

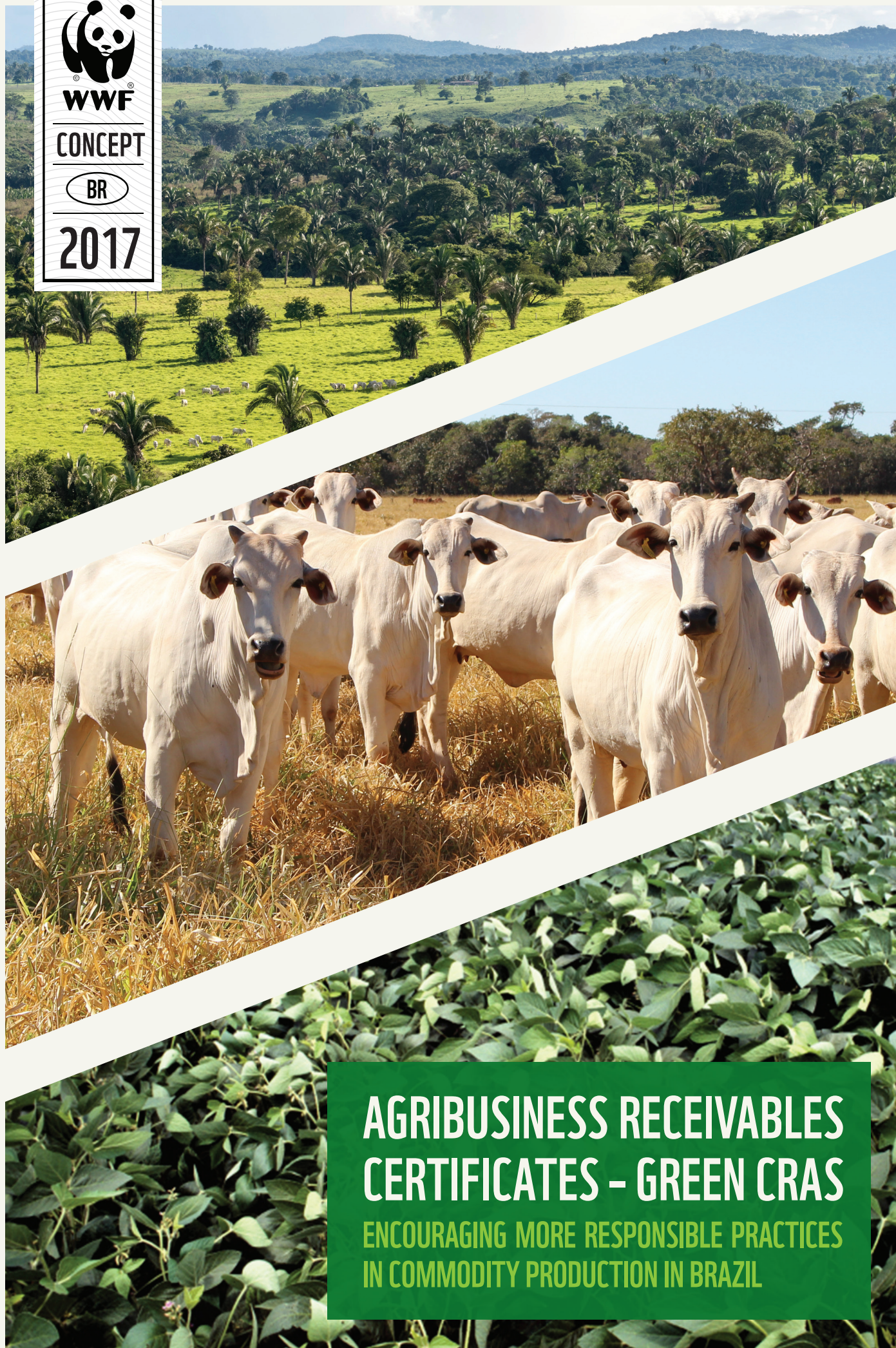


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2017



AGRIBUSINESS RECEIVABLES CERTIFICATES – GREEN CRAS

ENCOURAGING MORE RESPONSIBLE PRACTICES
IN COMMODITY PRODUCTION IN BRAZIL

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The aim of this publication is to propose ways of encouraging the Agribusiness Receivables Certificate (CRA) as a tool to incentivise and recognise more responsible agricultural practices by producers, and to mitigate investors' exposure to socio-environmental risk.

