



Crisis and rural poverty in Latin America: the case of Brazil ¹

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Executive Summary

In the last 15 years all poverty indicators (urban, rural and metropolitan) have recorded a gradual, continuous and significant fall, independent of the methodologies that have been used. The reduction of rural poverty has been even more acute within the rural sector, where the majority of poor and indigent were located, although the metropolitan regions now contain the largest number of poor in gross terms. However, the population of rural poor is still larger proportionally than the urban poor population.

In 2007, just over 66 million people, or approximately 35% of the Brazilian population, received an income below the poverty line. This percentage is even higher in the rural sector, where 51% of the population lives below the poverty line. Among the poor, those whose income is insufficient to guarantee a daily food ration (the indigent or extremely poor) total 18.9 million or 10.04% of the total population. Around 46 million people (24.4%) live in non-extreme poverty, while the poverty gap in general for the whole country is 0.1561, standing at 0.25 for rural poverty.

The distribution of poverty by region directly reflects the infamous regional imbalances found in Brazil: the north and north-east present higher levels of extreme and non-extreme poverty, while the south, south-east and centre-west of the country, in that order, contain a higher percentage of the non-poor

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population. Extreme rural poverty in the north-east (21.73%) is five times higher than in the south (4.36%).

In spite of presenting steady macroeconomic indicators, Brazil is not the island that the Government claimed at the beginning of the financial crisis, and the belief that the country was out of reach of these events has been proven incorrect. In the last trimester of 2008, the GDP growth rate fell by 3.6 percentage points compared to the last trimester of 2007. According to the Brazilian Institute of Geography and Statistics (IBGE), which gathers and processes this information, this was the largest fall since estimates began to be taken in 1996.

Unemployment data for the period following the onset of the financial crisis confirms its strong impact on the Brazilian economy, with negative effects registered for employment levels, exports and a turnaround in private-sector expectations, which in just a few months swung from a state of near euphoria about perspectives in the immediate future to one of pessimism. However, recent data may indicate that the Brazilian economy has passed the worst of the crisis. In the formal sector, the balance for hiring and dismissals was positive. Although the country's manufacturing industry posted negative net results (35.775 job losses), civil construction, services, public administration and agriculture recorded a positive performance. The balance for formal employment in the agricultural sector in March was upbeat. In line with the positive projections for agricultural trade, exports for March were higher than the amounts recorded for the same period in 2008, reaching US\$ 4.79 billion, driven by a rise in soy bean exports (which grew by 11.9%), sugar and ethanol (which grew by 29.3%).

On the basis of all the information analysed for this paper, we believe that the Brazilian economy has got over the worst of the crisis and is now in a good position to deal with this event and allay some of its negative social consequences.

As to the outcome for the rural poor, it should be taken into account that rural poverty in Brazil can never be considered homogenous except for the deficits that characterise poverty itself. The poor have differentiated sources of income; they form part of the economy as agricultural and non-agricultural producers; some living in the countryside but working in villages and/or cities; the formation of family and home is also differentiated, as are the conditions and particular circumstances of each region, affecting the opportunities and the survival strategies used by the poor. In this context, it is a complex task to assess the possible impacts of the global financial crisis on Brazil's rural poor. Factors that could have a negative impact on some groups may have the

opposite affect on others. This paper discusses potential impacts based on possible scenarios, which were designed on the basis of analysis of recent data regarding the performance of the Brazilian economy in the period following the onset of the financial crisis, and the policies adopted by the Government to mitigate its negative effects.

Although the importance of non-agricultural activities is recognised, the analysis underlines the relationships between agricultural dynamics and employment and income generation within the rural sector. It is proposed that the perspectives for Brazilian agriculture within the context of the financial crisis are not negative, and that the sector is in a position to assume an important countercyclical role, with positive outcomes for both the urban and rural economy.

From the analysis of the main factors that determine the income level of rural households (prices of traded products, wages paid for agricultural jobs and non-agricultural jobs away from the farm, public transfers and production for self-consumption) the outlook regarding the possible impacts of the financial crisis, if it is kept under control, is generally positive. As regards public transfers, our hypothesis is that at least in the short term, these will not suffer negative consequences. The Federal Government is in a position to maintain them in spite of reduced revenues and in regard to expectations prior to the eruption of the crisis, without significantly compromising the consistency of macroeconomic policies.

