

Brazil's 'Cereal Pivot' Exposes Cost of Credit For Country's Farmers

Research from credit rating specialist highlights the 'Credit Paradox' facing Brazil's agricultural community

SAO PAULO, BRAZIL, January 9, 2023 /EINPresswire.com/ -- Brazilian farmers are facing credit



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Fakhul Miah, CreDA CEO

terms of up to 50% APR to secure funding for crops and equipment due to banks' current inability to incorporate real-time and complete data on agricultural assets when making credit assessments, according to research collated by Credit Data Alliance ([CreDA](#)), the credit rating specialist.

According to data from Brazil's Instituto de Economia Agrícola (IEA), the cost of credit from the Government's own programmes for the agricultural sector is set to rise by as much as 67.7% compared to last year.

The Programa Nacional de Fortalecimento da Agricultura Familiar (Pronaf) programme, for instance, will increase its credit rates from 3.0% '21/'22 to 5.0% '22/'23, while at the Programa Nacional de Apoio ao Médio Produtor Rural (Pronap) rates will rise 45% from 5.5% '21/'22 to 8.0% '22/'23. These are two of a number of programmes that represent crucial credit lines funded by Brazil's development bank, BNDES. In practice, however, the country's farmers are likely to face interest rates of up to three times this level, according to many market commentators.

Fakhul Miah, Chief Executive, CreDA, explains that the punitive rates facing Brazil's agricultural sector have little to do with the availability of credit, either locally or internationally.

"Brazil continues to be the World's largest soybean producer, for instance, a crop that accounts for about one quarter of the country's Gross Domestic Product (GDP), and is the world's second-largest exporter of sugarcane. So, the issue is not one of available credit for such a historically established, proven sector," he says.

"In practice, credit models currently being applied to the sector fail to consider the current and potential value of agricultural assets, against which farmers are securing their loans. Such assets would include, not only land and equipment, but the quality of the same, the cultivation

practices employed by each farmer, as well as his/her agricultural and commercial track record.”

“Data on all these parameters is available and should – as a question of principle – be considered in the credit rating process. The failure to do so is creating a market distortion; local farmers face disproportionately high credit terms, due – not to an absence of available credit – but to a failure to incorporate all the available data in the credit scoring process. This is the essence of the ‘[credit paradox](#)’ facing Brazil’s farmers: in reality, it’s got nothing to do with available finance, and everything to do with available data,” adds Fakhul.

CreDA is currently working in Brazil to address this credit anomaly through a pilot as part of their Credit4Good programme. Through a series of partnerships CreDA is accessing and analysing geo-tagged aerial land surveys, data on farm size, crop conditions, irrigation, and yield potentials in addition to farmers’ financial information, then modelled with the company’s proprietary credit risk algorithms that assess assets and payment behaviour both in the traditional system and on Blockchain. The latter provides verification and ensures the integrity and transparency of the data, as well as its availability; farmers can effectively consult and manage their credit score in real time. The Blockchain ledger system also enables environmental practices to be tracked in real time and, for instance, farmers following sustainable methods to be incentivised with preferential credit terms.

Vicente da Aceca, a farmer from Assis, Ceará (CE), explains that the current market distortion could have global implications as Brazil adapts its agricultural mix towards the cereal production as a response to the conflict between Russia and the Ukraine.

“Brazil is on track for a record wheat harvest this year, with yields per acre three times higher than in the 1990s; again, crucial information that should be considered when assessing credit. Brazil’s ‘pivot’ towards cereals is a response to the current geopolitical situation, but farmers’ ability to adapt will be directly impacted by the availability of affordable credit. It’s more crucial than ever that credit scoring takes into consideration all parameters available, the absence of which can lead to the type of punitive – and economically inefficient – rates all too prevalent in Brazilian agriculture today,” says Vicente.

About CreDA

CreDA (Credit Data Alliance) is the first trusted credit rating system for the world of Decentralized Finance and the link between on-chain and traditional financial systems. Through the use of AI and blockchain, CreDA is building the trust architecture that underpins Web3, helping minimize risk for existing and emerging platforms and enabling access to capital by reducing the need for crippling amounts of collateral while opening up DeFi to billions of people without access to traditional banking.

About Credit4Good

Credit4Good is a programme led by CreDA and partners that uses the principles of DeFi such as transparency and immutability to provide access to credit for people without credit histories or accurate financial data. It's part of the company's mission to fulfill the original promise of DeFi, shape the world's most powerful and equitable credit ecosystem and give 'credit where credit is due' to nearly 4 billion people who have been victims of the Credit Paradox.

The programme has set out to address three key areas affected by the Credit Paradox: Food Security, the Climate Emergency and Global Inclusion.

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