

HOW TO ADVANCE IN THE FINANCING OF A LOW-CARBON ECONOMY IN BRAZIL

ANALYSIS OF BARRIERS AND OPPORTUNITIES IN THE
ALLOCATION OF FINANCIAL RESOURCES FOR AGRICULTURE
AND ENERGY SECTORS

EXECUTIVE SUMMARY

Debates on low-carbon and green economy are being held worldwide, and Brazil is no exception. Many actors in the society have been struggling to fully understand that concept and find ways to explain it in real life. However, effective transition to a low-carbon economy requires strategic, joint and integrated action from different actors. This current study seeks to combine and understand the relationship among three fundamental links in the context of the new economy. Taking into account the demands from the production sector to implement low-carbon practices, the study identifies the products and services offered by the financial sector, as well as regulations and incentives established by governmental agents related to such demands. Considering this diagnostics, this work focused on determining the barriers that prevent the Brazilian financial sector from effectively contributing to the transition to a low-carbon economy and to the elaboration of recommendations to be implemented by a number of actors (production, financial and governmental sectors).

The starting point were three studies conducted by FGV-GVces Center for Sustainability Studies, two of them related to the financial area, and one of them to the agriculture, energy and transport sectors, all of them in the context of climate change and low-carbon economy. In this work, we analyzed the agriculture and energy sectors, which, combined, account for one third of CO₂ net emissions, according to the Brazilian Inventory of Greenhouse Gas Emissions. With the purpose of complementing that analysis and investigating the reasons why resources are not effectively used, a set of interviews was conducted with representatives of the production and financial sectors, government and experts. The results were organized and presented in a poster format, available at the following website: www.fgv.br/ces. The poster presents the major barriers and recommendations distributed in a flow chart, proposing ideas and suggesting paths to elaborate an action plan to advance on the topic, whose recommendations, grouped in 'intervention areas', can be interpreted as strategic objectives. For each recommendation, the most fit transformation agents to lead the movement and take action were also identified. Information gathered in this research indicates that, to accelerate financing

for a low-carbon economy in the energy and agricultural sectors, it is necessary to conduct a joint and aligned work among: **(i)** government, responsible for the regulatory framework, **(ii)** financial sector, responsible for services supply and demand, **(iii)** production sector, which uses the resources available to implement practices in the context of the new economy.

Mapping the financing enabled us to realize that, although there are credit lines available, the volume of resources actually used is still low and insufficient to fully finance the transition to a low-carbon economy. To make it happen, besides making more resources available, it is necessary to review internal processes and qualify people involved in project, credit and risk analysis, adjust monitoring practices adopted, and review collaterals to improve allocation and efficiency of resources. It is also imperative to strengthen public policies, establish direct subsidies and tax and financial incentives, increase mobilization among different government bodies, give more support to creating and establishing new markets, and more incentives to research and development. Additionally, it is critical to support proper communication, dissemination and training specifically targeted at small producers and entrepreneurs. It is worth mentioning that this study was elaborated at the same time the ABC Plan (the major financing source for ABC practices) is being structured, and that the Brazilian government has advanced in the integrated implementation of energy efficiency and renewable energy source actions. As far as we understand, some of the recommendations proposed here have already been implemented by their corresponding transformation agents. Because those are new forms of production, it is clear there are cultural barriers, which represent an important factor for decision-making in the production sector, and those barriers shall be overcome in order to reduce GHG emissions in agriculture and in the energy sector. These sectors, which account for a significant portion of GHG emissions in the country, shall contribute to overcome the challenge, once emission reduction targets are set in Brazil. We hope the set of recommendations proposed here contribute for rural producers and entrepreneurs to feel encouraged to adopt low-carbon practices, increasing the likelihood of meeting the targets that will be assigned to each sector in the future. We believe the Brazilian production of agricultural commodities

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and energy will be stronger when it is able to effectively access the financial resources available to drive the sector towards a low-carbon economy. However, it is worth pointing out that only the joint work of the three actors, with a common purpose, and the desire to innovate and make changes will be

able to move the country towards that path. It is a great challenge, but the chances to make Brazil stand out in the world as one of the leaders in the building of a new economy are high.
