

# THE TERRITORIAL PERFORMANCE SYSTEM

# BRAZIL

NOVEMBER 2014

## CONTEXT

- **Brazil has made enormous strides** towards sustainable rural development. For example, Amazon deforestation has declined 70% below its 10-year average while agricultural production continued to grow<sup>1</sup> (see map below).
- **This progress is fragile because it has failed to deliver positive incentives.** Most farmers, businesses and local governments who contributed to Brazil's success have yet to see tangible benefits for their actions.
- **It is also fragile because of fragmentation.** The many public policy and supply chain processes that are designed to support the transition to sustainable rural development are disconnected, with competing definitions of success that are pushing farmers, businesses and local governments in different directions.
- **The Territorial Performance System** is designed to overcome this fragility.

## GOAL

A unified approach that drives the transition to sustainable, equitable, productive commodity supply chains and rural development across entire jurisdictions/territories (municípios, states).

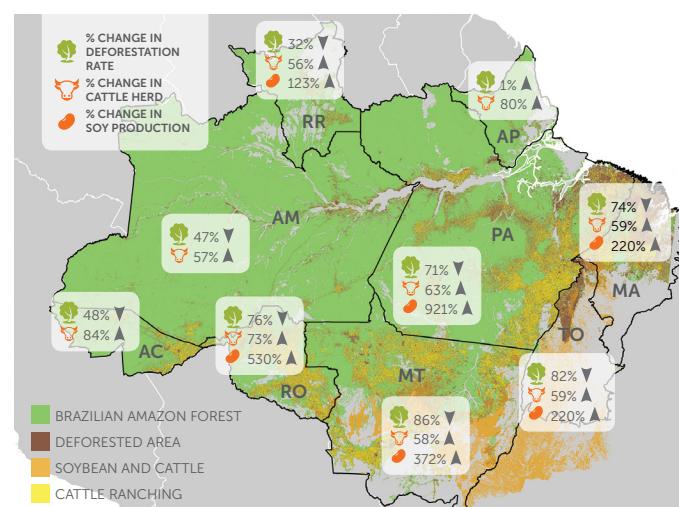
Mainstreaming the transition to sustainability across entire counties and states by linking the power of businesses, farmers, governments and civil society.

## FOUR PART STRATEGY

- **Positive incentives** to reward governments, businesses and farmers that are making the transition to sustainability
- **Consensus** on the time-bound milestones for measuring success in the transition to sustainable development
- **Monitoring system** for reliable, transparent reporting on progress towards milestones
- **Pilots** for testing and refining the strategy

## ANTICIPATED ADVANTAGES

- Complements and strengthens essential farm-by-farm approaches at a low cost
- Unifies definitions of success for a few key sustainability criteria
- Links the power of markets with the power of government
- Applies to all agricultural and forestry products, avoiding "leakage"
- Large-scale outcomes



**+ FIGURE 1** Deforestation, cattle herd and soy production in 2014 for the states of the Brazilian Amazon. Percent change relative to 1996-2005 average.

<sup>1</sup> Nepstad, D. C., D. G. McGrath, C. Stickler, A. Alencar, A. Azevedo, B. Swette, T. Bezerra, M. DiGiano, J. Shimada, R. Seroa da Motta, E. Armijo, L. Castello, P. Brando, M. Hansen, M. McGrath-Horn, O. Carvalho, and L. L. Hess. 2014. Slowing Amazon deforestation through public policy and interventions in beef and soy supply chains. *Science* 344:1118-23.

