



# External finance for rural development

## Country case study: Brazil

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December 2020

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### Key messages

- Brazil's agriculture sector is divided into agribusiness, which drives the economy, and family farming, which plays a key role in fighting poverty. Rural development has, however, been losing its importance for the country, although it is still a priority for several states, particularly in the North and Northeast regions.
- Brazil has high levels of debt and limits its external borrowing to priority sectors. While rural development might be a priority for several states, their debt risk and fiscal profile hampers access to external funding.
- There are mixed views on the role of external development assistance for agriculture and rural development and it is unclear whether the Government's demand for such assistance will increase in the future.
- Technical assistance is cited as a valued aspect of external development assistance. Long-term financing, flexibility, project sustainability and strong alignment to national priorities are the most desirable attributes of external development assistance for the Government, together with a preference for sub-national projects within Brazil.

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## Introduction

### Background

Rural development worldwide relies heavily on private funding. Yet the public sector has a key role to play in providing both investment and policy support to tackle persistent market failures. These include the under-provision of public goods (such as infrastructure, and research and development), negative externalities (such as the need to adapt to and mitigate the effects of climate change), informational asymmetries (e.g. the development of rural financial services) and the lack of protection for vulnerable people through, for example, social protection.

Far more finance is needed to achieve food security and promote sustainable agriculture in line with Sustainable Development Goal (SDG) 2. The United Nations (n.d.) estimates that an additional \$267 billion per year is needed to achieve every SDG 2 target: almost twice as much as total official development assistance (ODA) each year from all donors combined. Official development finance (ODF)<sup>1</sup> to agriculture and rural development rose slightly from \$10.2 billion in 2015 to \$10.9 billion in 2018. This is only a fraction of the total ODF disbursements of \$254 billion in 2018. Public expenditure on agriculture development also remains low: since 2001, governments have spent, on average, less than 2% of their central budgets on agriculture (FAO, 2019).

### Objectives, definitions and methodology of this country case study

This country case study summarises key findings from a country analysis of financing for rural development in Brazil. It is one of 20 analyses that is synthesised for comparison in Prizzon et al. (2020).

The case study has two main objectives:

- to map demand from the Government of Brazil over the next five to 10 years for external development assistance to support public investment in inclusive and sustainable rural development
- to analyse the financial and non-financial terms and conditions of such demand, its main preferences and the type of instruments that the government wishes to access or scale-up to support public investment in rural development.

### Definitions

**What we mean by public investment in inclusive and sustainable rural development** (see Prizzon et al., 2020, for more details). Our research has focused on six areas that contribute to such investment: access to agricultural technologies (research and development) and production services; agricultural value chain development (e.g. crops, livestock, fisheries); climate-resilient agricultural practices; rural basic infrastructure (e.g. water and irrigation systems, local roads, local energy generation and storage facilities); rural financial services; and rural investment environment (e.g. policy, legal and regulatory frameworks).

**What we mean by external assistance for inclusive and sustainable rural development.** We look beyond ODA to include government-to-government funds from bilateral and multilateral donors that do not meet concessionality criteria<sup>2</sup> (usually defined as other official flows, or OOFs). We call this official development finance (ODF). As a proxy for financing rural development, we examine data on external assistance to the agriculture sector and rural development (cross-cutting) based on an Organisation for Economic Co-operation and Development (OECD) definition. This is not a perfect measure,

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1 The sum of ODA and other OOFs: the latter flows from bilateral and multilateral donors that do not meet the concessionality criterion for ODA eligibility.

2 The definition of concessionality is based on the share of the grant element. With the 2014 OECD reform, the grant element varies according to the income per capita of the ODA eligible country to be counted as ODA: at least 45% for low-income countries (LICs), 15% for lower-middle-income countries (LMICs) and 10% for upper-middle-income countries (UMICs). The International Monetary Fund (IMF) discount rate (5%) is also adjusted by income per capita group: 1% for UMICs, 2% for LMICs and 4% for LICs, including least-developed countries (LDCs).

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but given the lack of a sectoral definition or attribution to rural development as such, it is the closest we can get to a consistent, cross-country mapping of external assistance from development partners. As a second-best option, we rely largely on quantitative and qualitative data on agricultural development. While the agriculture sector is a major component of rural development, data on agriculture alone cannot capture important non-farm activities.

### Research questions

This country case study reflects our four main research areas:

- the government's priorities for public investment in inclusive and sustainable rural development
- financing for public investment in inclusive sustainable rural development
- borrowing (external development assistance) for this public investment
- the government's preferences in relation to external development assistance for public investment, including its demand for specific types of instruments.

As this project took place during the early stages of the Covid-19 pandemic, we also reflect the short- and medium-term implications of the crisis for government priorities and preferences for public investment as well as the amount and type of external assistance demanded.