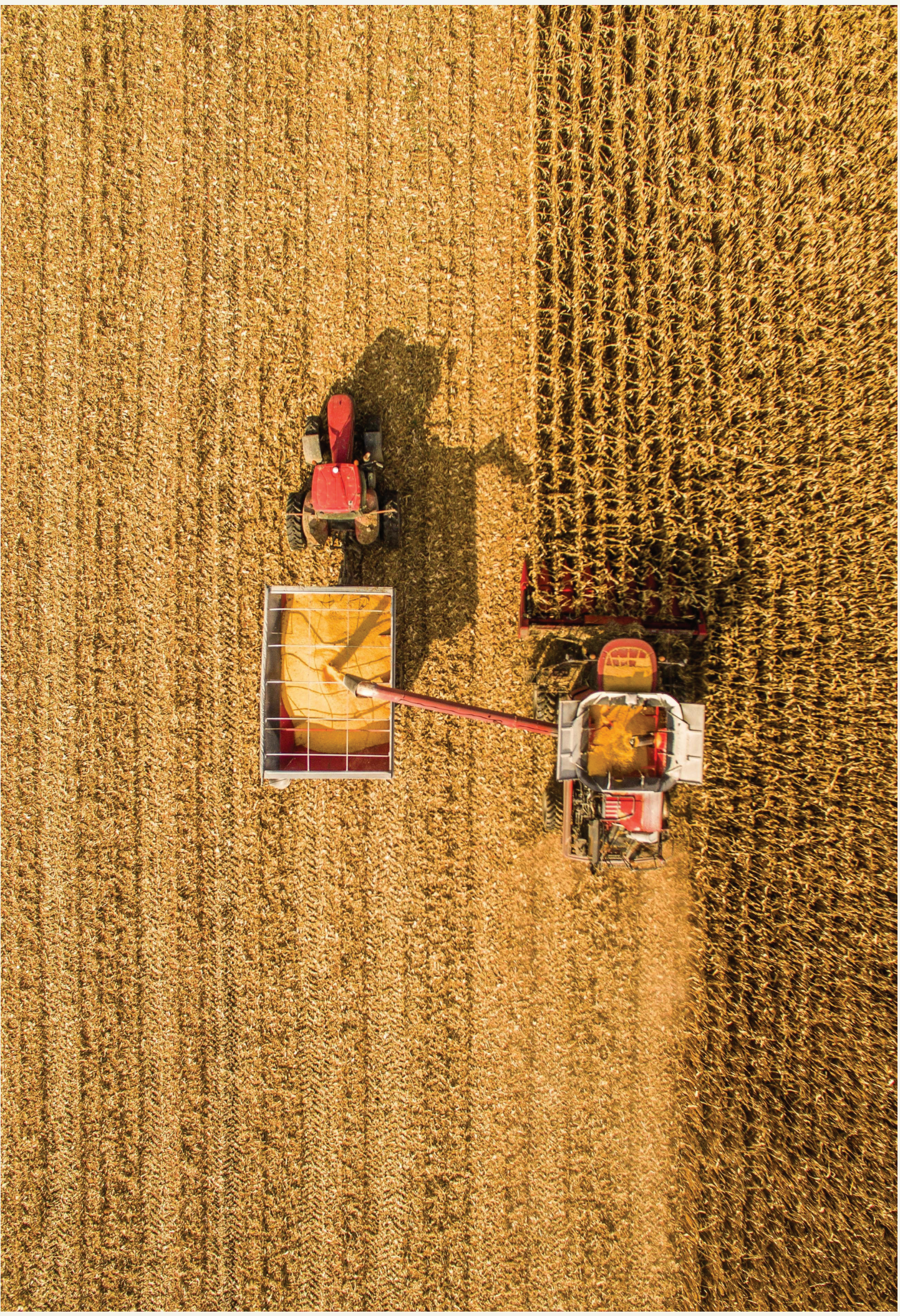
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AGRIBUSINESS RECEIVABLES CERTIFICATES – GREEN CRAS

**ENCOURAGING MORE RESPONSIBLE PRACTICES
IN COMMODITY PRODUCTION IN BRAZIL**





INDEX

Agribusiness Receivables Certificates	05
Why we are working with CRAs	07
The importance of providing alternatives to the Official Credit	08
Transforming CRAs into Green Bonds	09
Green CRAs require Green Security.....	10
Zero-Deforestation CRA – Soy production in the Cerrado and the Amazon in 2018.....	12



Agribusiness Receivables Certificates

The creation of financial instruments for the agribusiness sector to supplement Official Rural Credits, and the Rural Product Note (CPR) in particular, has enabled a range of different configurations for the financing of commodity production chains in Brazil. Trading and input companies have become important agents providing credit alongside commercial banks, developing alternative solutions for the provision of financial resources for producers.