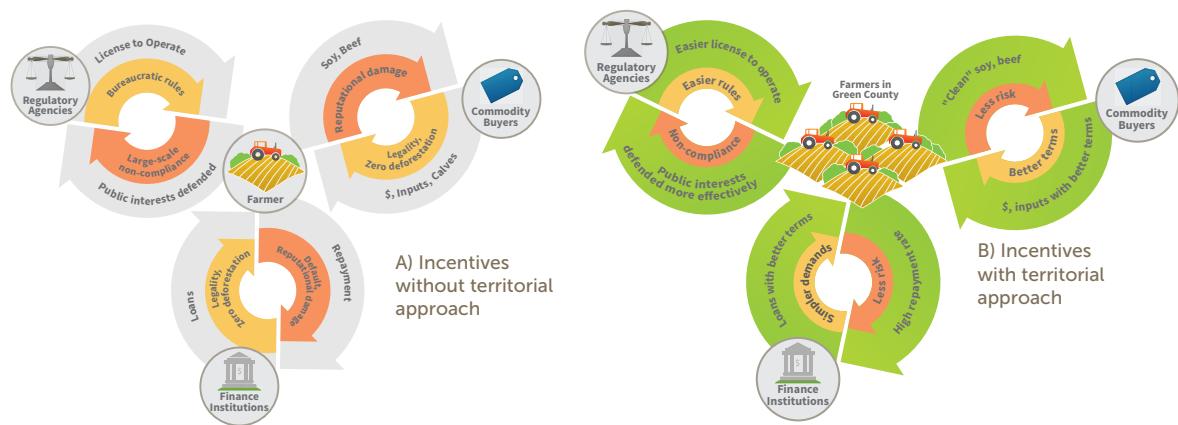
## INCENTIVES

Farmers and agricultural businesses today are faced with a bewildering number of requirements from governments, financial institutions and businesses (Figure 2A). The risks that are associated with these requirements could be reduced through a territorial performance approach, opening the way for integrated systems of financial, regulatory and contractual incentives.

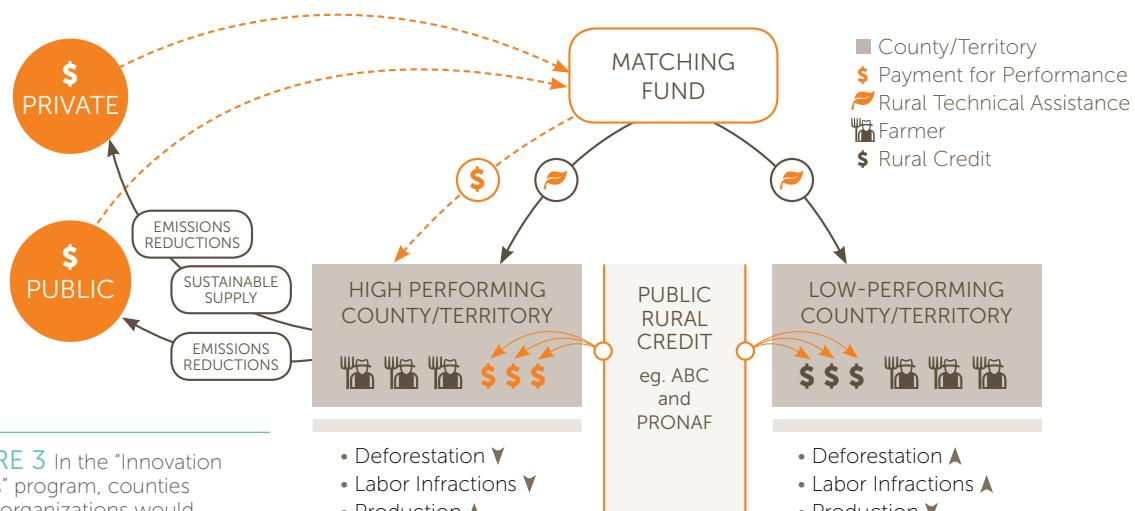
For example, procedures for licensing farms and accessing credit could be streamlined in high-performing counties and states. Financial

institutions could give better terms for agricultural loans in high-performing territories. Programs could be developed that help farmers overcome obstacles to implementing sustainable practices, while supporting local governments to do their part<sup>2</sup>.

We illustrate this potential with a brief summary of a program currently under development (Figure 3).



**FIGURE 2** Regulatory, financial and contractual incentives could help farmers in high-performing counties, inspiring collective action to address deforestation.



**FIGURE 3** In the "Innovation Territories" program, counties and farm organizations would join forces to compete for grants that support farmers to access credit programs and increase productivity. High-performance, such as declining deforestation, would trigger additional payments to governments and farmers.

<sup>2</sup> Nepstad, Irawan, Bezerra, et al. More food, more forests, fewer emissions, better livelihoods: linking REDD+, sustainable supply chains and domestic policy in Brazil, Indonesia and Colombia. Policy Focus. Carbon Management. (2013) 4(6), 639–658

## FINANCING “INNOVATION TERRITORIES”

Producers in the Brazilian Amazon are not fully benefitting from existing public programs and lines of credit to support the transition to low carbon agriculture. One of the main barriers is the lack of capacity to understand and implement low carbon practices and technologies and to access the finance programs. To overcome this barrier, we are developing a program called “Innovation Territories” to provide technical assistance and financial incentives based on territorial performance. The program would benefit (1) local governments committed to improving productivity, sustainability and market access of their farm and livestock sectors and (2) farmers already interested in public sustainable rural credit programs, such as PRONAF, INOVAGRO, and the ABC Plan,<sup>3</sup> but who are facing obstacles accessing this credit.

