EXECUTIVE SUMMARY

PUBLIC FOOD PROCUREMENT FROM SMALLHOLDER FARMERS – THE BRAZILIAN EXPERIENCE

Series “Food and Social Policies”
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In sub-Saharan Africa, over 60 percent of the rural population are subsistence farmers who struggle to improve access to markets. Their income generation is restricted and their resilience to recurring shocks, limited. Policy makers in many African countries have been looking at ways to include smallholder farmers into their agricultural transformation and other national development strategies as a means to achieve Zero Hunger.

In recent years, much investment has gone into providing technical assistance to smallholder farmers and improving their production across the African continent, but access to stable and predictable markets remains a challenge for most of them. Institutional markets and institutional procurement have been increasingly considered as a potential way to facilitate market access while improving local food security and the livelihoods of smallholder farmers. Brazil’s experiences in strengthening smallholder farming present a rich and complex case study.

Food insecurity permeated the entire history of Brazil. Since the colonial period - Brazil was a Portuguese colony from 1500 to 1822 - the population faced difficulties in accessing adequate food, due to insufficient food production or to the social inequality that prevented the entire population from acquiring or producing the food necessary for their living.

Brazil used to be one of the most unequal countries in the world, and one of the most vulnerable in terms of hunger as well. Since 2003, however, the country has become known for its successful initiatives in overcoming poverty and hunger. Two programmes played a key role in this transformation: the National School Feeding Programme (PNAE) and the Food Acquisition Programme (PAA).

The PNAE and PAA combined represent the largest structured demand for family farming in Brazil. “Structured demand” refers to efforts to connect large and predictable demand for food to farmers, which in Brazil happens mainly through public procurement.

By making this connection, the government guarantees to farmers that their produce will be bought, which encourages them to invest and improve their production, and ultimately increases their income. The poverty reduction effect is enhanced by the fact that the food purchased by these programmes is aimed at populations vulnerable to food insecurity, such as children, adolescents, people served by the public school system and social assistance entities.

These programmes, as well as several other successful initiatives, have caught the attention of several countries interested in understanding how Brazil is overcoming hunger and extreme poverty.

The experience of Brazil has been an inspiration for other developing countries committed to building their own policies and programmes. However, studies and analysis on this experience are still scarce.

For this reason, the World Food Programme’s Centre of Excellence against Hunger has partnered with the Bill & Melinda Gates Foundation to study the Brazilian experience in institutional food procurement, focusing on governmental programmes that buy food from smallholder farmers. The research project consists of a series of five studies that address different aspects of institutional purchases from smallholder farmers.

The first volume provides a historical analysis of institutional purchases of food, focusing on the factors that led to the current situation, in which the country gives priority to food procurement from smallholder farmers. The second study analyzes the procurement processes of the different institutional procurement modalities targeting smallholder farmers. The third volume presents the scale of institutional food procurement in Brazil. Two other studies will complete the series. The fourth study will provide a cost analysis of the National School Feeding Programme while the fifth study will be a return on investment analysis of the same programme.

It is expected that these studies will enable governments and other stakeholders interested in designing and implementing similar programmes to clarify the context, the factors that may influence the implementation and the scale such programmes can achieve while being analyzed. In addition, the studies aim to reveal the impact of institutional purchase from smallholder farmers on food and nutrition security. This series of studies is a significant contribution to the knowledge sharing for policy dialogue between countries interested in improving or creating policies and programmes to overcome hunger and poverty.

Introduction

Public Food Procurement from Smallholder Farmers – the Brazilian experience

The information disseminated by this research will help to identify the context, the operation and the potential benefits of creating social programmes and policies related to institutional purchase of family farming products. The factors that may influence the implementation and the scale such programmes can achieve will be analyzed. In addition, the studies aim to reveal the impact of institutional purchase from smallholder farmers on food and nutrition security. This series of studies is a significant contribution to South-South cooperation and knowledge sharing for policy dialogue between countries interested in improving or creating policies and programmes to overcome hunger and poverty.
Brazil has historically struggled to tackle recurrent food supply crises, which began during the country’s colonial period. These food supply problems continued throughout the nineteenth century and remained present throughout the twentieth century. One of the main reasons for these crises was the development model adopted in the country throughout its history, which has always favored the large rural property and commodity crop production aimed at export, rather than food production for the internal market.