### Methodology

We used a qualitative case study approach, with the analysis of individual countries informed by

a political economy framework as developed by Greenhill et al. (2013) for aid negotiations (see Prizzon et al., 2020).

Our approach comprised a critical review of relevant policy literature<sup>3</sup> and data analysis,<sup>4</sup> which also helped us to identify country stakeholders. This was followed by interviews with key informants, informed by an electronic questionnaire submitted before each interview. For Brazil, we held 18 interviews between May and June 2020 and received 13 questionnaires (see Annex 1 for a list of the interviewees who agreed to their names being shared).

### Country context

Brazil's economic status has seen it fluctuate between lower-middle-income country (LMIC) and upper-middle-income country (UMIC) since 1987.<sup>5</sup> Its status has stabilised and it has been classified as a UMIC since 2006. It is eligible for external support from the International Bank for Reconstruction and Development (IBRD).

Despite Brazil's status as a UMIC and its progress on poverty eradication, more than 18 million people still live below the national poverty line and more than 8 million of these live in extreme poverty. The North and Northeast regions remain the poorest, and account for 5 million of those living in extreme poverty, 46% of them in rural areas. In all, around 19% of Brazil's people live in rural areas (IFAD, 2016).

Brazil has a closed economy: its trade flows – export plus imports – average a minimum of 25% of its gross domestic product (GDP), making it one of the least open G20 economies. The government is, however, working to open the country up to expand trade. Brazil's economic

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3 Including government national and sectoral strategies, in particular, the Pluriannual Plan (2020–2023), the Foreign Finance Commission (COFIEX) of the Ministry of Economy, Ministry for Agriculture, Livestock and Food Supply (MAPA) related documents and data and reports from institutes such as Brazil's Institute for Applied Economic Research (Instituto Pesquisa Econômica Avançada, IPEA) or Centro de Estudos Avançados em Economia Aplicada (CEPEA), Public Financial Management (PFM) acts, debt management reports and policies and aid policies, International Monetary Fund (IMF) Article IV and World Bank diagnostic tools.

4 Spanning IMF, OECD and World Bank sources.

5 Brazil is a federal country with three levels of government: 1) central or Union, 2) state and federal district government, and 3) municipal. Each of the 26 States has significant power under Brazil's Constitution and is headed by a governor, while each of the country's more than 5,500 municipalities is headed by a mayor. Both entities have elected legislative bodies and autonomous administrations that collect their own taxes and receive a share of the taxes collected by the Federal government (Forum Fed, 2020). We use the words *union* or *central government* interchangeably in this case study.

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growth is also one of the lowest among major emerging markets, falling from 7.5% in 2010 to 1.1% in 2018 (World Bank, 2020a). While it has come out of its 2015–2016 recession, Brazil’s recovery since then has been disappointing. Economic growth has, in essence, been led by the service sector and by industry activity (IMF, 2019).

Brazil’s agriculture sector has two main parts: the agribusiness/industry and traditional/family farming. Brazilian agribusiness drives the economy while family farming feeds the country.<sup>6</sup>

The agribusiness industry has grown considerably in the past decade and now accounts for more than \$7 billion in exports (around 46% of total country exports) each year. Agriculture has been one of the few areas of the Brazilian economy to see steady and strong gains in productivity over recent decades, despite the recession that hit the country in 2015. Brazil is currently the world’s largest exporter of coffee, sugar, orange juice and meat (beef and poultry) and the second largest for corn and soya (Filho et al., 2019). In contrast to other sectors, Brazil’s agribusiness has a greater balance of imports between intermediate consumption and final demand. In 2019, agribusiness contributed to 21.4% of Brazilian GDP and employed 33% of the country’s workforce.<sup>7</sup>

Primary traditional farming activities (agriculture plus livestock) represent 4.8% of GDP. The family farming agriculture sector is primarily responsible for the production of food for consumption by the Brazilian population. It consists of small rural producers, traditional peoples and communities, settled by agrarian reformers, foresters, aquaculture

farmers, extractive communities and workers and fishing communities.

Family farming has played a key role in fighting poverty, as seen, in particular, in the production of healthy foods at low prices for Brazil’s people. In a context of increasing and diversifying household demand for food – a shift supported by public policies of income transfer (see next section) and the generation of employment and income – family farming plays a strategic role in controlling prices and in food supply (CNA and CEPEA, 2020). Family farming is, therefore, a vital part of the country’s food production (MAPA, 2020). The 2017 Census of Agriculture (MAPA, 2017), a survey of more than 5 million rural properties across Brazil, points out that 77% of agricultural establishments in the country were classified as family farming.

Family farming carries an important weight within the Brazilian economy, being the basis of the economy for 90% of Brazilian municipalities with up to 20,000 inhabitants. According to the survey, family farming employed more than 10 million people in September 2017, which represents 67% of the total number of people working in agriculture, and it is responsible for the income of 40% of the country’s economically active population. Family farming was also responsible for 23% of the total production value of agricultural establishments.

