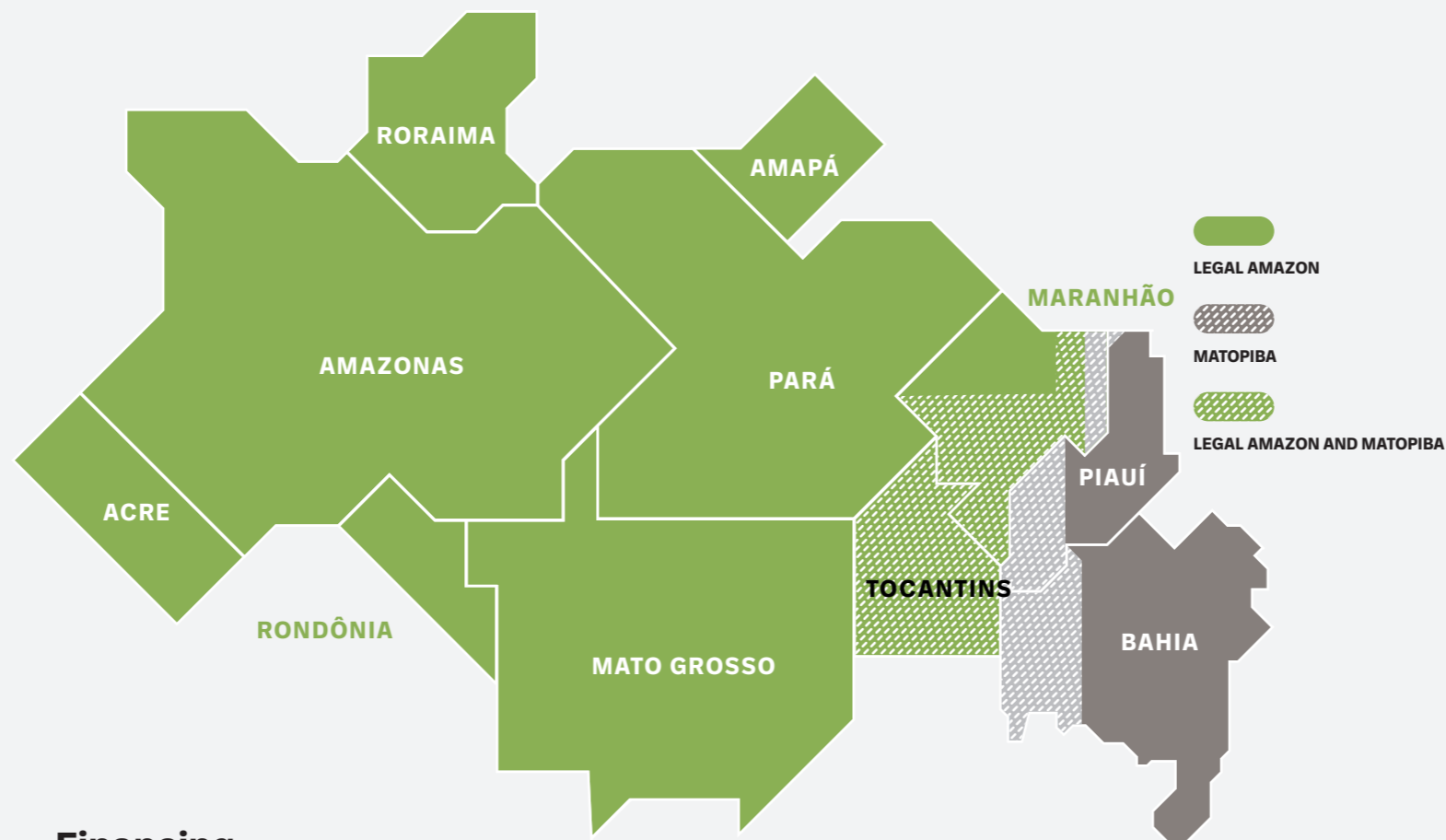
This study comprises a survey of public resources allocated in 2022<sup>1</sup>, in favorable conditions for agricultural activities in the states located in the Legal Amazon and Matopiba, a region with large and expanding grain production (soybeans and corn), mostly located in Cerrado areas in the states of Maranhão, Tocantins, Piauí and Bahia. The Legal Amazon and the Cerrado were the biomes with greatest native vegetation losses in the past 38 years (1985-2022), with 51 and 32 million hectares respectively. In the same period, those biomes recorded the same increase of land occupation by agricultural activities<sup>2</sup>.