During the first period analyzed, between 1889 and 1930, food supply crises were linked to low food production, logistical challenges, distribution constraints, market limitations and rapid urbanization without proper planning. During this period, state intervention was focused on strengthening coffee production, then the main agro-export activity in the country. With the government’s focus on agricultural production for export, initiatives to improve domestic food supply were intermittent and inadequate and, in some cases, aggravated the food supply problem.

The main governmental initiative to defend the interests of farmers was the Taubaté Agreement, which established that the government would buy the coffee production surplus to create buffer stock to control prices. The arrangement imploded finally after the 1929’s financial crises, when coffee prices dropped dramatically. It was the first institutional experience of buying agricultural product in the country.

From 1930 until 1964, Brazil experienced significant change such as intense urbanization and industrialization. This resulted in Brazil focusing exclusively on agricultural exports. With logistic problems, high inflation and a trade deficit, the supply crisis persisted and was aggravated by large-scale rural-urban migration. The outbreak of World War II further exacerbated the situation due to global food supply shortages, especially wheat.

Some initiatives were created to face these difficulties, such as the inception of the minimum price guarantee policy for agricultural products and the early versions of the National School Feeding Programme (PNAE).
Programme. Furthermore, despite having advanced by granting rights to workers, women and the elderly, the government was unable to overcome hunger and food insecurity. After attempts to promote strong social reforms in the country, such as land reform, the democratic government was overthrown by a military coup, in 1964.

The military regime lasted until 1985 and was followed by a gradual democratization process. This was a controversial period, given that on the one hand the State’s role in economy has been widely strengthened and, on the other hand, the economy followed free market approaches. This apparent contradiction becomes visible on the food supply policy. The state played an important role in the institutionalization of actions aimed at agriculture, but focused entirely on urbanization and undermining family farming. As a result, the problems of hunger and malnutrition among poor people worsened.

In 1985, the re-democratization period began. With galloping inflation and only isolated initiatives to fight hunger, the country entered the 1990’s as one of the most unequal in the world coupled with a major intra-political crisis. Social mobilizations shook the country, with intense protests that demanded social participation, accountability, decentralization and state intervention in markets to ensure food and nutrition security, food supply and rural development. These mobilizations placed the issue of food security and nutrition on the public agenda.

During this period, some progress was made in the field of public policies on food security and nutrition: the first experience of the National Council for Food Security and Nutritional (CONSEA), the national discussion forum for food and nutrition security issues, and the creation of the National Programme to Strengthen Family Farming (PRONAF) in 1995, a rural credit programme targeting smallholder farmers. Institutional food procurement was quite limited, and procurement for the National School Feeding Programme was centralized, but inefficient.

In 2009, a legislation review linked PNAE to the strengthening of family agriculture pillar of the Zero Hunger by instituting that at least 30% of the funds transferred by the federal government for school food is earmarked for purchasing from family farmers.

Both PNAE and PAA have strong social participation and oversight as part of their programme design and implementation. They promote the shortening of the local food supply chains by reducing the distance between production and consumption. These short marketing circuits have positive impacts on various aspects creating community-based or local food and nutritional security. Additionally, they break the impersonality of who produced the food and help in the construction of social identity and food culture.

The recent period in Brazil was marked by significant progress in building food and nutrition security with 36 million of people leaving the condition of extreme poverty over the last decade, in both urban and rural areas. Despite the positive results and years of experience in managing large-scale food-based safety nets, the programmes still face challenges in implementation and require a decentralized capacity with good monitoring and social accountability systems.
**Study 2**

**Modalities of Public Food Procurement from Smallholder Farmers in Brazil**

Brazil has some of the largest government-run pro-smallholder procurement programmes in the world. As part of Brazil’s Zero hunger Strategy, the government began purchasing from family farmers in 2003 and continues to expand on policies and programmes that facilitate their access to markets. As such, Brazil has developed modalities, procedures and processes on how to buy from and include smallholder farmers into these institutional markets. The overall purpose of the study is to analyze and document the range of different institutional food procurement modalities and to share the key findings with interested countries and stakeholders who are considering to include similar strategies as part of their Zero Hunger or other national development policies.