Despite its clear importance to the economy, employment and poverty reduction, family farming in Brazil remains unassisted. As a result, it suffers from basic problems, such as a lack of investments and technologies (Filho et al., 2019).

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6 Agribusiness refers to the production, processing and distribution of agricultural products (before, in and after the farm gate). Official definitions of family farming (or family agriculture) differ from country to country in Latin America. There are three general categories: subsistence farming, intermediate/transitional family farmers and consolidated farms. In Brazil, the Family Farming Law (Law 11,326) defines family farmers through four criteria related to land tenure, farm size, dependence on farm income, and the use of predominantly family labour. Brazil is one of the few countries in the world to have a legal definition of a ‘family farm’. In line with this, therefore, we use the term *family farming* in this case study (Berdegué and Fuenteabla, 2011).

7 The agribusiness GDP is understood as the sum of four segments: inputs for farming, farming (agriculture and livestock), agroindustry (processing activities) and agro-services. The analysis of agribusiness GDP is obtained by combining these, with the proper weighting. In 2019 the figures were 1.1% for inputs, 4.8% for farming, 6.4% for agroindustry and 9% for agro-services, for a total of 21.4% (CNA and CEPEA, 2020).

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## Government priorities for rural development

Agriculture, livestock and environment are among the main themes of the Brazil Pluriannual Plan (PPA) (2020–2023). The plan, approved in December 2019 by the National Congress, is Brazil's main medium-term strategic plan for the next four years, setting out the government's guidelines, goals and targets (GoB, 2019a). The PPA contains 13 guidelines, including one on agriculture and environment which comes under the Ministry of Agriculture, Livestock and Food Supply and the Ministry of Environment (MMA).

The portfolio of thematic programmes that the MAPA sees as a priority is listed in the PPA (2019) as follows:

- sustainable agriculture
- agriculture and livestock safety and research
- innovations for agriculture
- land management (an addition from the previous PPA (2019–2020) (GoB, 2019a).

Recognising the importance of the family farming sub-sector for the country's internal food market, the PPA (2019) lists policies to promote the development of family farming and cooperatives and the reduction of poverty by improving farmers' income and the viability of the necessary infrastructure to enhance the productivity and quality of life of rural people. The annual Agricultural Plan (Plano Agrícola e Pecuário – PAP) is the main instrument and outlines programmes designed for the sector.

Despite the booming agriculture sector, it faces structural challenges, both economic and social. The following stand out: restructuring the national innovation system; improving the logistics infrastructure (transportation, storage and distribution); improving access to and consolidation of international markets; ensuring the efficient maintenance of agricultural policies and the creation of new instruments; supporting the diversification of wealth in poorer regions; and tackling the challenges posed by

demographic dynamics, including an ageing population in the countryside, and the impact of this on production and on the economy (Filho et al., 2019).

Many of the poverty reduction policies under the Brazil Without Extreme Poverty (Brasil Sem Miséria) scheme relate to rural development.<sup>8</sup> These include the following major initiatives: the Family Allowance Programme (Bolsa Família); the National Programme for the Strengthening of Family Farming (PRONAF), consisting of close to 20 lines of subsidised credit for individual and groups of family farmers; public procurement programmes for the products of family farmers, including the Family Farming Food Procurement Programme (PAA), which purchases food directly from family farmers and donates it to institutions that serve vulnerable populations or uses it to replenish government stocks; and the National School Meals Programme (PNAE), which provides free meals to all public school pupils.

Other important programmes are: agrarian reform; land credit; crop insurance and harvest guarantees; the Family Farming Price Guarantee Programme; and Proagro Plus crop and livestock insurance (IFAD, 2016).

While there are so many programmes related to family farming, the country has a productive approach to poverty reduction. It prioritises policies that target the rural poor in general, rather than targeting more specific groups such as farmers or women.

Despite an agricultural policy that includes several measures dedicated to family farms, family-oriented policies and rural development have not been prioritised enough. While there is a recognition of the importance of the sector for the country, and in particular for its internal food market, family farming lacks investment and technology – a reality that is acknowledged in the PPA (GoB, 2019a).

In addition, public financing for rural development programmes, such as PRONAF and the PAA, has been cut severely in recent years, despite their proven and significant impact on production and value chains (IFAD, 2020).

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8 The Brazil Without Extreme Poverty scheme includes four components: guaranteed income; productive inclusion; access to social services (education, health care and social assistance); and an active search strategy to identify and register extremely poor families.

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However, this was not always the case: according to the literature and interviews, Brazil has seen a marked shift away from family-oriented policies towards agribusiness since 2016. This shift has taken place in parallel with political changes that have included the abolishment of the Ministry of Agrarian Development (MDA). The ministry was made into a special secretariat – the Secretariat for Family Agriculture and Agrarian Development (SEAD) – and was linked to the Civil House Ministry until December 2019, when it became part of MAPA with a special Secretariat for Family Agriculture and Cooperatives.