In the update of the Brazilian National Determined Contribution (NDC)<sup>3</sup>, the country has committed to a 48.4% reduction of its greenhouse gas emissions (GEE) as early as 2025 and of 53.5% in 2030. Any path to achieve this ambitious climate change involves transforming the agricultural sector, responsible for 27% of the country's total gross emissions. Even more relevant is the fact that the expansion of agriculture is the main cause for changes in land use (deforestation), the country's main source of emissions, accounting for 48% of the total country's emissions<sup>4</sup>.

The accomplishment of the goals set by Brazil demands a set of commitments, including warranting the pertinent resources, the so-called climatic financing, to foster a more sustainable production model. The problem is that the Brazilian Government has been incentivizing financial resources for agriculture and stock breeding activities massively and in the long term, without demanding, effectively, that the sector agents implement good practices regarding production and marketing.

The great amount of resources earmarked for the sector need to be made visible and considered in an agenda aiming at the transition to a low-carbon economy. The country's search for funding for this transition cannot coexist with the constant allocation of public funds to producers (and their customers) who promote deforestation and are not committed to recovering and conserving the native vegetation on their properties.

Access to the complete study at: [escolhas.org](http://escolhas.org)



## Financing

### BRL 16.9 billion

is the total amount allocated via Constitutional Funds<sup>5</sup> to the agriculture and stock breeding sector in the states of the Legal Amazon and Matopiba.

The Constitutional Financing Fund of the North<sup>6</sup> (FNO) contracted<sup>7</sup> BRL 11.8 billion in 2022. 76% of this amount (BRL 9 billion) were allocated to agriculture. In the states, the proportion was:

**RONDÔNIA: 86% (2.4 BILLION)**

**PARÁ: 81% (2.9 BILLION)**

**TOCANTINS: 80% (2.9 BILLION)**

**ACRE: 78% (372 MILLION)**

**RORAIMA: 70% (246 MILLION)**

**AMAZONAS: 19% (144 MILLION)**

**AMAPÁ: 8% (20 MILLION)**

### BRL 4.2 billion

is the total amount earmarked by the National Bank for Economic and Social Development (BNDES) for the agricultural sector in the states of the Legal Amazon and Matopiba.

The states with most funds allocated for agriculture from BNDES were:

The Constitutional Financing Fund of the Northeast<sup>8</sup> (FNE) contracted BRL 25.9 billion in 2021 with 37% of this amount (BRL 9.5 billion) allocated to the agricultural sector. In the states of the Matopiba region, the shares reached:

**MARANHÃO: 70% (1.5 BILLION)**

**PIAUI: 45% (1.3 BILLION)**

**BAHIA: 37% (2.7 BILLION)**

The Constitutional Financing Fund of the Midwest<sup>9</sup> (FCO) contracted BRL 10.2 billion in 2022, with 73% of this amount (BRL 7.4 billion) allocated to agriculture. The percentage received by the state of Mato Grosso, one of the states with the greatest amount released by the constitutional funds was:

**MATO GROSSO: 73% (3.3 BILLION)**

**MATO GROSSO | BRL 2.4 BILLION**

**BAHIA | BRL 408 MILLION**

**MARANHÃO | BRL 398 MILLION**

**PARÁ | BRL 328 MILLION**



## Tax benefits and subsidies

The data on tax benefits and subsidies granted by the Federal Government is only available broken down by region. That is why we only highlighted the figures for the North, which is home to 8 of the 9 states that make up the Legal Amazon.

The tax benefit consists in the offer of preferred treatment to a certain sector or region in relation to the generally applicable tax rules, quantifiable through the loss or waiver of revenue<sup>10</sup>.

