Public policies and the financing of coffee production in Brazil

International Coffee Organization - ICO

London, 21 September 2010

The Coffee Agroindustrial System in Brazil - Overview
‘Cafés do Brasil’

• Number of establishments: 287,000 in 1,850 municipalities;
• 42 cooperatives, of which 30 are solely for coffee (33% of production);
• Roasters: 1,336;
• Soluble coffee industries: 9;
• Brands: 3,000;
• Exporting companies: 220.

Brazilian coffee growing and its social significance in absorbing rural labour
Distribution of Arabica and Robusta coffees in Brazil

Brazil: establishments with more than 50 Arabica and Robusta coffee trees as at 31.12.2006

<table>
<thead>
<tr>
<th>Hectares</th>
<th>Nº of establishments</th>
<th>Area planted (ha)</th>
<th>Production</th>
<th>Prod. Prod.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total (%)</td>
<td>Total (%)</td>
<td>Total (%)</td>
<td>Average (%)</td>
</tr>
<tr>
<td>0 a 10</td>
<td>220 554</td>
<td>751 670</td>
<td>37.13</td>
<td>13,829,304</td>
</tr>
<tr>
<td>10 a 20</td>
<td>18 306</td>
<td>276 099</td>
<td>13.64</td>
<td>5,109,256</td>
</tr>
<tr>
<td>20 a 50</td>
<td>9 813</td>
<td>322 856</td>
<td>15.95</td>
<td>6,793,175</td>
</tr>
<tr>
<td>50 a 100</td>
<td>2 781</td>
<td>206 170</td>
<td>10.19</td>
<td>4,736,613</td>
</tr>
<tr>
<td>&gt; 100</td>
<td>1 656</td>
<td>352 408</td>
<td>17.41</td>
<td>8,877,584</td>
</tr>
<tr>
<td>Undeclared</td>
<td>33 733</td>
<td>114 869</td>
<td>5.68</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>286 843</td>
<td>2 024 172</td>
<td>100.00</td>
<td>39,345,932</td>
</tr>
</tbody>
</table>

Coffee: Changes in volume of Brazilian crop (Conab, 2010)
Brazil: Changes in area planted to coffee
(in million hectares)

Source: Conab, 2009

Coffee: Annual changes in volume of Brazilian exports and export earnings

Source: Mdic, 2009
Rural Credit. Amount of credit granted – in billion US$ (Bacen, 2010)

LEADING BRAZILIAN AGRICULTURAL PRODUCTS
GROSS VALUE OF PRODUCTION
(APRIL 2010 PRICES)

Source: CNA
Share of coffee in Brazilian crop production – 2010
(in thousand tonnes)

- **Wheat**: 5,369
- **Rice**: 11,320
- **Beans**: 3,305
- **Coffee**: 2,793
- **Maize**: 54,797
- **Soybean**: 68,674

Others*: 816

Source: LSPA/IBGE, Sept/2010
Preparation: AGE/MAPA

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Percentage share of coffee in Brazilian crop production - 2010
(in %)

- **Wheat**: 4%
- **Rice**: 8%
- **Beans**: 2%
- **Coffee**: 2%
- **Soybean**: 46%
- **Maize**: 37%

Others*: 1%

Source: LSPA/IBGE, Sept/2010
Preparation: AGE/MAPA
Cafés do Brasil – Sources of production financing

Main CR sources:

**Compulsory resources – RO** – financial institutions must invest 25% of demand deposits in rural credit operations;

**Rural Savings** – 65% of the value of rural savings deposits must be kept in investment by financial institutions;

**Official Credit Operations – OOC** – resources supervised by the MF;

**Free Resources** – owned by the financial institutions, invested at market rates.

**Coffee Economy Defence Fund (Funcafé)**

Financing of coffee growing in Brazil – legal investment possibilities:

- establishment of regulatory stocks;
- coffee growing rationalization and assistance;
- technological research, studies and analyses of Brazilian coffee growing;
- international technical and financial cooperation;
- assimilation of new cultivation and coffee processing techniques in small and medium coffee farms;
- promotion of cooperativism in coffee growing;
- support for development of roasting and grinding and soluble coffee industries;
- promotion and advertising in internal and external markets.
Financing granted to producers and cooperatives by source of funds - 2009

- Treasury resources: 0.55%
- FUNCAFE: 2.23%
- Other sources: 4.37%
- BNDES/FINAME: 7.02%
- Constitutional funds: 7.27%
- Free resources: 4.20%
- Rural savings: 26.05%
- Compulsory funding: 48.30%