According to our interviewees, the incorporation of family farming into MAPA represents a shift away from the prioritisation once given to the rural development sector, as MAPA is focused primarily on agribusiness development and market integration. This contrasts with the former MDA's focus on land reform, sustainable development and support for family farming. In addition, MAPA's focus has moved from smallholder farmers to larger producers since 2016.

Rural development is, however, a key priority for some states. In the North and Northeast regions, the poorest in the country, rural development is a key priority for the states. In fact, for the Northeast consortium, rural development is among the top priorities, according to the interviewees.<sup>9</sup>

While our interviewees noted that the Covid-19 crisis has not had a particular impact on the agribusiness sector, there are concerns that the family farming sector might suffer. The agribusiness sector in Brazil is sound and strong and the trade balance did not seem to have been affected during the pandemic at the time of writing this case study. The latest projection by the Institute for Applied Economic Research (Instituto Pesquisa Econômica Avançada, IPEA) (2020) estimates that the agribusiness

contribution to GDP might increase by 2.4% in 2020.

When it comes to rural development, interviewees were particularly worried about the challenges to family farming, given the substantial funding cuts to farmers' support programmes, such as PAA and the PNAE, even before the pandemic. While additional funding had been provided to cover the negative effects of the pandemic, interviewees suspected this would not be enough and that the impact of the pandemic could lead to an increase in rural poverty and a reduction in food production.

## Financing rural development

### Public finance

Brazil has had stable government revenue and expenditure as a share of GDP at an average of 30.7% and 38.7% (respectively) between 2014 and 2019 (World Bank, 2020a). The greatest discrepancy between the two figures was seen in 2015 as the result of a sharp slowdown in economic activity. While the gap has been closing since then, the country's high expenditures still put pressure on public finances. According to the IMF, Brazil should comply with the constitutional expenditure ceiling while reducing recurrent expenditures (IMF, 2019).

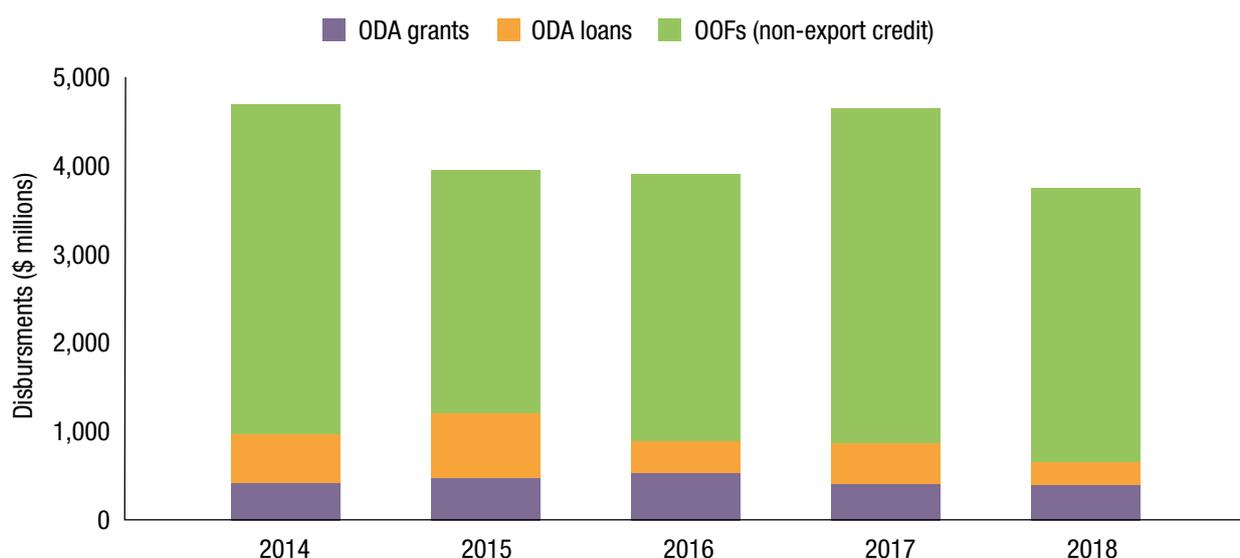
Expenditure on agriculture as a share of total government expenditure has fallen from almost 9% in 2016 to 4% in 2020, or from \$5 billion to \$3.3 billion, respectively (GoB, 2020). One reason mentioned by our interviewees has been the increasing role of the private sector in agribusiness and the expectation that government investment in agriculture will decrease in the coming years as private investment increases.

