

When poverty reduction and market access go hand in hand

How Brazilian agricultural policy is promoting family farms

In recent years Brazil has been taking new approaches to agricultural policy: in addition to promoting its economically important and export-oriented agriculture, support is being provided to small and poverty-threatened family farms. Problems in the implementation of the agricultural policy are also being addressed in direct collaboration with industry.

Agriculture in Brazil – for many it is synonymous with large-scale, export-oriented agricultural production. The nation is indeed a giant on the international agriculture markets: Brazil accounts for nearly half of the world's sugar exports, as well as one third of global soybean exports and 25 percent of beef exports.

But this is only one side of the Brazilian agricultural sector. The flip side is the reality of life for the more than four million family farms, which account for some 85 percent of all farms and thus represent the vast majority. This type of agriculture is frequently characterised by insufficient marketing opportunities and lack of access to credit, insurance and agricultural inputs.

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■ Ministry for small farms

The Brazilian government has taken note of this discrepancy. Since the beginning of the new millennium, the government has been working on an agricultural policy that is specifically oriented to the needs of family farms. With the founding of the *Ministry for Agricultural Development* in 2000, family farms had their interests represented

at the top political level for the first time. The interests of the large, highly competitive agribusinesses remained largely unaffected and continue to be represented by the *Ministry of Agriculture*. This division of agricultural policy between two separate ministries is unique to Brazilian politics. It takes account of the fact that the Brazilian agricultural sector is characterised by widely disparate farm sizes.



The election of Luiz Inácio da Silva, or Lula as he is nicknamed, to the presidency in 2003 helped the still young Ministry for Agricultural Development to grow in importance and contributed substantially to increasing its budget.

■ New approaches in Brazilian agricultural policy

The agricultural programmes introduced after Lula's election are clearly geared towards promotion of the agricultural sector, but they also link this with social and regional development. These programmes mainly involve facilitation of credit and reconstruction of a broad-scale extension service for farmers, but also hedging against price and crop risks and promotion of the sale of smallholder produce.

Crop insurance. One of the key innovations was the introduction of the *Garantía Safra* crop insurance in 2002, which is subsidised to a large extent by the state. The insurance benefit encompasses numerous crops that are typi-

Thanks to dedicated extension services, small farmers were able to double their harvest of the drought-tolerant castor plant.

cally grown on family farms and covers risks linked to droughts and floods. The *Garantía Safra* target group consists of the poorest farmers in the nation, who live in the semi-arid northeast of Brazil. The farmers' contributions are very small: one percent of the insurance amount, or a little more than two euros a year at the current rate. An amount corresponding to approximately half of the monthly minimum wage in Brazil is paid out in the event of damages. An index principle is applied in order to keep the costs of damage assessment down: the potential damage is assessed on a random basis in a region rather than individually. The farmers are then compensated independently of the individual crop loss actually suffered. Through the way this scheme operates, the *Garantía Safra* effectively stimulates small farm production.

Public purchasing. The public purchasing programme *Programa de Aquisição de Alimentos* (PAA) was created in 2003. The programme addresses the circumstance that lack of market access for their products creates hardships for a large number of family farms. Family farms are therefore unable to reach their full earning potential. In the scope of four programme lines, farmers are given a purchase guarantee for specific quantities at specific prices. The programmes are structured in such a way that they are accessible even for the smallest farms: because the farmers themselves deliver the products (in other words, product purchasing is decentralised), even small quantities can be sold. The

In 2006, the Brazilian government created a ministry to provide specific support to the country's some four million family farms. For the first time, small farmers' interests are represented at the top political level.



Photo: K. Schütz

purchase & sale programme line is an example: the farmers deliver their products directly to public social institutions such as schools, kindergartens, hospitals, etc. These institutions process the food directly and onsite. This removes the need to comply with specific trade categories or supply certain volumes that would arise when selling to a wholesaler.

Designed along similar lines is the milk programme, in which the state indirectly provides a purchasing guarantee for certain volumes of milk. State-guaranteed contracts between producers and dairies constitute a key element of the programme. The contracts also contain strict quality criteria for the sale of milk that producers must fulfil.