This study focuses on the procurement aspects of two large-scale programmes that target smallholder farmers, namely the National School Feeding Programme (PNAE) and the Food Acquisition Programme (PAA). The rationale for these modalities vary. In some cases, they function as social safety nets for both food insecure populations and smallholder farmers alike, and in others, play a role in price regulation and guarantees minimum price for the smallholder farmers. For each purchasing modality, the basic business process, legal and institutional frameworks, regulatory and operational aspects as well as the chain of responsibility within government bodies and other organizations involved in the implementation are presented in detail in the full version of the study.

**Findings**

In 2003, the Federal Government launched its Zero Hunger Strategy and set up actions aimed at promoting food and nutrition security to end hunger in Brazil. Amongst these actions, institutional food procurement from smallholder farmers is a key component, and is common feature in both of the programmes -- the National School Feeding Programme (PNAE) and the Food Acquisition Programme (PAA). The business processes of public food procurement from smallholder farmers within each of the programmes is explained.

**National School Feeding Programme (PNAE)**

PNAE is the largest universal school feeding programme in the world, and the third in number of students fed. In 2003, the programme was included as a key programme of the Zero Hunger Strategy, to ensure food access to approximately 45 million children. Following a number of years of successful PAA implementation, it was further revamped in 2009 to enable market access for smallholder farmers. As such, legislation was passed that fixed 30 percent of federal resources for school food to be dedicated for purchases from accredited smallholder farmers. As PNAE is a decentralized programme, each state and municipality must have a nutritionist, who is technically responsible for the development of the school menus. The school menus must adhere to the national nutrition standards while incorporating local food production, seasonality and food availability. Additionally, the school menus are to be nutritionally well-balanced, offering cooked food and fresh produce as well as avoiding highly processed foods with high sodium, fat and sugar content.

The governments of states and municipalities issue a Public Call, which is a simplified bidding process, geared to facilitate access of smallholder farmers to this institutional food demand. The Public Call contains requirements such as food products, quantities and specifications regarding packing and delivery chronogram of school food.
Once the Public Call has been published, the family farmers present a Sales Proposal, through which the farmer or the farmer’s organization defines products, quantities and delivery period. Once the Sales Proposal is selected, a Contract is signed between the executing entity (Municipal and States’ offices of Education) and the farmer and/or farmer’s organization, outlining the terms and obligations of school food delivery. Products and/or quantities may be changed upon farmers’ request in case of production problems.

Prices are assessed and fixed through market research in, at least, three local or regional markets, giving priority to local farmers’ market. The purchase prices for school food may include, in addition to the costs that family farmers and/or their organization may incur for packaging and transporting the produce to delivery points or schools. Prices for certified organic produce may be increased up to 30 percent of its conventional counterparts for inclusion in the menu.

Quality Controls are carried out at the school level when products, mainly fresh produce, are delivered. A Receipt Note is issued by the receiving entity (school representative), who signs the document along with the farmer. This Receipt Note, together with the Farmer’s Invoice, is delivered to the executing entity to proceed with the Payment.

All this process is supervised by a social accountability body called School Feeding Council, which oversees PNAE’s implementation at the local level. It is composed by seven members, with majority from civil society.

Food Acquisition Programme (PAA)

The Food Acquisition Programme (PAA), launched in 2003, is one of the main food-based safety nets of the Zero Hunger Strategy. It is the original food procurement programme that helped to pave the way for PNAE’s food purchases from smallholder farmers. It is composed by six different modalities, and each one of them purchases food from smallholder farmers for different objectives. PAA is constantly evolving with existing modalities being reviewed and revamped while new modalities are innovated and launched.

The business process in each modalities are explained.

MODALITY "PURCHASE WITH SIMULTANEOUS DONATION"

This modality purchases food from smallholder farmers for consecutive donation to social assistance entities, such as public restaurants, charities, hospitals, among others. The modality is managed by the National Food Supply Company (CONAB) as well as State and Municipalities.

Under CONAB’s operation, the Family farmers’ organizations (cooperatives and associations) submit a Participation Proposal through online platform called PAANet, stating the products and quantities to be delivered to eligible recipient entities. Documents are sent to CONAB, which issues the contract that is signed by CONAB and the farmers’ organization. Prices are set by CONAB through market research at, at least, three wholesale regional markets in the last 12 months. Quality control is done by the recipient entity, which signs a "Receipt and Acceptability Note" together with representative of farmers’ organization. Payment follows by CONAB after receiving quality certificate and farmers’ organization invoice.

