



University of Hohenheim

**Institute for Agricultural Economics and Social Sciences in the Tropics
and Subtropics**

Rural Development Theory and Policy (490a)

The unequal allocation of PRONAF resources: Which factors are determining the program's intensity across Brazil?

Master Thesis

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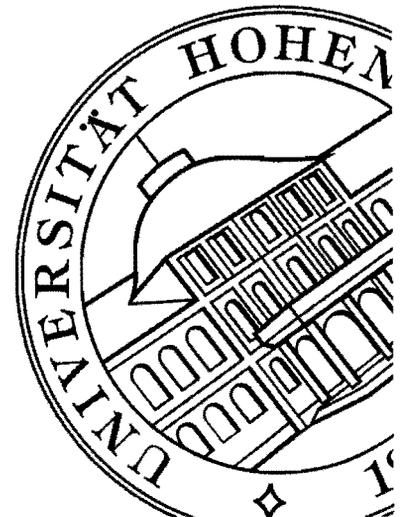
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Abstract

Brazil is an important country in the agriculture sector. The big sugarcane and soybeans plantations, as well as the large livestock producers, receive a lot of prestige in the international market. However, a very important actor for guaranteeing food security in the country does not get much attention. The family farming sector in Brazil is an important player in the country's the economy, especially in poor rural areas.

However, due to the lack of effective policies and negligence, many smallholders are living in a very difficult situation: 89% of agricultural households in northeastern Brazil are family farmers and 36% of them live below the national poverty line. Therefore, in order to stimulate the development of family farming, the government created the National Program for Strengthening Family Agriculture (PRONAF). PRONAF is a subsidized credit program and it is the main public policy for family farmers in Brazil.

Studies have shown that more developed municipalities with wealthier farmers have more access to the subsidized credit. Due to these facts, this study aims to analyze through econometric regressions and interviews with specialists the statistically significance of the unequal credit allocation across the municipalities in Brazil. We also seek to identify the factors that are causing this distinguished credit distribution.

Results indicate that, although PRONAF is placed in almost all municipalities of Brazil, the outreach to farmers still is very low. In addition, the demand factor is the most relevant aspect that significantly impacts the likelihood of PRONAF placement in a municipality. In regards to the amount of credit taken per household head, we observe that wealth, knowledge, and location significantly increase the intensity of the program across municipalities in Brazil, whereas municipalities that represent a high risk have received significantly less resources of PRONAF per household head.

Thereby, we can conclude that the state-credit-operations are below the expectations. There is a significant unequal allocation of PRONAF resources across municipalities. Furthermore, we can state that the program has not reached its objective as a whole. Progresses in infrastructure and institutions to reduce risks; advancements in the farmer's qualification and organizational level; better access to market and agroindustry; and improvements in rural extension services are essential to enhance the access to credit.

Finally, this research can help policy makers and the government to refine the program in order to reach more poor farmers, and to improve the rural development in the underprivileged regions of Brazil.

Key words: PRONAF, credit intensity, unequal allocation, family farming, rural development