Public policies and the financing of coffee production in Brazil

International Coffee Organization - ICO

London, 21 September 2010

Ministério da Agricultura, Pecuária e Abastecimento

The Coffee Agroindustrial System in Brazil - Overview

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'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.**

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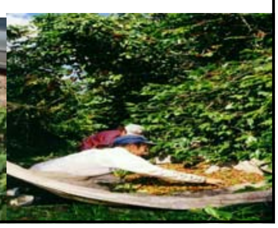
Brazilian coffee growing and its social significance in absorbing rural labour

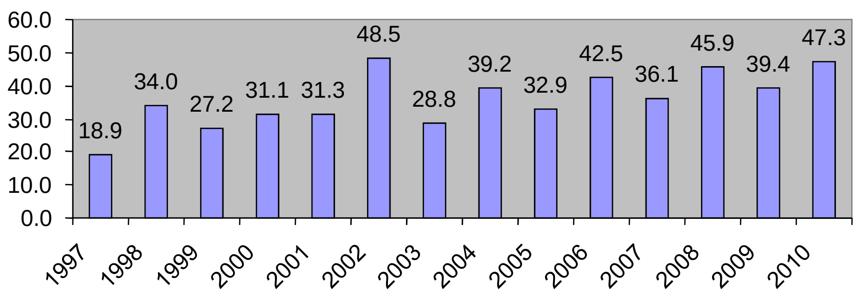


Distribution of Arabica and Robusta coffees in Brazil

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

Hectares	Nº of establishments		Area planted (ha)		Production		Prod.
	Total	(%)	Total	(%)	Total	(%)	Average
0 a 10	220 554	76.89	751 670	37.13	13,829,304	35.15	18.40
10 a 20	18 306	6.38	276 099	13.64	5,109,256	12.99	18.51
20 a 50	9 813	3.42	322 856	15.95	6,793,175	17.27	21.04
50 a 100	2 781	0.97	206 170	10.19	4,736,613	12.04	22.97
> 100	1 656	0.58	352 408	17.41	8,877,584	22.56	25.19
Undeclared	33 733	11.76	114 969	5.68	0	0.00	
Total	286 843	100.00	2 024 172	100.00	39,345,932	100.00	

Coffee: Changes in volume of Brazilian crop (Conab, 2010)