Rural Product Notes became an everyday feature in agribusiness soon after they were created in 1994. They can be exchanged for agribusiness products or cash, making this an extremely versatile instrument. This combination of simplicity, low cost and easy registration has turned this innovative instrument for financing production into one of producers' main resources for credit and the advanced sale of crops.

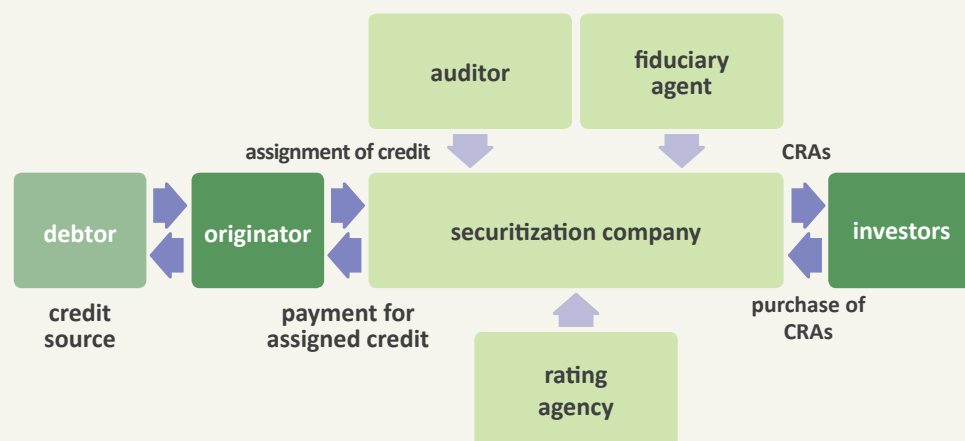
In grain production, for example, input companies sell on deferred payment terms to farmers and receive their money after the harvest, with this operation often being secured in bags of grain. This reduces the financial risk to producers, who can hedge their debts in future markets. Trading companies practice advance purchase contracts, fixing prices even before crops are planted, and settling these when the product is delivered to their warehouses, directly financing grain production.

It is common for trading and input companies to work in partnership: one supplying seeds and agrochemicals and the other receiving soy and settling contracts according to the agreed prices.

This type of producers credit creates large volumes of receivables, and these are based on the Rural Product Notes generated by their activities attracting a wide range of investors.

Agribusiness Receivables Certificates (CRAs) are favourable towards investors, as they are based on the real economy and provide tax advantages for individual investors. They also represent an excellent alternative production and capital replacement financing solution for rural producers and other agents along the chain, especially considering the growing restrictions and limitations being put on resources and subsidies obtained through the official rural credit system.

STRUCTURE OF OPERATION



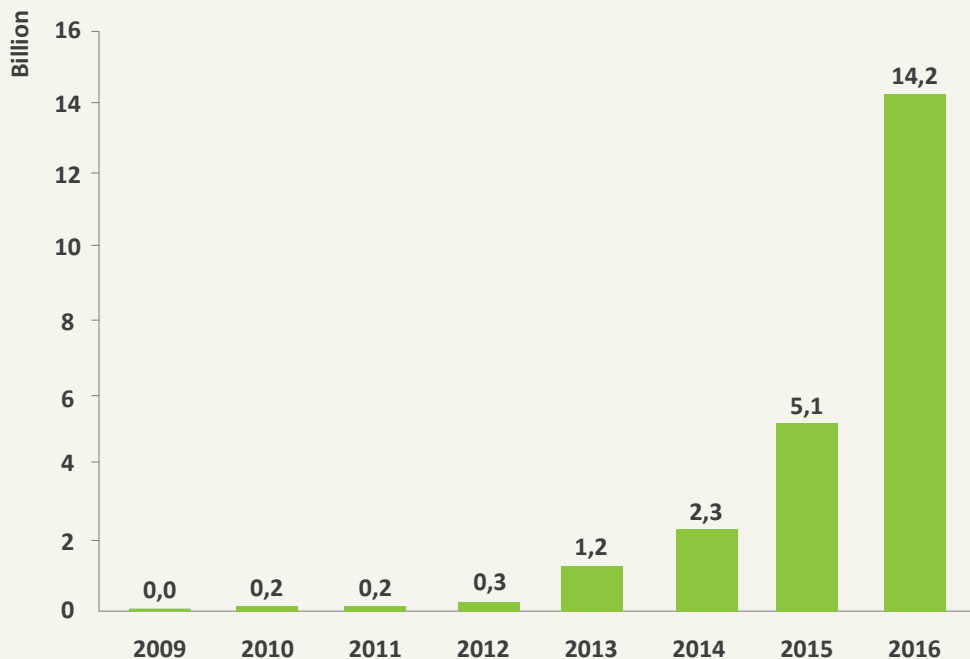
Considered a fixed-income product, CRAs give investors the right to receive remuneration from the issuer of the security (through fixed or floating interest rates) and to get back their initial investment at regular intervals or when the security matures. These securities can also be index linked.