## OBJECTIVES

- **Mobilize public rural credit** to investments in productivity and sustainable practices
- **Stronger local governments** to support farmers and foster environmental governance
- **Engage agricultural and livestock companies** through partnership with local government and farmers and through matching fund
- **Improve rural assistance** to foster ongoing improvements in production and sustainability
- **Territorial and farm-level Incentives** where both local government and private producers receive payments based on their performance in achieving social and environmental targets, and effective transition to low carbon practices

## GENERAL STRUCTURE

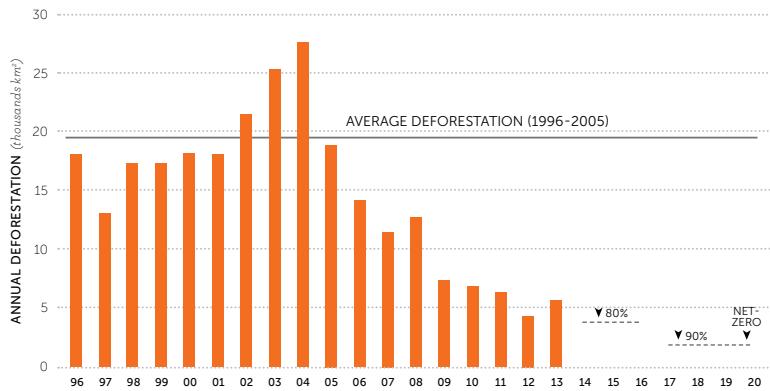
The Innovation Territories Program would have three main levels of implementation: (1) a flexible Matching Fund that can receive contributions from diverse sources and issue “soft” carbon emission offsets (Figure 3); (2) territorial management of subprograms by centers for sustainable technology; and (3) implementation of activities in the field in production units.

## MEASURING SUCCESS

- **Individual level:** Producers must demonstrate implementation of innovative practices.
- **Territorial level:** The Territorial Performance Monitoring Platform tool will be utilized to measure indicators of deforestation, labor law infractions, agricultural productivity, and environmental compliance that are established through the multi-sector consensus process.

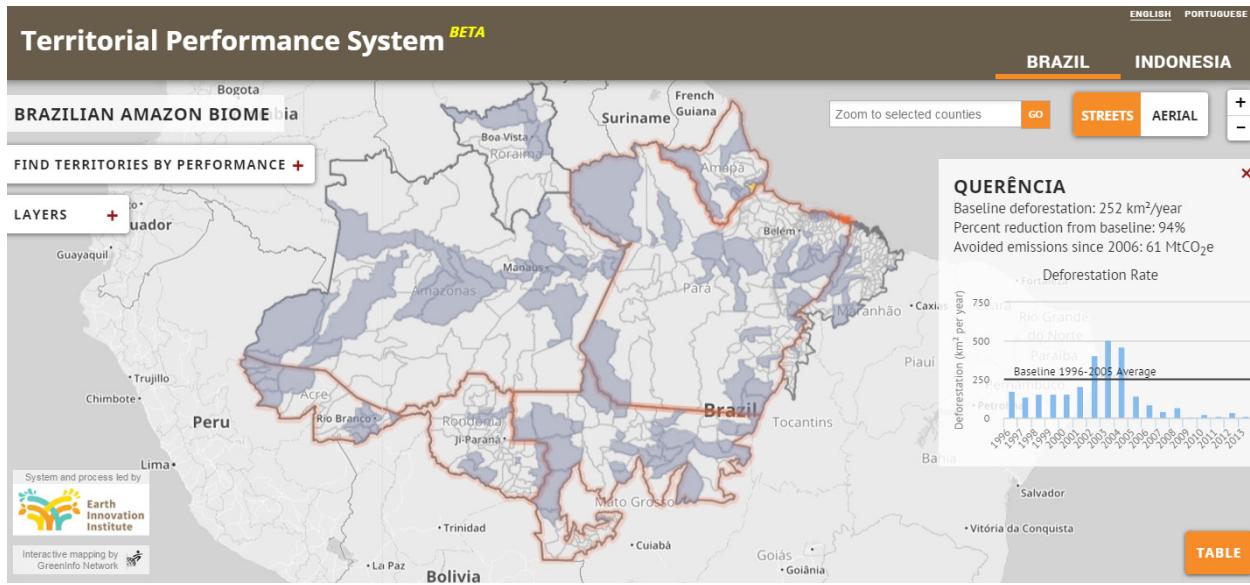
## OTHER INCENTIVE SYSTEMS

Incentives for farm and territorial performance can also be achieved by streamlining regulations, increasing access to credit, and through the contracts between agricultural product buyers and farmers, as illustrated in Figure 2.