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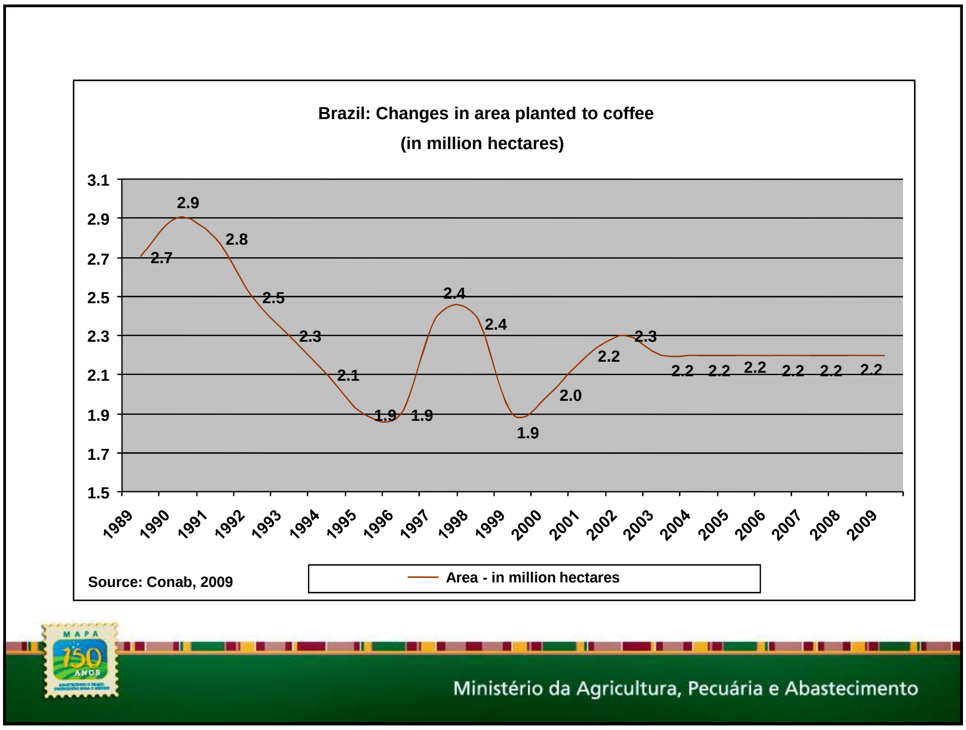
Brazil: Changes in area planted to coffee
(in million hectares)
3.1
2.9
2.7
2.5
2.3
2.1
1.9
1.7
1.5
2.9
2.7
2.8
2.5
2.3
2.1
1.9
1.9
2.4
2.4
1.9
2.0
2.2
2.3
2.2 2.2 2.2 2.2 2.2 2.2
1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009
Source: Conab, 2009
Area - in million hectares
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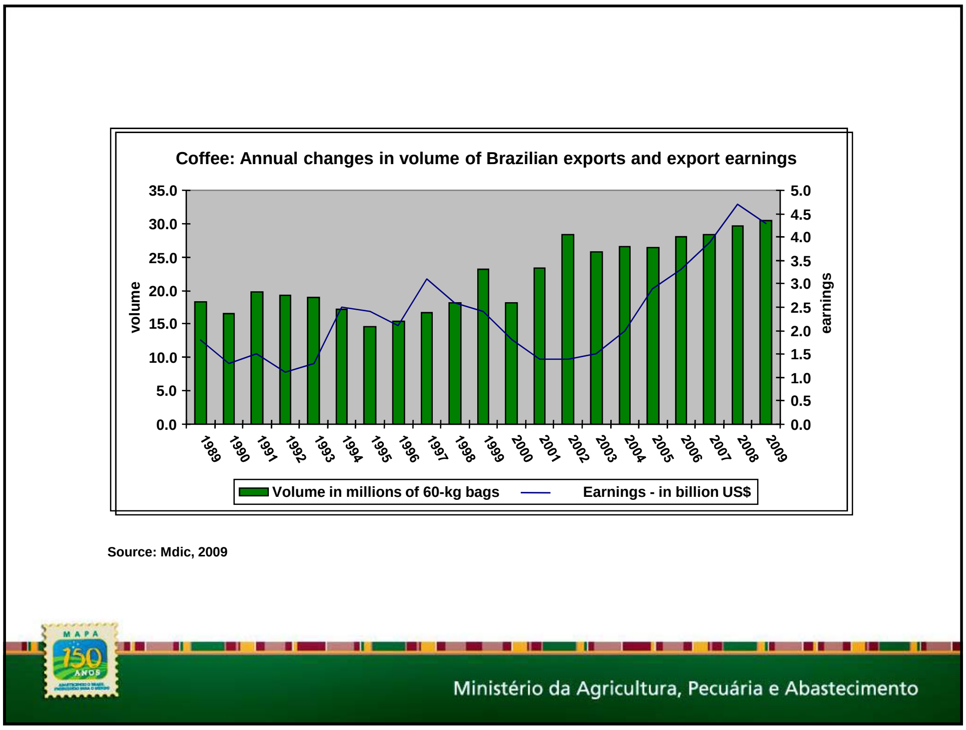