Under States’ and Municipalities’ operation, a Participation Proposal is inserted in an online platform called SISPAA by the local government, which is approved by the Ministry of Social Development. A Public Call is issued, stating products and quantities to be purchased. Quality control is done as operated by CONAB. Payment follows directly at farmers’ individual bank account.

MODALITY "Milk PURCHASE"

To stimulate local milk production and promote food and nutrition security, cow and goat milk is purchased from family farmers in the Northeast region—Brazil’s poorest region. This modality is managed by state governments within the region. Milk is donated to communities experiencing food insecurity, and targets lactating women, children from 2 to 7 years old and elderly, who are eligible for up to 7 liters of milk per week. The price paid for the liter of milk is reviewed every semester according to the prices found in the local/ regional market.

MODALITY "STOCK BUILDING"

This modality supports farmers’ organizations in their marketing strategies and allows family farmers to benefit from more favorable prices, which typically are at their lowest point during harvest time. Family farmers’ organizations purchase their members’ production at the harvest time to enable processing and stocking for selling at later date when the prices are higher. Proposals are submitted by Farmers’ organizations to CONAB, who sets the prices to be paid according to its own methodology. Contracts are signed between CONAB and proposing farmer organizations. The resources are paid back by the farmer organizations with an interest rate of 3 percent per year at the end of the contract.

MODALITY "DIRECT PURCHASE"

The government has a minimum purchasing price policy for smallholder farmers’ production (PGPAF), which ensures that for selected crops and processed food a certain minimum price is received. Rice, cashew nuts, Brazil nuts, manioc flour, beans, maize, sorghum, wheat, milk powder, UHT milk and wheat flour are included in this modality. Prices are calculated by CONAB each year. Purchases are carried-out by CONAB at regional purchasing units set up for this purpose. Products need to be cleaned and classified according to official standards, at the farmers’ expense. Payment is issued within 10 days after receipt of invoice by CONAB.

MODALITY "INSTITUTIONAL PURCHASE"

To scale up further institutional purchases from family farmers, this recently adopted modality allows state and municipality governments and other public federal institutions to purchase from family farmers and their organizations. Without additional federal funding, the institutions with regular food demand, such as hospitals, universities and military are able to provide new institutional markets for family farmers through their existing budgets by using PAA’s simplified purchasing process. The modality was launched in 2013. The process starts with a Public Call stating the types and the quantity of food to be purchased, as well as the delivery terms. Prices are set by the Public Institution either through price research at three local markets or PNAE’s prices, where available. Contract is signed between the institution and farmers. Quality control follows as normally conducted by the institution, as well as the Payment.

MODALITY "SEED PURCHASE"

Launched in 2014 and arising out of seed shortage following a drought, this most recent modality facilitates access to a new institutional market for seeds and seedlings that are produced by family farmers for use by other family farmers. Beyond the access to a new market, this modality helps to ensure that seeds are donated to vulnerable family farmers.

CONAB operates the modality, which receives the purchase proposal from representative institutions working with smallholder farmers, stating the beneficiaries, the seed quantities, distribution strategy and justification. The beneficiaries are poor rural families, women farmer, land reform settler, indigenous and maroon communities, and organic producers. No GMO (genetically modified organism) seeds may be purchased. Prices are obtained through local research at, at least, three local or regional markets with similar products, and may be complemented by the logistics costs that the organizations may incur to deliver to beneficiaries. Payment is done by CONAB.
Findings

A majority of people living in rural areas depend on agriculture for their livelihoods. Investing in smallholder production can be a sustainable way to revitalize agricultural production based on local and diverse food systems. Inclusive agricultural growth has the potential to reduce rural poverty, mitigate the effects of volatile global food prices and boost the domestic economy. A central part of Brazil’s experience in promoting inclusive agricultural growth has been institutional public procurement with a focus on smallholder farmers. Small-scale agriculture is the main source of income for most people who live in Brazil’s rural areas. Investing in smallholder farmers is a way to support their agricultural production.