Public credit lines have been an essential part of financing agriculture in Brazil. Since 2017, MAPA has implemented a government-financed stimulus called 'Plano Safra', which aims to support family farming, medium- and

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<sup>9</sup> The Northeast consortium was created on March 2019 as the union of nine states as part of a partnership between the federative unions on economic, political, infrastructure and social projects.

**Figure 1 Official development finance disbursements to Brazil across sectors**



Note: Constant 2018 prices. ODA, official development assistance; OOF, other official flow.  
Source: OECD (2020)

large-scale farmers.<sup>10</sup> The 2020/2021 budget for ‘Plano Safra’ has increased by 6.1% from the 2019/2020 budget to \$44 billion. But despite such increases, the budget allocated for small and medium-size farmers totals just \$12 billion for PRONAF and for the National Programme for the Strengthening of Medium-Size Farmers (PRONAMP), with \$6 billion for each group. This contrasts with the \$32 billion allocated to large-scale producers, confirming that the government invests far more public funding in industrial agribusiness than in family farming (MAPA, 2020).

### External development assistance

Other official flows account for the majority of external development assistance (Figure 1). Being a UMIC, Brazil has accessed mostly OOFs, corresponding on average to 78% of total ODF between 2014 and 2018. This share has slightly increased since 2016 as a result of a fall in ODA loans and grants, while OOFs have been fairly stable in recent years. The majority of recent OOFs have been allocated in the form

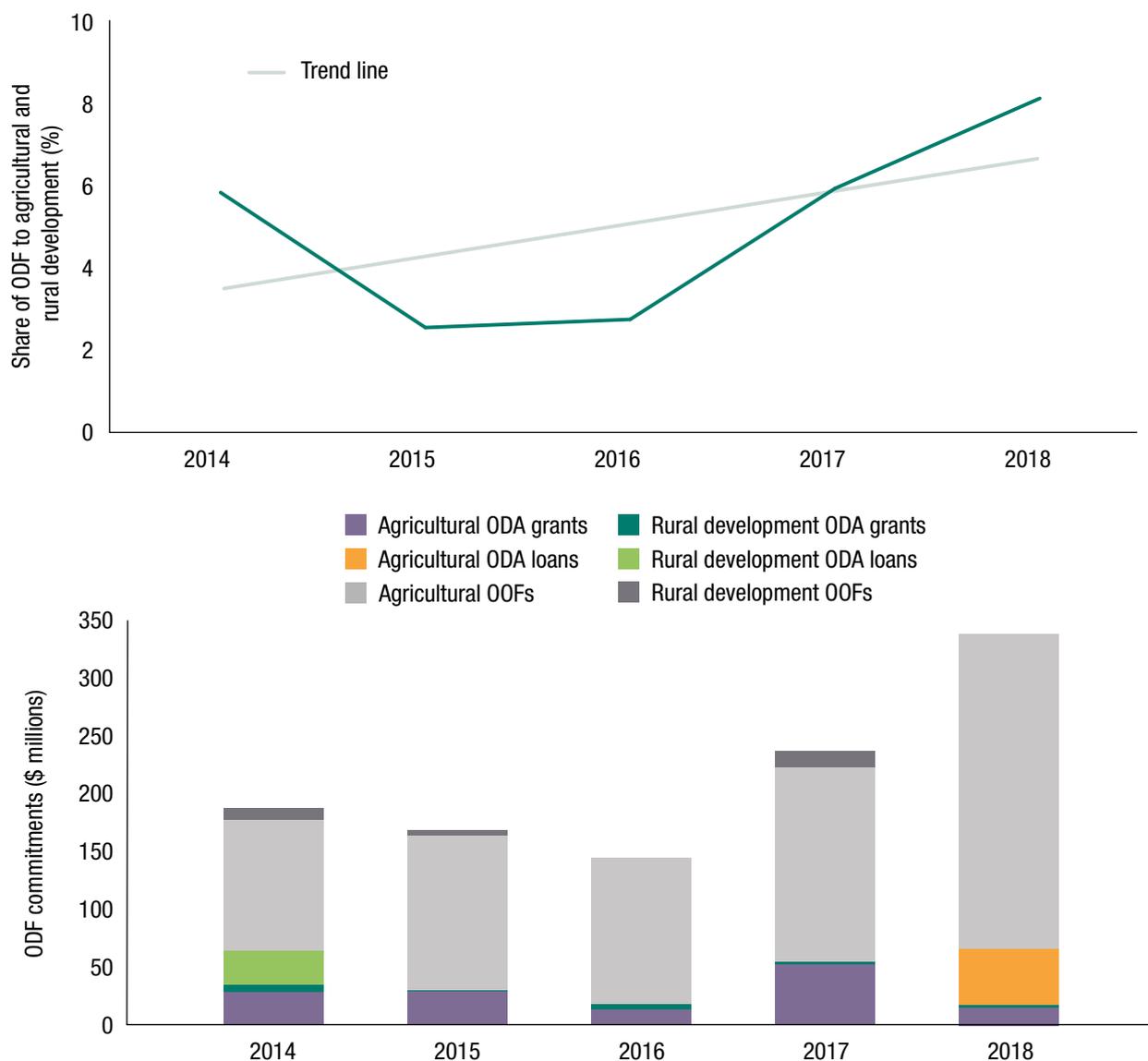
of project-type interventions, while sector budget support accounted for a significant share until 2014 (around 35% of total OOFs). As of 2016, the Inter-American Development Bank (IDB) and the World Bank stopped their funding using this modality. Brazil is not an aid-dependent country: its ODA:GNI ratio stood at just 0.023% in 2018.