For individual investors, returns from CRAs are exempt from income tax, and they can sell these on the secondary market through the B3 (Brasil, Bolsa, Balcão - Brazilian Stock Market) platform.

CRAs are securities that are offered in order to raise funds through the securities distribution system, and they represent an alternative method of financing for rural producers alongside the more traditional lines of credit offered by banks.

The Brazilian market has registered an impressive increase in the issue of CRAs, but there is still a lot of room for growth due to the enormous demand coming from the credit sector.

CRAS ISSUED PER YEAR



Source: CVM, CETIP, ANBIMA, CIBRASEC (January/2017)

If the few remaining obstacles for the issue of international securities in dollars are removed, CRAs could become an even more important mechanism for agricultural financing in Brazil, providing access to considerable assets on the international securities market.

This could represent a huge opportunity for the productive and financial sectors to prepare for the international issue of profitable and safe securities based on production aligned towards socio-environmental criteria. However, **it is essential that transparency and responsibility are ensured in the issue of these.**

This publication proposes ways of providing CRAs as a tool that can encourage and recognise more responsible agricultural practices by producers and mitigate investors' exposure to socio-environmental risk.

Why we are working with CRAs

WWF-Brazil sees enormous potential in Agribusiness Receivables Certificates, with these directing capital flows into more responsible commodity production in Brazil. This mechanism could also benefit producers that adopt best practices in agricultural production.

The versatility, agility and low cost of this financial instrument could help rural producers to finance the implementation of innovative technology, intensification of production, recuperation of degraded areas, replanting of native forests and low-carbon agricultural practices. Providing accessible and low-cost credit for these practices will encourage the expanding commodity production sector to take on a new direction, meeting the global demand for raw materials while alleviating the pressure on Brazil's biomes and the world's climate.

WWF-Brazil is working together with the financial sector to promote the adoption of sustainability and development criteria by innovative mechanisms that finance change in the rural sector, encouraging more responsible agricultural practices.

CAPITAL MARKETS CAN
DECISIVELY INFLUENCE
THE PROTECTION
OF FORESTS AND
BIODIVERSITY BY
RESPONSIBLY FINANCING
THE AGRICULTURAL
SECTOR.



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The importance of providing alternatives to the Official Credit

Research carried out by SITAWI for WWF-Brazil shows that banks provided 26.4% of the credit assigned to finance the cost of soy production in the Brazilian Cerrado in 2017, these being the main distributors of the official lines of credit for agriculture. Companies along the value chain were responsible for 32.5% of the credit assigned for grain production, which was provided in equal measure by traders and the input industry. Farmers in this biome provided 41.1% of the finance used for production from their own capital.

WWF-Brazil has been working to ensure that the financing of Brazilian agriculture can benefit from assets in both the national and international markets, providing guidance for policies and instruments to reduce the socio-environmental impact of agricultural production and innovative tools that lessen the risks associated with Brazilian agriculture, cutting down the taxes applied to this sector as a result. **The full access of Brazilian producers to the investment market is fundamental in being able to create a sustainable financial scenario, increasing confidence in rural financing, independence (or less dependence) on the national treasury and greater resilience to political and economic fluctuations.**

Financing methods used to cover the cost of soy production in the Cerrado in 2016/2017.