Smallholder Farmer procurement

The Food Acquisition Programme (PAA) and the National School Feeding Programme (PNAE) are the two most important institutional procurement programmes that purchase food from smallholder farmers. They provide the link between supply from the smallholder farmers and predictable demand (schools, social assistance etc.). By providing the farmers with predictable buyers, these programmes help stabilize prices, reduce loss for the farmers, and increase the quality of production and produce. The effect of these programmes can be reduced poverty and increased income.

Study 3
Scale of Public Food Procurement in Brazil

As part of Brazil’s Zero hunger Strategy, the government began purchasing from smallholder farmers in 2003. Since then, it continued to scale up its investment and innovations to facilitate access to institutional market by smallholder farmers, in order to increase food and nutrition security, improve smallholder farmers’ livelihoods and eradicate hunger. This study is intended to take stock and understand further the scale of Brazil’s institutional purchasing by providing an estimate of the total amount of food procured by the government. Like the other studies in this series, it focuses on the National School Feeding Programme (PNAE) and the Food Acquisition Programme (PAA). The two programmes combined represent the largest stable and predictable demand for family farmers in Brazil.

Both programmes are continuing to evolve with new purchasing modalities and legislation. In 2009, PNAE was redesigned to incorporate the supply by smallholder farmers into the programme. Legislation was passed to earmark 30 percent of PNAE’s federal resources to be used to purchase from smallholder farmers. PAA was extended to allow state and municipal governments and other institutions to purchase for their own initiatives and institutional markets from smallholders, using the same simplified procurement processes. Additionally, the study estimates the entire government’s demand for food, by measuring the direct and indirect food acquisition from farmers and the food industry. Jointly, the two sections represent the actual and potential institutional market for smallholder farmers.

Brazil, this term applies to regular government purchase of agricultural products from family farmers in order to support their production. Since 2009, at least 30 percent of the federal transfers for PNAE’s school food is earmarked for food purchases from family farmers. With an annual budget of BRL 3.5 billion (approximately USD 1 billion), at least BRL 1 billion should be spent on school food purchases from local family farmers. The selling cap for each family lies at BRL 20,000/family farmer per year, allowing farmers to make the school food market as one alternative among their marketing options without monopolizing the market in hands of few families.

PAA was created in 2003 to help strengthen the smallholder farming pillar of the Zero Hunger Strategy. From the outset, the main conditions for smallholders to participate were a focus on smallholder farmers and the simplification of procurement processes. The Food Acquisition Programme (PAA) and the National School Feeding Programme (PNAE) are the two most important institutional procurement programmes that purchase food from smallholder farmers. They provide the link between supply from the smallholder farmers and predictable demand (schools, social assistance etc.). By providing the farmers with predictable buyers, these programmes help stabilize prices, reduce loss for the farmers, and increase the quality of production and produce. The effect of these programmes can be reduced poverty and increased income. The Bill & Melinda Gates Foundation coined the term “structured demand”; for
The three studies are the result of a research project on public food procurement from smallholder farmers in Brazil, as part of a partnership between the WFP Centre of Excellence against Hunger and the Bill and Melinda Gates Foundation. The three studies are: 1) “History of Public Food Procurement in Brazil”, conducted by consultants Francisco Menezes, Silvio Porto and Cátia Grisa; 2) “Modalities of Public Food Procurement from Smallholder farmers in Brazil”, conducted by Mauro Lopes and Armando Fornazier (Fundação Getúlio Vargas - FGV); and 3) “Scale of Public Food Procurement in Brazil”, conducted by Rovane Battaglin Schwengber, Eduardo Pontual Ribeiro, Fabio Veras Soares and Rodrigo Octávio Orair (International Policy Centre for Inclusive Growth - IPC-IG). The studies benefitted from the comments of a Steering Committee, composed by: Clare Mbizule (WFP), Ivan Cossio (IFAD), Maximo Torero (IFPRI), Denise Kroeff, Janaina Rosa, Hétel Leepkaln dos Santos (Brazilian Ministry of Social Development and Fight against Hunger - MDS), Gustavo Viegas, Marco Antonio Pinto (National Food Supply Company - CONAB) and Maria Sinedes Neres dos Santos (National Fund for the Development of Education - FNDE).

This report is based on research funded by the Bill & Melinda Gates Foundation. The findings and conclusions contained within are those of the authors and do not necessarily reflect positions or policies of the funders.