

# Scale of Public Procurement of Food and its Implications for Promoting Inclusive Agricultural Growth

by Rovane Battaglin Schwengber,<sup>1</sup> Eduardo Pontual Ribeiro,<sup>2</sup> Fábio Veras Soares,<sup>1</sup> and Rodrigo Octávio Orair<sup>3</sup>

**Despite the drastic reduction of poverty in Brazil**, its incidence and severity is still greater for families living in rural areas, even more so when the head of the household works in agricultural activities.<sup>4</sup> Family farming encompasses 84 per cent of rural establishments in the country yet represents only 24 per cent of total agricultural land. In 2013, for instance, 9 per cent of the people living in rural areas were extremely poor, in contrast to 4 per cent for the entire population. Where the head of the household was considered to work primarily in agriculture, this percentage increased to 11 per cent (Schwengber et al. 2015). Structured demand policies use government resources as a tool to provide a stable market and price benchmarks for family farmer production.

The International Policy Centre for Inclusive Growth estimated the scale of government-based structured demand for food in Brazil as a whole, including all levels of the government. It also measured the federal government's food purchases exclusively from family farmers through the Food Acquisition Programme (PAA) and the National School Feeding Programme (PNAE), which are the most important food procurement programmes, with earmarked funds targeting family farmers and their organisations.

The scale of institutional public procurement (IPP) was established using data from the National Accounts of the Brazilian Institute of Geography and Statistics (IBGE) from 2003 to 2009. Figures were then extrapolated to generate estimates for the 2010–2013 period. Total direct and indirect domestic IPP purchases from all agricultural producers were estimated at over BRL6 billion in 2013. Total domestic IPP purchases from the food industry were estimated at about BRL12.5 billion in 2013. This amounted to 1.37 per cent of total agricultural output and 1.49 per cent of the food industry's total output.

## The role of indirect purchases

The government buys semi-processed and processed agricultural products, classified as food industry outputs; these require agricultural-sector production and inputs. The study estimated the amount of institutional procurement resources that revert to agriculture, using constant input requirements for food industry outputs. For each BRL1 million spent in food purchases, the demand for agricultural inputs is around BRL400,000 to BRL500,000. This figure varies over time due to changes in demand profiles and technological changes. While direct food purchases from agriculture represent around a sixth of the total of direct purchases from the food industry (BRL970 million), total direct and indirect purchases

reach BRL6 billion, highlighting the role of processed food in the government procurement process.

Structured demand is meant to connect small farmers to large, predictable sources of demand for their agricultural products, which reduces production risks, allows producers to improve the quality of their products, and leads to positive impacts on agricultural income and poverty reduction. Government purchases represent less than 2 per cent of the total domestic agricultural output. However, the two key institutional procurement programmes in the country—the PAA and PNAE—are responsible for the direct purchase from family farmers (or their organisations) of around BRL1 billion yearly for the period 2011–2013, according to programme records. There are mechanisms in place to boost resources for government purchases, though performance improvements are necessary to widen the market access of family farmers to structured demand. The coverage of family farmers by both programmes can be perceived as modest in comparison to the size of the targeted group. Increasing coverage may require setting up a two-tiered system integrating smallholders into markets: one for established farmers who can provide a steady supply of products, and one for subsistence farmers who still need to create surplus.

The impact of structured demand on farmers goes beyond direct purchases of produce. In fact, in Brazil a much greater impact of government procurement on agriculture is indirect, through demand for processed food. This indirect effect could be larger if farmers—through cooperatives—participated in basic food processing, such as rice peeling, bean extraction and packing. An important issue raised by the study is the capacity of small farmers to reach the food industry; this could be very important to generate sustainable income. On the other hand, if only large and medium farmers supply the food industry, a very significant opportunity for structured demand to reach small farmers is being missed. The potential for income generation from structured demand can be significant for small-scale agricultural producers.

## Reference:

Schwengber, Rovane et al. 2015. *Scale of Institutional Food Procurement in Brazil*. IPC-IG Working Paper No. 134. Brasília: International Policy Centre for Inclusive Growth and Centre of Excellence against Hunger of the World Food Programme.

## Notes:

1. International Policy Centre for Inclusive Growth (IPC-IG).
2. Institute of Economics, Federal University of Rio de Janeiro (IE-UFRJ).
3. Institute for Applied Economic Research (Ipea).
4. 'Rural population' refers to households in rural areas according to the Brazilian National Household Survey. Poor households (with an income of below BRL140 per capita) and extremely poor households (with an income of below BRL70 per capita) are defined by the administrative poverty line and used as eligibility criteria for the *Bolsa Família* programme.