+ FIGURE 4 Measured deforestation and current draft of future milestones for reducing deforestation and achieving zero net deforestation that are under discussion. Progress towards targets will depend upon successful implementation of positive incentives, such as Fig. 3. This proposed pathway to zero net deforestation is the fruit of the Brazilian multi-sector dialogue.

<sup>3</sup> Definitions: PRONAF: National Program to Strengthen Family Agriculture, INOVAGRO: Incentive to Technological Innovation in Agricultural Production, and ABC Plan: Low Carbon Agriculture Plan.



**+ FIGURE 5** Screen shot of a page of the Territorial Performance Monitoring System.  
Access full site at [monitoring.earthinnovation.org/brazil](http://monitoring.earthinnovation.org/brazil).

## CONSENSUS

In Brazil, as in other tropical countries, multiple initiatives in the private sector, governments, and civil society are striving to slow deforestation and support sustainable farming and forestry. Brazil's 70% decline in deforestation was the result of a diverse array of policies, law enforcement and voluntary private sector agreements, each with its own metrics for success. To foster a unified approach to slowing deforestation<sup>1</sup> and addressing other key sustainability criteria, a series of multi-sector dialogues is taking place.

More than 50 organizations participated. At these meetings, government agencies, soy and beef traders, processors, producers, retail companies, financial institutions and civil society are all at the table to develop regional, "territorial" approaches to some key sustainability criteria, unifying diverse programs and processes that are fostering sustainability within a positive agenda of change

## PARTICIPANTS IN THE BRAZIL MULTI-SECTOR DIALOGUES

**COMPANIES:** Abiec, Abiove, ADM, Aprosoja, BR Foods, Bunge, Cargill, DOW, Grupo Maggi, JBS, Marfrig, Mars, Minerva, Monsanto, Syngenta, Unilever; **GOVERNMENT AGENCIES:** Climate Change Institute (Acre), EMBRAPA, Green Counties Program (Pará), Ministry of Finance (National), Secretary of the Environment (Mato Grosso); **FINANCE:** Rabobank, Santander, World Bank; **RESEARCH INSTITUTES & NGOs:** Agro.Icone, Aliança da Terra, Earth Innovation Institute (lead), Forest Trends, IGEAGRO, IPAM, ISA, NWF, Proforest, Solidaridad, TNC, WWF; **SUSTAINABILITY INITIATIVES:** GRSB, GTPS, GTS, IDH, RTRS.

that is called "low-emission rural development". The result is a growing convergence among participants that to achieve large-scale change a jurisdictional or "territorial" approach is needed to complement and connect existing supply chain and policy approaches. It was also agreed that priority criteria for measuring success are: (1) deforestation, (2) labor law infractions, and (3) agricultural productivity, with other important socio-environmental attributes to be added in the near future. This report focuses on progress towards deforestation as the first criterion.

## ONLINE PLATFORM

**The Territorial Performance Monitoring Platform is a web-based mapping tool that uses existing, credible data sources to efficiently monitor sustainability indicators at the territorial scale<sup>4</sup>.**

The Territorial Performance System strategy requires a monitoring platform to: (1) track success toward performance targets established through the multi-sector dialogues and (2) facilitate the delivery of incentives to farmers to transition to low-emission, low-deforestation production systems. A common monitoring platform for government, private sector, and civil society can work to align initiatives and scale-up positive impacts. The Brazilian Amazon Biome and Central Kalimantan, Indonesia are serving as two pilot territories, but the systems can be replicated for any region and adapted to local processes.

<sup>4</sup> A territory is defined as a political geography or jurisdiction, such as a county, state, watershed, indigenous territory or entire nation. We use this term in a general context describing all possibilities of the term, and it is synonymous to jurisdiction.