Financing granted to producers and cooperatives by source of funds - 2010

- Other sources: 3.75%
- FUNCAFE: 1.74%
- Treasury resources: 0.19%
- BNDES/FINAME: 7.82%
- Constitutional funds: 7.66%
- Free resources: 2.22%
- Rural savings: 25.32%
- Compulsory funding: 51.29%
RURAL CREDIT – Funding arrangements (2009) by crop

- Coffee: 11%
- Sugar cane: 9%
- Beans: 1%
- Oranges: 3%
- Others: 18%
- Maize: 17%
- Maize: 14%
- Soybean: 30%
- Wheat: 5%
- Soybean: 20%
- Cotton: 3%
- Rice: 6%
- Others: 8%
- Coffee: 13%
- Sugar cane: 9%
- Others: 18%
- Maize: 20%
- Maize: 14%
- Soybean: 3%
- Wheat: 15%

Source: BACEN – Preparation: SPA/DEAGRI/CGAE
Coffee Economy Defence Fund (Funcafé)

Funcafé: Lines of credit. Basic conditions

• Budget 2010 – funding lines: US$1.5 billion
• Operational risks for funding institutions
• Financial charges: 6.75% p.a. (not applicable to all sources of rural credit).
  Repayments to funding institutions: 4.5% p.a.
  Repayments to the Fund: 2.25%
• Lines of credit and beneficiaries:
  Costing, harvesting and warehousing - rural producers, producer cooperatives
  Financing for coffee purchasing – FAC - roasters, processors and exporters
Funcafé – annual amount of funding resources passed on to financial agents 2001-2009

Source: MAPA/SPAE/DCAF

Funcafé – financing of coffee crop

Credit line objective:

‘To finance cultivation costs involved in coffee growing, such as fertilizers, crop protection products, labour and operation of machinery.’
**Funcafé – financing costs of coffee harvest**

**Objective:**

'To finance inputs used for harvesting, such as herbicides, cultural practices, transportation to drying patio, drying and labour.'

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**Funcafé – financing warehousing of coffee crop**

**Objective:**

'To provide rural producers and agricultural cooperatives with financial conditions that will enable them to warehouse their coffee during periods of low prices in the internal and external markets.'
Funcafé – Coffee purchasing by the domestic agro-industry – FAC

• Objectives of this line of credit:
  • To finance purchasing of green coffee by roasters, processors and exporters.
  • Prices paid for coffee purchased in these operations, must be equal to or higher than the minimum fixed prices set by the Government.

2010 Crop - Distribution of financial resources in Funcafé credit lines

• Costing: US$182 million
• Harvesting: US$303 million
• Warehousing: US$546 million
• FAC: US$182 million

Total: US$1.2 billion

Resolution CMN nº 3.855/10
National Programme for Strengthening Family Agriculture (PRONAF)

- Resources destined exclusively to individual or collective projects of settled agrarian reform family farmers.

- Gross annual income of family farmers should be up to US$63.4 thousand.

- Financial support for both agricultural/livestock activities and non-agricultural/livestock activities carried out through direct employment of rural producer family labour.

- Non-agricultural and livestock activities envisaged: rural tourism, crafts, family agro-business and services compatible with the nature of rural activities and making the best use of family labour.

**PRONAF – Annual funding amounts - in US$ (1999 - 2008)**

<table>
<thead>
<tr>
<th>Ano</th>
<th>In US$</th>
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<tbody>
<tr>
<td>1999</td>
<td>1,185,917,648</td>
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<tr>
<td>2000</td>
<td>1,184,835,662</td>
</tr>
<tr>
<td>2001</td>
<td>931,447,674</td>
</tr>
<tr>
<td>2002</td>
<td>813,923,648</td>
</tr>
<tr>
<td>2003</td>
<td>1,456,752,632</td>
</tr>
<tr>
<td>2004</td>
<td>2,095,629,014</td>
</tr>
<tr>
<td>2005</td>
<td>3,125,792,191</td>
</tr>
<tr>
<td>2006</td>
<td>3,876,150,395</td>
</tr>
<tr>
<td>2007</td>
<td>4,658,753,086</td>
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<tr>
<td>2008</td>
<td>5,882,430,670</td>
</tr>
</tbody>
</table>

Source: SFA/MDA
Ministry of Agriculture, Livestock and Food Supplies
Production and Agro-energy Secretariat

Gerardo Fontelles – Executive Secretary