Coffee: Annual changes in volume of Brazilian exports and export earnings
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
volume
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
earnings
1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009
Volume in millions of 60-kg bags
Earnings - in billion US$
Source: Mdic, 2009
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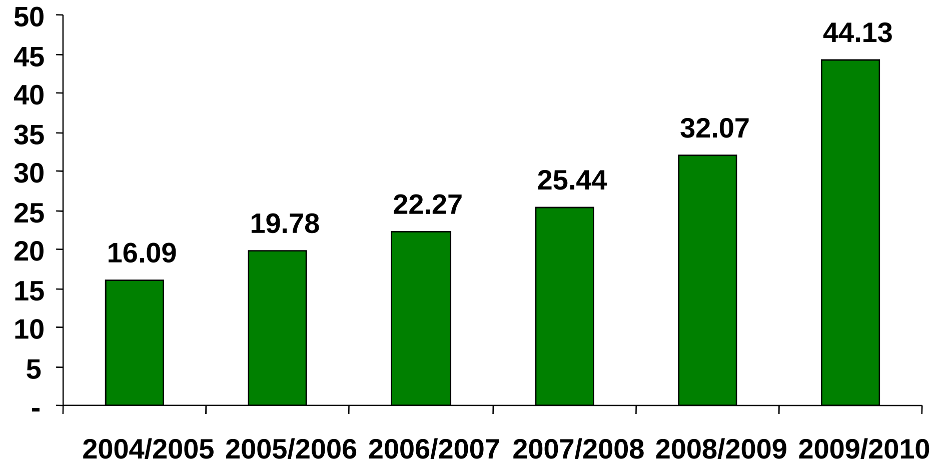
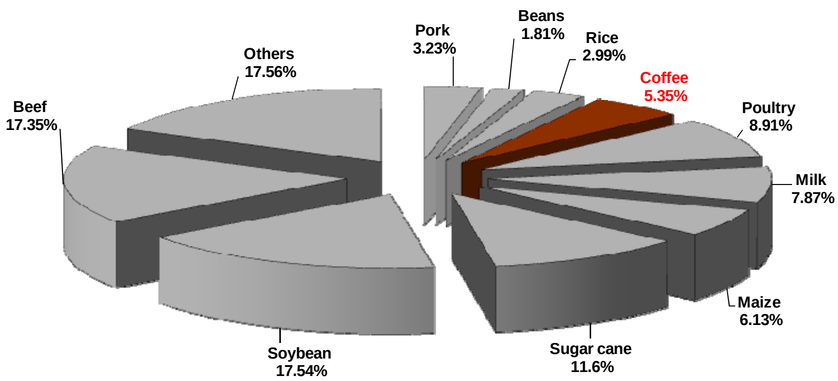
Rural Credit. Amount of credit granted – in billion US$ (Bacen, 2010)