## ADVANTAGES

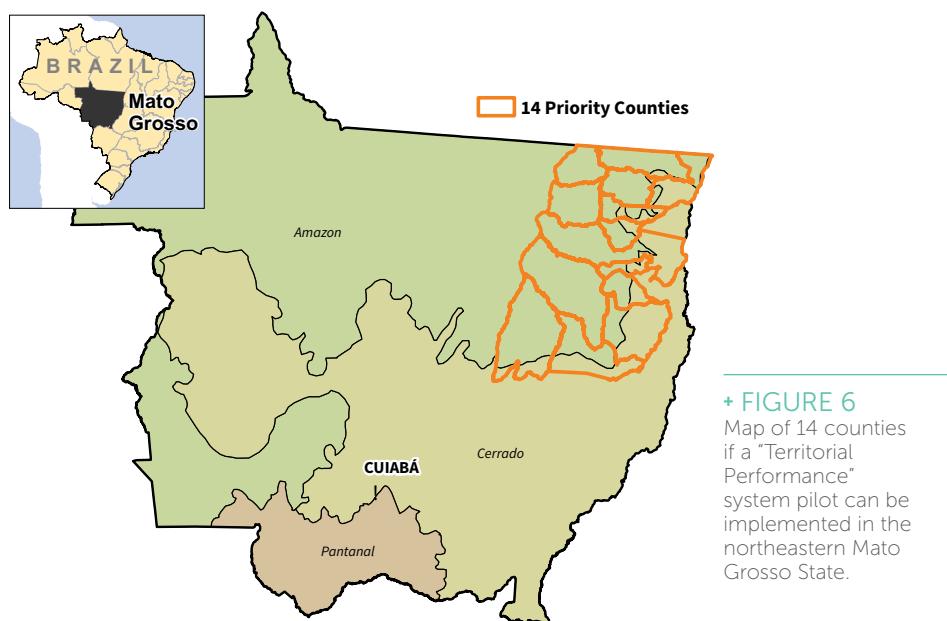
- **SIMPLE:** focuses on a few key indicators, but can grow more complex over time
- **INEXPENSIVE:** builds on existing systems and available data
- **TRANSPARENT & CREDIBLE:** uses reliable data sources that all interested parties can access and understand
- **REGIONAL AND HOMEGROWN:** developed by and for a region; sub-national implementation
- **LARGE-SCALE RESULTS:** measures jurisdiction-wide performance; can be scaled across the hierarchy of jurisdictions (from counties, to states, to nations)
- **STRENGTHEN EXISTING INITIATIVES:** compatible with existing standards, certifications and commitments

## PILOTS

To test and refine the territorial approach, EII and IDH chose 14 municipalities located in the Araguaia Valley, Mato Grosso State (MT). These counties account for 20% of all deforestation in the Amazon biome of MT (PRODES, 2012) and 16% of the deforestation polygons in violation of the Soy Moratorium (ABIOVE 2013).

More specifically, we seek to better understand the current production systems and risks to develop a regional plan for achieving healthy landscapes, productive farms, and equitable development that is lowering deforestation. We will assess:

- **Critical environmental issues,** such as deforestation, fire, water contamination;
- **Possible plans for increasing productivity** while improving social and environmental sustainability;



+ FIGURE 6  
Map of 14 counties if a "Territorial Performance" system pilot can be implemented in the northeastern Mato Grosso State.



- **Violation of the Soy Moratorium** due to soy plantations in areas deforested after 2008;
- **Counties listed in the deforestation Black List**, which are classified as high priority by the Ministry of Environment due to high rates of deforestation in recent years;
- **Occurrence of Labor Law Infractions** due to incidents of forced labor recorded in the "List of Slave Labor" prepared by the Ministry of Labor and Employment;
- **Properties Embargoed by IBAMA:** the numbers of

properties embargoed by the Brazilian Institute of the Environment (IBAMA) due to illegal logging or deforestation.

In addition to identifying patterns and assessing risks, the integrated analysis of these factors will be used as the basis for local multi-sector dialogues. We will facilitate multi-sector dialogues to review these issues and develop strategies for improving the performance of the region with the goal of developing and implementing a regional plan to lower deforestation and promote low emission rural development at the local level.



# AMAZON DEFORESTATION AGREEMENT

## FREQUENTLY ASKED QUESTIONS

### 1 | Why is the deforestation agreement necessary?

There are at least eight processes in the Brazilian Amazon that are designed to conserve forests, each with its own definition of success. This profusion of deforestation processes and metrics is a problem because it fragments the dialogue among governments, private sector and civil society, impeding alignment around shared regional targets. The deforestation agreement is a consensus-based definition of time-bound milestones for slowing deforestation across the entire region that should help to overcome this fragmentation.