26.4%	Banks R\$ 18,830 MM	20.0%	State-owned R\$ 14,273 MM
		6.4%	Private R\$ 4,557 MM
32.5%	Companies 23,115 MM	1.7%	Seeds R\$ 1,204 MM
		6.6%	Fertilizers R\$ 4,690 MM
		8.0%	Defensives R\$ 5,685 MM
		16.2%	Traders R\$ 11,545 MM
41.1%	Self-financing R\$ 29,289 MM		

CRAS COULD BECOME AN EVEN MORE IMPORTANT MECHANISM FOR AGRICULTURAL FINANCING IN BRAZIL, PROVIDING ACCESS TO CONSIDERABLE ASSETS ON THE INTERNATIONAL SECURITIES MARKET.

Source: SITAWI 2017

Transforming CRAs into Green Bonds

Green Bonds are debt securities that raise finance for sustainable projects and businesses.

In 2017 alone, close to 96 billion dollars' worth of Green Bonds were issued onto the global market. Investors with 45 trillion dollars in assets have put funds into responsible and climate investments.¹

Conventional institutional investors such as Aviva, BlackRock and State Street, and those that are specialised in environmental and social governance (ESG) such as Natixis, Mirova and ACTIAM, have created an enormous demand – which has not yet been met – for these green bonds.

Most of these funds are currently directed into renewable energy projects, with not much going into the recuperation of forests, low-carbon agriculture, the regeneration of degraded areas and sustainable agriculture. This is basically a result of a lack of large-scale projects of this nature and/or financial securities that are representative of sustainable production in farming. For this reason, the issue of **Green CRAs** onto the market could represent a concrete and innovative way of competing for these funds.

However, to make **Green CRAs** a feasible alternative for this type of investor, specific criteria must be created and implemented to make the security for CRAs eligible. Verification and monitoring could define this specific type of security aimed at Brazilian agriculture as a Green Bond, providing higher liquidity and better conditions for producers that receive financing.

Low-carbon agriculture, the recuperation of degraded soils, forest regeneration and crop-livestock-forest integration are some of the plausible possibilities for **Green CRAs**, as well as the direct financing of agricultural commodities produced more sustainably.



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¹ <https://www.climatebonds.net/market/investor-appetite>.

Green CRAs require Green Security

The fulfilment of socio-environmental criteria by rural producers issuing CPRs is the basis for **Green CRAs**. An MRV (monitoring, verification and reporting) system needs to be implemented and agreed with actors in the chain to guarantee the environmental additionality of the mechanism. This MRV system could be operated by the issuer of the CRA or by the security provider.

Seven critical elements for the issue of Green CRAs

Seven critical elements are required to establish a transparent and credible Green CRA market:²

1. Green CRAs must address and cover one or more of the sector's environmental challenges;
2. They must be focused on achieving real and verifiable environmental benefits instead of what is simply promised or pledged;
3. Commitments must be science-based, long-term oriented and resilient;
4. They should be developed with a focus on each chain and its specific environmental problems;
5. Issuers of Green CRAs are responsible for proving environmental benefits, and these must be communicated clearly, specifically and realistically. An MRV system must be implemented;
6. The mechanism must be auditable. It must be prepared to be audited by third parties in order to promote credibility;
7. Existing socio-environmental certificates may provide shortcuts and simplify the verification, monitoring and auditing process.

Green CRAs must address and cover one or more of the sector's environmental challenges

As a mechanism to encourage more responsible production, **Green CRAs** should consider the sector's main socio-environmental risks. They should be based on the fulfilment of both legal and minimum social requirements (according to local legislation), and they must also provide clear additionality in terms of the environmental issues that are important to the specific sector.

They must be focused on achieving real and verifiable environmental benefits instead of what is simply promised or pledged

The critical and specific criteria for the issue of these securities must provide real and significant change to the social and environmental impacts that the CRA is designed to finance.

Criteria must be verified at the start of operations and monitored along the whole cycle, and the securities that do not fulfil the established criteria must be excluded from the operation when the term of validity is up.

The proposed (or declared) environmental benefits, methods of verification and evaluation of the results obtained must be clear and transparent to investors and the relevant public.

² https://d2ouvy59podg6k.cloudfront.net/downloads/20160609_green_bonds_hd_report.pdf

THE FULL ACCESS
OF BRAZILIAN
PRODUCERS TO THE
INVESTMENT MARKET
IS FUNDAMENTAL
IN BEING ABLE TO
CREATE A SUSTAINABLE
FINANCIAL SCENARIO.

Commitments must be based on science, focused on the long term and involve resilient results

The socio-environmental elements declared as differential for this finance must be science-based and consistent with the related scientific literature, supported by important research organisations and verified and monitored using the same criteria. The beneficial results achieved using this finance must be long-lasting or permanent.