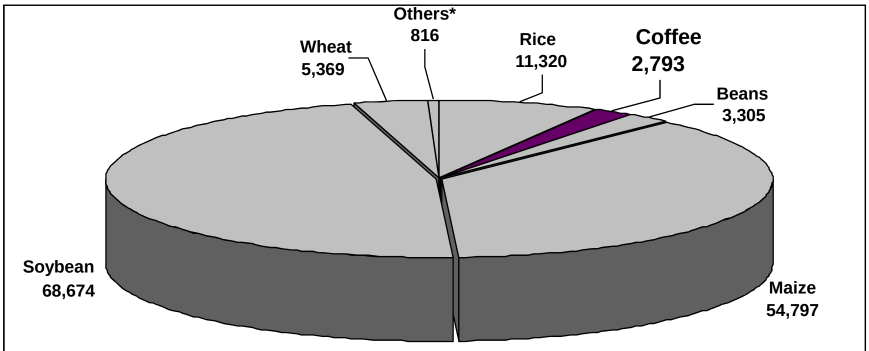
LEADING BRAZILIAN AGRICULTURAL PRODUCTS GROSS VALUE OF PRODUCTION

(APRIL 2010 PRICES)



Source: CNA

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



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

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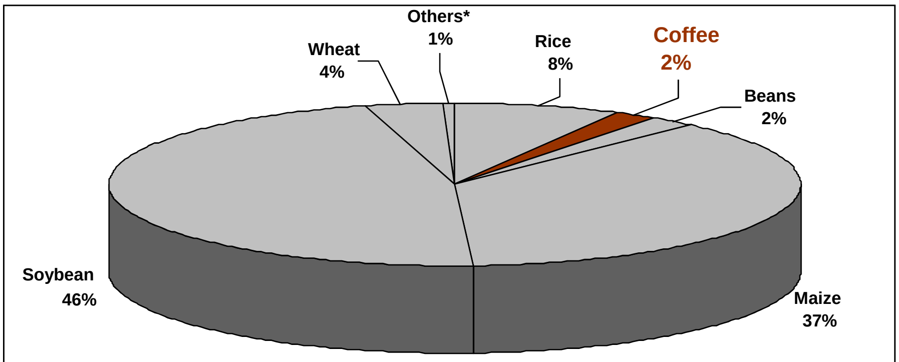
Percentage share of coffee in Brazilian crop production - 2010
(in %)



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

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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;

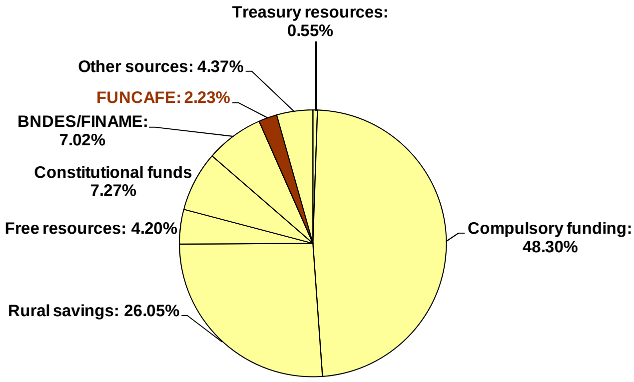
Official Credit Operations – OOC – resources supervised by the MF;
Free Resources – owned by the financial institutions, invested at market rates.

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



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Financing granted to producers and cooperatives
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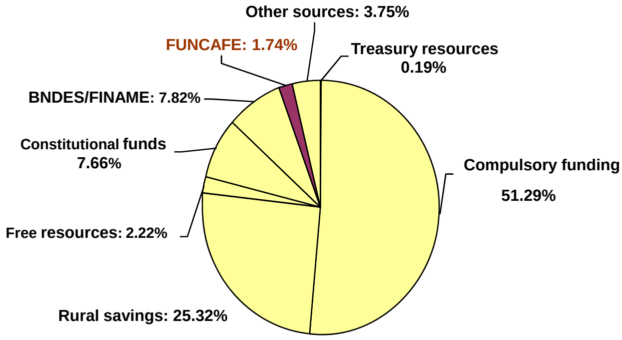

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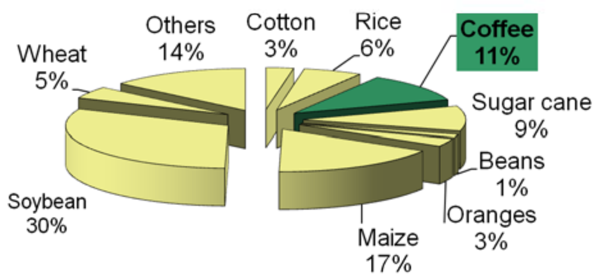
RURAL CREDIT – Funding arrangements (2009)
by crop



Source: BACEN – Preparation: SPA/DEAGRI/CGAE

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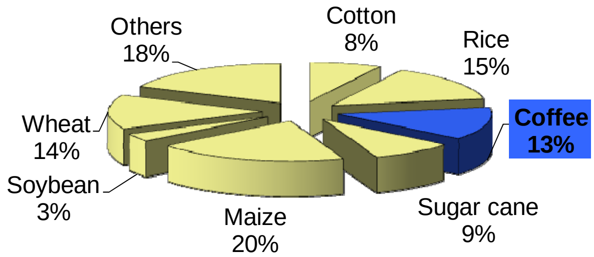
RURAL CREDIT – Marketing arrangements (2009)
by crop



Source: BACEN – Preparation: SPA/DEAGRI/CGAE

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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