### BRL 5.9 billion

is the total estimated amount of tax benefits the agricultural sector of the North region received from the Union in 2022.

Of this total amount, 51% or BRL 3 billion proceed from tax benefits for agriculture in the Manaus Free Trade Zone. The subsidy, unlike the tax benefit, results in an increase of federal spending. An example is a subsidy on the interest rate on a loan, where the state pays the difference between the market rate and, in effect, takes over the payment from the benefitted sectors<sup>11</sup>.

### BRL 4.4 billion

was the total amount of federal subsidies for agriculture the North region received in 2022.

### The cross-subsidies of the Energy Development Account (CDE)

The Energy Development Account distinguishes itself from the remaining subsidies, since its resources are from the private sector, proceeding from so-called "crossed subsidies": participants of the energy market, mainly consumers, pay for the subsidies through higher tariffs on their energy bills.

With resources from the CDE account, subsidies are granted for the generation, transmission and distribution of electricity to consumers<sup>12</sup>.

Concerning agriculture, BRL 2.2 billion were allocated throughout Brazil, resulting from the sum of two types of subsidies: BRL 1.2 billion for irrigation and aquaculture and BRL 1.1 billion for rural activities in general. Total funding for agriculture via CDE amounted to BRL 204.4 million in the states of the Legal Amazon and BRL 366.6 million in the states of Bahia and Piauí, which belong to the Matopiba region only.

<sup>1</sup> Public resources made available through financing, at favorable interest rates and repayment terms compared to those offered on the financial market, or through the granting of tax benefits and subsidies, with data for 2022. Since the updated figures were not yet available at the time this work was completed, data of the year 2021 were used. This publication highlights the availability of federal public funds, but the complete study also covers state sources. <sup>2</sup> Project MapBiomass - Annual mapping of land cover and land use in Brazil from 1985 to 2022 - a collection of 8 infographics "Annual evolution of land cover and land use (1985-2022)" in Amazon (available here) and the Cerrado (available here). <sup>3</sup> Registered in the system of the United Nations Framework Convention on Climate Change (UNFCCC) in November 2023 with the title "Brazil First NDC Adjustment" in its version 4. These documents are available at: <https://unfccc.int/NDCREG>. <sup>4</sup> SEEG Report "Analysis of greenhouse gas emissions and their implications for Brazil's climate goals 1970-2022". Available at this link. <sup>5</sup> The Constitutional Funds are intended to promote regional development with resources proceeding from 3% of the Federal Income Tax revenues as well as from the Industrialized Products Tax (IPI). According to the Federal Constitution 60% of this amount must be allocated to the Northeast Constitutional Fund (FNE), 20% to the Constitutional Fund of the North (FNO) and 20% to the Constitutional Fund of the Midwest (FCO). <sup>6</sup> Data from the Results and Impact Report - financial year 2022. <sup>7</sup> The timeframe counts from the moment the financing contract was signed. <sup>8</sup> Data from BNB's Results and Impact Report - financial year 2021. The updated figures for 2022 were not yet available at the time this work was completed. <sup>9</sup> FCO Management Information, 2022. <sup>10</sup> BRL 23.8 billion is an estimate of the tax benefits granted for the agribusiness by the Federal Government. The amount is an estimate, since the tax benefits reported for 2022 are projections made by the Federal Revenue Service based on information from 2020. Like the Federal Government, states also grant tax benefits, especially regarding ICMS (state tax on the circulation of goods and services), which is responsible for a large portion of the state's tax revenue. The states that allocated the most tax benefits resulting from ICMS waivers to agriculture in 2022 were Mato Grosso (BRL 1.6 billion), Pará (which allocated BRL 84.8 million to agribusiness and BRL 245.2 million to the meat industry), and Amazonas (BRL 107.5 million). <sup>11</sup> In 2022, subsidies granted by the Union to agricultural activities totaled BRL 17 billion. <sup>12</sup> In 2022, BRL 34.3 billion in subsidies were granted in all states of the country, with the most diverse objectives - as for instance the Social Energy Tariff.