ODF to agriculture and rural development has increased on average since 2014, with the bulk of this increase benefitting the agriculture sector (Figure 2). While, as mentioned, Brazil is not dependent on external development assistance, it is worth noting that the share of ODF for agriculture and rural has increased from 2.5% in 2015 to 8.1% in 2018 with contributions from the IDB, the World Bank (IBRD and International Finance Corporation) and the International Fund for Agricultural Development (IFAD). Most of this increase has been channelled to the agriculture sector in the form of OOFs, with rural development receiving very low volumes of ODF and a decreasing share that fell to zero by 2018.

There are mixed views on the expected role for external development assistance in

<sup>10</sup> Being government-financed, or subsidised, means that those who are eligible for loans from the ‘Plano Safra’ can draw on that line of credit at a lower interest rate than they could find elsewhere in the market (through regular commercial banks). The annual interest rates of the ‘Plano Safra’ should range from 3% to 10.5%, depending on the size of the producer.

**Figure 2 Share and composition of official development finance to agriculture and rural development**



Note: ODF, official development finance; ODA, official development assistance; OOFs, other official flows.  
Source: OECD (2020)

funding agriculture and rural development in the future. Interviewees were not clear whether government demand for external development assistance will increase in a country that is prioritising agribusiness (and the growing role of the private sector), has low dependency on external support, has rigid criteria for obtaining external loans and where external development assistance is not additional to the national budget. Their doubts were corroborated by our survey results which were not conclusive on whether respondents think that government demand for external development assistance,

including less concessional loans (or even commercial loans), might increase in the next 5–10 years.

Technical assistance, however, was mentioned as an important aspect of external development assistance. During our interviews, it emerged that both national and state governments, mostly from the Northeast region, place a high value on their long-term relationships with those donors providing specialised technical assistance and innovative knowledge, referred to by one interviewee as ‘out of the box advice to the government’.

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## Borrowing for rural development

### Debt trends and composition

Brazil has rising levels of debt. Between 2014 and 2019, gross government debt (as a percentage of GDP) and total debt service (as a percentage of GNI) have risen from 62% to 92% and from 2.6% to 5.2%, respectively (World Bank, 2020a). According to the International Monetary Fund (IMF, 2019) and pre-Covid-19 pandemic projections, gross public debt is expected to grow even more to reach 96% of GDP by 2024. The International Monetary Fund (IMF) notes, therefore, that ‘fiscal consolidation is highly essential to address Brazil’s legacies of low growth and high public debt’ (IMF, 2019: 2).

The composition of Brazil’s debt is dominated by private creditors (accounting for around 75% of total public and publicly guaranteed debt), distributed equally across bonds, commercial banks and other private lenders. Of the remaining 25% from official creditors, 90% is in the form of non-concessional loans, with 70% of these coming from multilateral organisations and the rest from bilateral donors. While loans from official creditors have remained fairly stable since 2010, averaging \$42 billion between 2010 and 2018, debt from private creditors has soared, nearly tripling from \$56 billion in 2010 to \$142 billion in 2018 (World Bank, 2020b).

### Policies and preferences for borrowing and debt management

Restoring fiscal sustainability is the most pressing economic challenge for Brazil and the government has enacted Constitutional Amendment 95/2016 to address the dynamics of unsustainable debt. This amendment limits the rise of public spending, aiming to stabilise the debt at 81.7% of GDP in 2023, and includes a fiscal adjustment of 4.1% of GDP through 2026 (IMF, 2019).

Sub-national external borrowing dominates, with guarantees provided by the central government (Union). There are two ways to obtain external finance in Brazil: directly through the central government or through the states, municipalities, federal districts and public enterprises. External finance is not additional to the central budget, which means that the federal budget does not grow if the Union acquires more finance. As such, the Union has little interest in accessing additional sources of finance that might substitute for its own resources. This means that most external finance goes to the sub-national levels that have to meet certain criteria (see below) to be able to access finance and get guaranteed by the Union.<sup>11</sup> There is considerable demand from sub-national entities, particularly the states, for external financing, but they face many challenges in trying to access it.