Developed with a focus on each chain and its specific environmental problems

Different cultures have different socio-environmental challenges to face. Common features may exist, but the specifics of each value chain must be mapped and addressed appropriately and regional characteristics should be recognised and considered.

Issuers of Green CRAs are responsible for proving environmental benefits, and these must be communicated clearly and objectively

When issuing **Green CRAs**, it is fundamental that the socio-environmental benefits it will promote in the field or the value chain are clearly communicated to investors.

Issuers must guarantee that the socio-environmental criteria listed for the security are met and duly monitored through an MRV system. Security providers can and should participate by offering support in this process, and financed producers should be aware of their obligations relating to this financing.

The criteria and MRV mechanisms must be established and agreed before the issue of the CRA.

The mechanism must be auditable. It must be prepared to be audited by third parties in order to promote credibility

To guarantee the transparency and credibility of the claims made for the issue, it is fundamental that the monitoring, verification and reporting system is prepared to be audited by third parties who can attest to alignment with the criteria established for the mechanism.

Existing socio-environmental certificates may provide short cuts and simplify the verification, monitoring and auditing process

There is a range of certification mechanisms for agricultural production in Brazil. Most of these take into consideration important socio-environmental issues and are audited by third parties. These certificates could be aligned with the criteria established for the issue of **Green CRAs**, and putting together a CRA involving certified producers may facilitate the process and ensure more confidence.

Zero-Deforestation CRA – Soy production in the Cerrado and the Amazon in 2018

In partnership with Gaia Agro Sec, Felsberg Advogados and Agrosecurity, WWF-Brazil is promoting a pilot operation with specific socio-environmental criteria for financing the cost of soy production in the Cerrado and the Amazon, for producers that are committed to preserving native biomes on their properties. **Producers who own more than the required area of native vegetation according to current environmental legislation and who to commit to preserving these during the CRA funding cycle will be eligible for this line of credit.**

The aim of this mechanism is to provide differentiated financing for these producers, encouraging them to preserve these biomes until other monetary compensation mechanism come into effect for the maintenance of their environmental assets, such as the environmental reserve quotas and payments for environmental services provided in the new Forest Code.

The minimum criteria for financed producers (issuers of CPRs included in **Green CRAs**) to be eligible for this operation are:

- I. Full compliance with the Law to Protect Native Vegetation (New Forest Code) and no breaches onto land belonging to indigenous people or traditional communities, or Fully Protected Conservation Sites and their buffer zones (where applicable), and compliance with the Sustainable-Use Conservation Site Management Plan;
- II. Full ownership of their rural property and legal registration with INCRA in the case of property owners, and consent and acceptance of the terms and criteria by the property owner when applied for by tenants;
- III. Not included on the Ministry of Labour's Slave Labour Black List – for CPR issuers and rural property owners;
- IV. No injunctions placed on the rural property to be financed by the environmental authorities;
- V. Compliance of the financed crop with Economic Ecological Zoning, where applicable;
- VI. Compliance of the crop with established sectoral and regional agreements (the Soy Moratorium and the Pará Green Grain Protocol);
- VII. In the Cerrado biome, no conversion of natural areas may have been carried out after June 2017.

WWF-Brazil believes that it is possible to conciliate human activity with the preservation of nature. Capital markets can contribute to this objective, allocating capital transparently and responsibly and encouraging best practice in the production of raw materials, goods and services.

CRAS COULD BE USED AS
A GREEN HIGH-LIQUIDITY
FINANCIAL INSTRUMENT,
ACCESSING SPECIFIC
FUNDS AND IMPROVING
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PRODUCTION PRACTICES.

AGRIBUSINESS RECEIVABLES CERTIFICATES - GREEN CRAS

ENCOURAGING MORE RESPONSIBLE PRACTICES

IN COMMODITY PRODUCTION IN BRAZIL

Biodiversity

Capital markets can decisively influence the protection of forests and biodiversity by responsibly financing the agricultural sector.

Green Bonds

CRAs could be used as a green high-liquidity financial instrument, accessing specific funds and improving agricultural production practices.

Transparency

Clearly and transparently monitoring, verifying and reporting the desired socio-environmental benefits is fundamental in lending credibility to this financial instrument.

Best Practices

Low-carbon agriculture, the recuperation of degraded soils and crop-livestock-forest integration are some of the possibilities for Green CRAs.



Why we are here?

To stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature.

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