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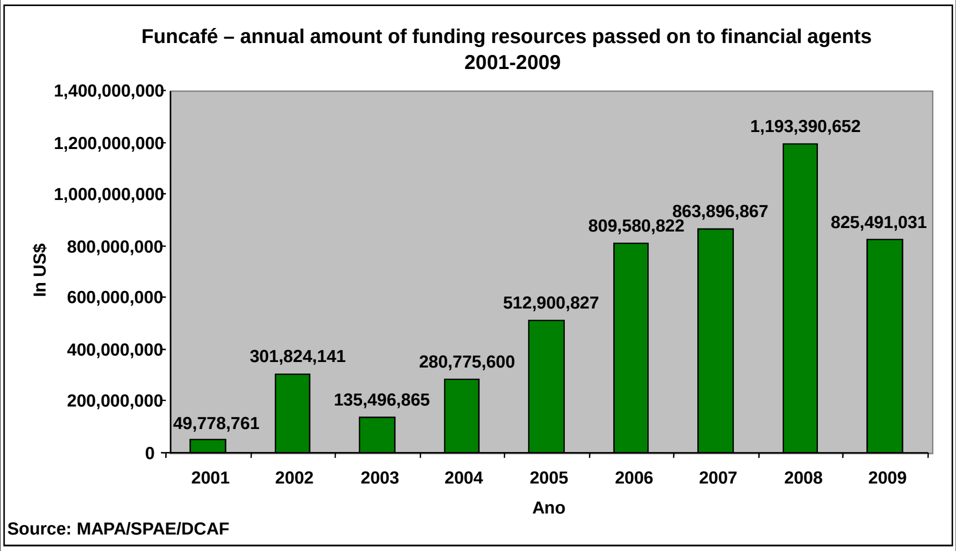

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<u>Funcafé – financing of coffee crop</u>

<u>Credit line objective:</u>

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

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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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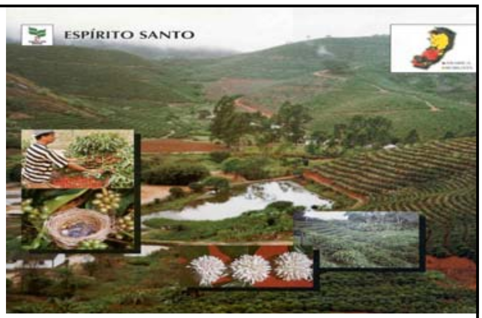
Funcafé – financing warehousing of coffee crop



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.’

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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.

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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

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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.

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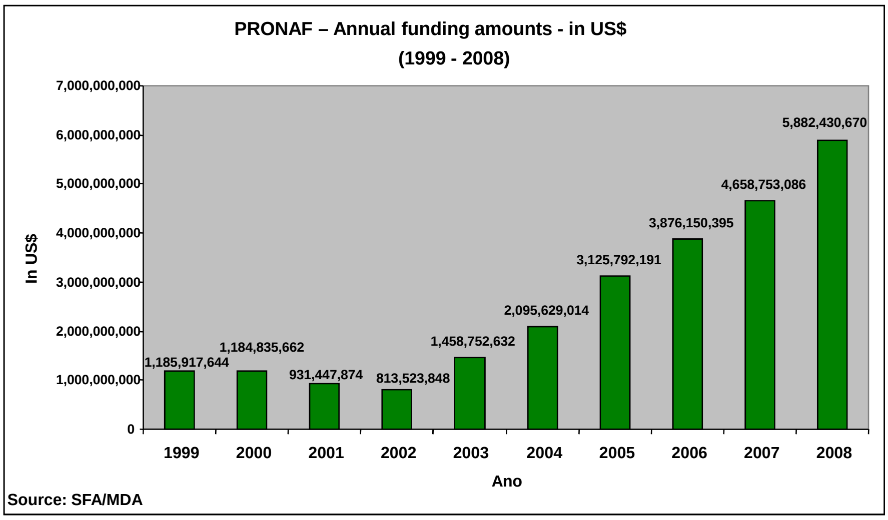

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Ministry of Agriculture, Livestock and Food Supplies
Production and Agro-energy Secretariat

Gerardo Fontelles – Executive Secretary

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