Rural development is not a priority sector for external borrowing for the Union. While there are no restrictions on sector-specific loans, agriculture is not a priority for the Foreign Finance Commission (COFIEIX) of the Ministry of Economy.<sup>12</sup> The COFIEIX system has a 10-point checklist for the evaluation of external projects, with 3 of the 10 points allocated to the priority sectors as defined by the Union (COFIEIX, 2020). At the moment, priority sectors are identified in calls for proposals that are issued three times each year, when the COFIEIX meets.

The most recent government dispatch of May 2019 prioritised water and sanitation and research and innovation, followed by technologies, environmental services, urban and social infrastructure and mobility, energy and transport and logistics (GoB, 2019b). One concern that emerged during our interviews was that such rigid criteria make it very difficult for external financiers working in non-priority sectors, such as rural development, to have their

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11 The National Treasury Committee (STN Guaranteed Committee) was created to establish the criteria for the granting of the Union guarantees.

12 COFIEIX is a collegiate body that is part of the organisational structure of the Ministry of Economy. The Secretariat for International Economic Affairs serves as the Executive Secretariat of the Commission, which is composed of representatives of the Ministries of Economy and Foreign Affairs. Approval at COFIEIX, coordinated by the Secretariat of International Economic Affairs, is the first step in obtaining external funding with the Union guarantee, which is mandatory for all projects (COFIEIX, 2020).

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projects accepted. Asked to prioritise areas for inclusive and sustainable rural development in our survey, respondents highlighted rural basic infrastructure (e.g. water and irrigation systems, local roads, local energy generation and storage facilities) as the main area where the government would be willing to borrow at less concessional terms. This goes in line with the priorities defined in COFIEX and the fact that there is a large funding gap in infrastructure in Brazil, which is being prioritised. Closing this gap would boost productivity.<sup>13</sup>

Sub-national repayment capacity and the level of debt are crucial for determining the external projects that will be guaranteed by the Union. New borrowing is limited to those sub-national governments that have solid public finances as assessed by the Ministry of Finance's debt repayment risk classification, which allocates 'capacity to repay' ratings of A, B, C or D. States and municipalities rated C or D can rarely access funding.<sup>14</sup> Unfortunately, these are usually the poorest states and/or the states that prioritise rural development, leaving this sector underfunded in the provinces with the greatest need for support. As Brazil is not eligible for substantial amounts of external development finance, sub-national governments have to rely for the most part on the internal budget, which is not enough to cover their needs. In addition, the criteria for contracting credit operations are, in general, stricter for states and municipalities than for the Union as a whole.

Taken together, these criteria contribute to significant selectivity among external financiers, sub-national borrowers and sectors. On the one hand, external financiers face too many obstacles to seeing their loans disbursed and allocated to the sectors they want to prioritise. On the other hand, some of our respondents noted that

demand for financing for some sectors, such as rural development, is hardly worth the effort, despite demand from sub-national borrowers for financing. During our interviews, it emerged that the most competitive organisations for a country like Brazil are the international institutions that mobilise higher volumes of resources for priority sectors. Another issue that was raised was that development partners have tried to expand their portfolio to states in response to demand, but have found that the states' limited fiscal space hampers borrowing and funding has had to be cancelled.

In sum, demand for borrowing for rural development from the Government of Brazil is not likely to increase unless it is for infrastructure-related projects to meet the COFIEX priorities of the Union, and until states improve their fiscal positions. While some states want to increase their demand for finance to the sector, their debt risk level compromises their access to external financing. In addition, while the Union might consider borrowing for the infrastructure sector, mobilising private capital through infrastructure concessions (while enhancing public investment efficiency) will remain the preferred option, given Brazil's fiscal consolidation and its structural reforms strategy (IMF, 2019).

In response to the Covid-19 pandemic, COFIEX has issued a provisional dispatch that sets some new criteria for the approval of credit. One critical aspect is the removal of the sectoral priority points for proposals, meaning that projects are, for the time being, evaluated only on the basis of their technical component and the debt risk of the sub-national governments. This situation might benefit the attribution of credit to rural development in the very short term, as this sector is not generally defined as a priority in the COFIEX system.

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13 Public investment has been quite low over the past two decades (less than 2% of GDP compared with 5.4% and 6.2% of GDP in Latin America and other emerging markets) and even more so in the infrastructure sector (22% in 2015 versus 45% in other emerging markets) (IMF, 2019).

14 The 10-point system attributed by COFIEX is divided into five criteria: the first two relate to the fiscal capacity of the sub-national government namely 1) the state capacity to pay (maximum 1 point) and 2) the level and trajectory of debt (maximum of 2 points). These are followed by 3) the technical quality of the proposal (maximum of 3 points), 4) the sectorial priority (maximum 3 points) and 5) contribution to the human development index (maximum 1 point). Some lenders, however, such as the the French Development Agency overcome this hurdle by offering some loans without sovereign guarantees.