Biodiesel programme. Operating in tandem with the PAA, the biodiesel programme *Programa Nacional de Produção e Uso de Biodiesel* also promotes the generation of income. The background behind this programme is the mandatory blending of biodiesel with conventional fuel that was introduced in 2005. A social seal of approval (*Selo Combustível Social*) was introduced in order to encourage biodiesel producers to purchase a portion of their oil seed from family farms. Biodiesel producers that qualify for this seal are subsidised by the state in two ways: on the one hand through tax breaks and on the other hand through more advantageous marketing opportunities for the fuel that they produce. In return the companies

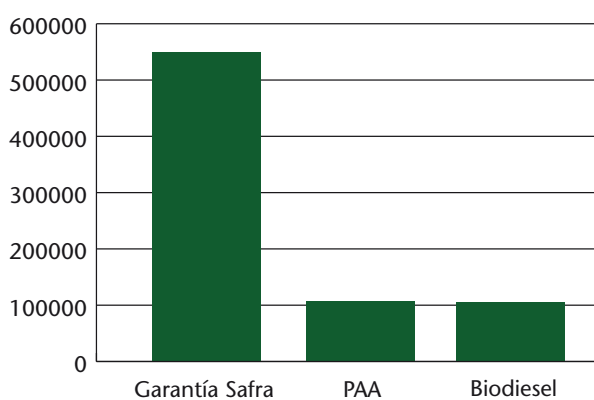


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Creation of public programmes for family farms in Brazil

Programme	Year	Result
School meal programme	2009	Market access
Price guarantee	2006	Insurance
Biodiesel programme	2005	Market access
Public purchasing	2003	Market access
Crop insurance	2002	Insurance

Number of participants 2009/10



undertake to acquire a minimum percentage of their raw materials from family farms. Long-term contracts are concluded with the farms for this purpose. Along with purchasing volumes and prices, the companies also promise to provide fertiliser, seed and production-related technical advice.

Price guarantee. Price fluctuations are typical of agricultural products and pose a major risk to family farms. When they have to service loans as well, family farms quickly find themselves in financial straits. To protect family-run farms from these risks, the price guarantee programme *Programa Garantia de Preços da Agricultura Familiar* was launched in 2006. Under this programme, the farmers' monthly payment obligation to the bank is reduced when the market price of the product for which credit was taken to produce falls below a certain threshold. The state then picks up the payment of the difference between the reduced payment and the interest actually owed.

School meals. The newest initiative of the Brazilian government for promoting family farms is the adaptation of the national school meal programme *Programa Nacional de Alimentação Escolar*, which has operated since 1955. As of 2010, 30 percent of the funds from the national education endowment must now be used to purchase food from family farms. The farms participate in the programme via invitations to tender from local authorities. Funds in the amount of 930 million reais (about 400 million euros) are thus set aside for the purchasing of smallholder produce.

order to suit the special needs of family farms.

■ Increasing market access of family farms together with industry – the example of biodiesel

In the scope of the national biodiesel programme, the Brazilian petroleum company Petrobras has undertaken a commitment to buy at least 30 percent of the required feedstock from family farms. Initially this turned out to be difficult, because the farms had no access to high quality seed and inadequate knowledge of growing oil crops, especially the drought-resistant castor plant. The providers of agricultural extension services were unable to help either: they had neither the necessary expertise nor any experience in dealing with family farms. Up until that point their activities had been focused exclusively on large, ultramodern operations. Even Petrobras was initially ill equipped to provide the contractually-ensured support in growing the castor plant.

In collaboration with German development cooperation organisations, family farms were provided with better counselling and more training in how to grow oil crops. Petrobras contracted private service companies to provide consultancy services to the farms. GIZ and Petrobras jointly gave these companies the technical and didactical training that enabled them to address the specific demands of family farms. Their counselling was not limited to the castor plant, but also included other important local crops such as maize, manioc and beans.

More than 5,500 family farms were reached in the scope of this development partnership. Castor plant yields were doubled. Thanks to improved growing practices, the yields of other crops increased as well, thus providing additional income for the family

■ Extensive participation

Thus far there is no data base for gauging the success or failure of the programmes introduced over the course of the last decade in terms of reducing poverty. However, preliminary estimates as to whether the programmes are addressing the needs of family farms are possible. The number of participating family farms is one indicator.