### 2 | Is the deforestation agreement an alternative to farm-level certification programs?

No. Farm-level interventions will always be necessary. The deforestation agreement is complementary to these interventions because it will permit a regional solution to an issue that is difficult to address at the level of individual farms.

### 3 | How is the deforestation agreement different from the New Forest Code?

The deforestation agreement is complementary to the New Forest Code, but very different. The deforestation agreement establishes absolute deforestation milestones for the Brazilian Amazon, while still allowing for some deforestation to take place. The New Forest Code establishes the percentage of individual properties that can be legally cleared. Under the New Forest Code, for example, millions of hectares of Amazon forest can be legally cleared. The deforestation agreement and the New Forest Code combined create an important opportunity for the transition to zero net, zero illegal deforestation.

### 4 | How is the deforestation agreement different from Brazil's National Climate Change Policy (NCCP)?

The Brazilian NCCP establishes a deforestation reduction target of 80% below the ten year average (1996-2005) by 2020. The deforestation agreement establishes this same target for the

period ending 2017. After 2017, the deforestation agreement sets a deforestation reduction milestone of 90% below the ten-year average, with the goal of attaining zero net deforestation by 2020. Since the 90% reduction is beyond the legal requirement for the region, it would be applied if adequate incentives were in place.

### 5 | How is the deforestation agreement different than the Soy Moratorium? The Brazilian Cattle Agreement?

The deforestation agreement is complementary to these initiatives. Both the Soy Moratorium (SM) and Cattle Agreement (CA) establish cut-off dates beyond which soy and cattle producers that clear land and plant it with soy or pasture will be excluded from the commodity-buying companies that signed these agreements. The deforestation agreement provides a regional set of time-bound milestones for slowing deforestation that reinforces the farm-level changes supported by the SM and CA.

### 6 | How is "zero net deforestation" defined?

"Zero net deforestation" is defined in the deforestation agreement as deforestation balanced by new forest. More specifically, the area of mature, natural forest that is cleared each year is matched by an equal or larger area of natural forest regeneration or forest restoration established that same year. Natural forest restoration refers to new planted forests, with less than half exotic tree species and with at least [30] tree species that are native to the location. Natural forest regeneration refers to areas where agricultural and livestock activities have ended, natural forest regrowth is taking place, and the area is protected from livestock, fire and agrochemicals.

### 7 | What happens if the entire Brazilian Amazon does not achieve the deforestation reduction milestones?

The deforestation agreement is designed to favor performance at the largest scale. If the entire Brazilian Amazon achieves the deforestation reduction milestones—for example, 80% reduction before the end of 2017, or 90%

reduction beginning in 2018—then the entire region is considered to be on the “pathway to zero net deforestation”, and accepted by all signatories as meriting full access to markets, credit and incentives. If the entire region fails to reach the milestone, then the performance unit becomes the individual state. If a state fails to achieve the milestones, then the performance unit becomes the county (município). If the município fails to achieve the milestones, then deforestation is addressed as it is currently—one farm at a time.

#### **8 | What obligations does a company assume when it signs the deforestation agreement?**

Companies that sign the deforestation agreement are committing to implement the deforestation milestones within their own sourcing policies. It is assumed that companies will continue to invest in their farm- and mill-level sustainability programs, but will adopt the deforestation agreement as the definition of success in slowing deforestation for the entire Brazilian Amazon region. The companies are also agreeing to work together with regional governments and farmers to achieve the milestones.

#### **9 | What obligations does an NGO assume when it signs the deforestation agreement?**

NGOs that sign the agreement are committing to adopt and implement the deforestation milestones within their own programs and campaigns, and contribute to programs to achieve the milestones.

#### **10 | What obligations does a government institution assume when it signs the deforestation agreement?**

Government institutions that sign the agreement are committing to strive to achieve the deforestation milestones within the territories that they influence.



The Territorial Performance System is fruit of the “Forests, Farms and Finance Initiative” (3FI) that is led by the Earth Innovation Institute and includes Amazon Environmental Research Institute (IPAM), Bonsucro, Forest Trends, Global Roundtable for Sustainable Beef (GRSB), Roundtable for Responsible Soy (RTRS),

Roundtable for Sustainable Palm Oil (RSPO), Solidaridad, Unilever, World Wildlife Fund (WWF). IDH has joined the “Multi-Sector Dialogues” as co-convenor in Brazil. Funding for 3FI is provided by the Grantham Foundation, the Linden Conservation Trust, the Norwegian Government (NORAD), and Roger and Vicki Sant.