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## Preferences and instruments for rural development

Long-term financing, flexibility and project sustainability together with a strong alignment to national priorities, have emerged as the most desirable attributes of external development assistance for Brazil. The main factors that hold back the timely allocation and disbursement of funding are the length of project preparation phases, political changes in the country at the federal and state level that can change key government policies (particularly those directed to rural development) and the deteriorating fiscal capacities of the federal and state governments, as emerged during our interviews.

As such, long-term financing is the number one preference for external development assistance, followed by flexibility and project sustainability. Alignment to national priorities is, as we have seen, a key requirement for acceptance of funding by the Government of Brazil.

Sub-national projects are the preferred modality. This was confirmed by our survey results, with 65% of respondents selecting sub-national projects as a top priority (which is not surprising given the federal system of the country).<sup>15</sup> This was followed by results-based lending and project preparation facilities.

In addition, our interviews revealed that some development partners have now a strategy of working with multi-phase projects in which they partner with a government bank, such as the National Bank for Economic and Social Development (BNDES) that, after adding some finance, would lend to the state. While the states also need to meet fiscal capacity requirements for contracting with BNDES, the main difference to direct external financing is that credit from BNDES does not need Congress/Senate approval as it is national funding. This mechanism of partnership with a government bank has been shown to facilitate transactions to the states with external resources. One advantage is that this

fast-tracks the approval of operations and might pave the way for greater support for states' rural development policies.

## Conclusions

Our analysis of the experience and perspective of the Government of Brazil on financing public investment for inclusive and sustainable rural development, and particularly its demand for external assistance, is summarised as follows.

- Brazil's agriculture sector is divided into two: agribusiness and family farming. While agribusiness drives the economy, family farming feeds the country and plays a key role in fighting poverty. Rural development has been, however, losing its importance for the country, although it is still a priority for several states, particularly in the North and Northeast regions.
- Brazil has high levels of debt and limits its external borrowing to priority sectors. While rural development might be a priority for several states, their debt risk and fiscal profile hampers their access to external funding.
- There are, therefore, mixed views on the future role of external development assistance in funding the agriculture and rural development sector. Given Brazil's low dependency on external support and its rigid criterion for obtaining external finance, it is not clear whether the government's demand for such support will increase in the future, independently of the level of concessionality.
- Our interviewees mentioned technical assistance as one of the most valued aspects of external development assistance. They also list the most desirable attributes of such assistance for the government of Brazil as being long-term, flexible, sustainable and strongly aligned to national priorities, together with a preference for initiatives at the sub-national level.

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15 Given the federal structure of the country, 'regional projects' were mostly understood by our interviewees as being 'sub-national/state projects' within Brazil. However, some interviewees also mentioned regional geographic projects (spanning Latin America and the Caribbean, for example) as an added-value modality for Brazil.

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## Annex 1 List of interviewees

Name	Institution
Maristela Baioni	United Nations Development Programme (UNDP)
Marcos Cavalcante	National Bank for Economic and Social Development (BNDES)
Patricia Dias	BNDES
Marcello Duailibe	State Secretariat of Planning and Budget of Maranhão
Maria de Fatima Amazonas	World Bank <sup>i</sup>
Julio Guiomar	BNDES
Vivian Machado	BNDES
Claus Reiner	International Fund for Agricultural Development (IFAD)
Eduardo Rolim	Ministry of Economy – SAIN
Martin Schroeder	Germany Banking Group KfW
Francisco Souza	Ministry of Agriculture, Livestock and Supply
Juliana Torres da Paz	National Treasury Secretariat – SUDIP
Florian Vigroux	Agence Française de Développement (AFD)
Raquel Zanon	BNDES

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<sup>i</sup> The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of the World Bank, its Board of Executive Directors, or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of the World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

# Acknowledgements

This country case study on Brazil is part of a project that aims to map future demand from recipient country governments for external development assistance from official donors to support public investment in inclusive, sustainable rural development over the next five to 10 years. It also aims to explore the financial and non-financial terms and conditions of this assistance. Its analysis is included in the synthesis report for this project (Prizzon et al., 2020) reviewing the experiences of 20 low- and middle-income countries.

We are grateful to the interviewees who gave up their time to take part in this project, share their insights and provide feedback, particularly during the challenging times of spring 2020. Their contributions were vital to corroborate and challenge our initial analysis.

We acknowledge the generous financial contribution from the International Fund for Agricultural Development (IFAD). We would like to thank Claus Reiner (IFAD Country Director for Brazil) and Gleice Meneses (IFAD Country Program Assistant) for their support in the preparation of this country case study and their in-country support during the interviews stage.

We have taken care to validate the information presented in this country case study and any omissions, errors or misreporting are unintentional and the author's own. The views expressed do not represent those of ODI or IFAD.

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