The most family farms by far participate in the crop insurance programme: in 2009 there were more than 550,000 participants, or more than 25 percent of all those who qualify. The number of participants in all of the other programmes is considerably lower. Nevertheless participation is on the rise in these programmes as well. The programmes less used thus far have only become available for family farms in recent years. A further factor is that their design is more complex in

Both sides benefit from the long-term supply contracts between biodiesel producers and participating families.

farms. This is particularly important during the drought season, in which other crops traditionally produce lower yields. Growing and marketing the drought-resistant castor plant make it possible to buy in food.

The cooperation also increased trust among the contractual partners. From the standpoint of industry, family farms are no longer considered as alms recipients but as potential business partners instead. By the same token, the family farms now see the advantages of cooperating with big businesses. Companies like Petrobras were generally suspected as being exploiters in the past.

■ How innovative is Brazil's agricultural policy?

Purchasing guarantees and minimum prices, assumption of business risks by the taxpayers – many instruments on which the measures of the Brazilian government's new agricultural policy are based are reminiscent of the European agricultural policy of the 1980s. The consequences of that policy included burgeoning environmental impacts, surplus "butter mountains", and runaway costs. Can this be avoided in Brazil? There are some indications in the policy design that it



Photo: K. Schütz

can. For instance, the target group is clearly defined. The new programmes are aimed exclusively at family farms, thus preventing abuses by, for example, larger operations. Since 1996 and again in 2006, the law has clearly defined what a family farm is.

Thanks to a regional concentration of certain programmes, the focus on family farms is further intensified. Farms outside these regions are either excluded from participation or else included under socially and regionally graduated conditions.

Lastly, monetary ceiling limits ensure that the programmes only provide basic levels of insurance: guaranteed price and sales opportunities only apply to a portion of the produce.

Similarly, weather- or price-related risks are only assumed up to a certain point. Hence uncontrollable cost increases are also avoided, along with habituation effects.

The Brazilian government has thus laid the foundation for an innovative agricultural policy: one that enables disadvantaged family farms to participate in the market economy process while simultaneously safeguarding their subsistence. The funding instruments of the Brazilian agricultural policy partially outlined in this article boost small farm production and facilitate the market access that such a boost necessitates. Both are key to the sustained improvement of the livelihoods of rural families – including the poorest ones in northeastern Brazil.

Zusammenfassung

Die brasilianische Agrarpolitik orientierte sich lange Zeit an den Interessen der großflächigen Agrarwirtschaft. Auf politischen Druck und durch den Wahlsieg der brasilianischen Arbeiterpartei rückten im letzten Jahrzehnt die Belange der kleinen, von Armut und Ernährungsunsicherheit bedrohten Familienbetriebe in das politische Rampenlicht. Die Regierung brachte eine Reihe neuer Programme auf den Weg, die in erster Linie die Absicherung existenzieller Risiken und die Integration von Familienbetrieben in den Markt zum Ziel haben. Die Industrie wurde in die Umsetzung der politischen Vorgaben integriert.

Eine klar definierte Zielgruppe, regionale Eingrenzung und finanzielle Höchstgrenzen begrenzen das Risiko unkontrollierter Überproduktion und ausufernder öffentlicher Ausgaben. Damit wurde der Grundstein für eine innovative Agrarpolitik gelegt.

Resumen

Durante mucho tiempo, la política agrícola brasileña se centró en los intereses de la agricultura a gran escala. Debido a la presión política y a la victoria del Partido de los Trabajadores de Brasil en las elecciones, en la última década los problemas de las pequeñas explotaciones agrícolas familiares amenazadas por la pobreza y la pérdida

de la seguridad alimentaria acaparon la atención política. El gobierno ha lanzado una serie de nuevos programas, cuyos objetivos primarios fueron establecer una cobertura contra los riesgos que se ciernen sobre la subsistencia e integrar las explotaciones familiares al mercado. La industria también fue incluida en la implementación de los programas motivados por la política. Un grupo destinatario claramente definido, la delimitación regional y los límites impuestos al financiamiento limitan el riesgo de una producción excedente no controlada y el descontrol del gasto público. De este modo se sentaron las bases para una política agrícola innovadora.