As regards the rural employment level, our hypothesis is also positive, a direct consequence of present circumstances where Brazilian agriculture is in a position to withstand a fall in international prices in the short term (in the medium term prices will continue to rise). To sum up, in spite of an outlook predicting stagnation and decline for the world economy, the immediate perspectives for Brazilian agriculture are not so negative. On the one hand, maintaining the present export level is feasible, even taking into account the lower US dollar prices now paid compared to a short time ago; on the other, the domestic market will continue to play an important role as a destination for agricultural products. The key question for evaluating the expansion of the crisis in the Brazilian rural sector regards price developments and the true capacity of producers to live with insecurity, price fluctuations and the pressure to lower prices that tend to occur when the economy as a whole is operating more slowly: this is certain to be the case in 2009.

In the document we sustain that in the scenario of a controlled global financial crisis and coordinated domestic response, the poorest section of the population that survives on public transfer programmes, sales of small surpluses of crops

grown for self-consumption (which also play a strategic importance for family welfare) and labour incomes from seasonal and informal employment, are, paradoxically, the most susceptible to the negative effects of the crisis transmitted via products and services markets. The paradox here is that precisely due to their low-level of market insertion, they should be the areas less afflicted by market factors.

No one can deny that the Brazilian economy is in an exceptional position to face the current financial crisis, particularly if compared to the state of the country just a few years ago. Brazil's macro-economy is quite firm, both internally and in relation to external accounts. From being a debtor country it shifted to net creditor status in 2007, when international reserves exceeded gross foreign liabilities. Macroeconomic policies are consistent with maintaining macro balances, and have been implemented with relative autonomy and sustainability. Production sectors have undergone major macroeconomic adjustments in the recent period, and in spite of rising costs in Brazil, are in a better condition to face tougher external competition than in the past. The country's public and private sector financial system is fairly solid, and public banks hold capital assets and are able to finance strategic investments that have the potential to mitigate the effects of the financial crisis. The domestic interest rate is the highest in the world, providing a greater margin for a non-inflationary and sensible reduction as regards investment incentives.

Moreover, now that the crisis no longer seems to have the potential to cause a downturn in the Brazilian economy, the Government has adopted comprehensive and localized measures to counteract its effects. The first of these is a downward shift in the economy's base interest rate, the Selic rate, interrupting the upwards movement associated with those inflationary pressures present in the economy due to growing demand and higher international commodity prices. The Government also brought forward the annual readjustment of the minimum wage, so safeguarding the purchasing power of families receiving the lowest incomes, as well as protecting the domestic market for consumer goods from an even more acute fall in sales. Another important measure was the decision to speed up investments contained in the Growth Acceleration Programme, and the initiation of a house-building programme. Likewise, the Federal Government has lowered the tax burden for some key sectors, such as the car industry, thus helping to detain falling sales in the domestic market.

In relation to the agricultural sector: the Government has tried to strengthen its financing and is preparing a new proposal for the 2009-2011 agricultural campaign, which guarantees increased financing and risk management mechanisms, along with debt restructuring. The Government's decision to

lower taxes on diesel fuel will also favour the 2009-2010 agricultural campaign.

In the social area, the Government readjusted the minimum wage and the value of the *Bolsa Familiar* (family subsidy), while at the same time increasing the time period covered by unemployment benefit, and releasing resources for an unemployed retraining programme. General Elections are due in 2010 in Brazil, and there is no indication that the Federal Government will abandon the social policies that guarantee widespread support and recognition among the poorest segments of the population.

Consequently, and unless the financial crisis worsens to the point of creating ruptures that presently do not form part of immediate and medium-term predictions, the strategy to maintain current social policies and public transfers to the poor would appear to be well-substantiated. Public policies include a national programme to support family agriculture (PRONAF), which today plays a crucial role in the incorporation of products produced by this farming sector. Regarding Government policies, certain caution is still called for, given that under present circumstances it is still difficult to distinguish words from actions.

For the present, the global financial crisis has not had a strong impact on the agricultural economy or the rural sector. Our favoured projection tends towards the optimistic; however, the outcome will depend on the intensity of the crisis and the consistency of domestic policies adopted by the Federal Government. The future, however, is still uncertain. The full impact of the effects of the crisis on the rural poor has yet to be ascertained, although if adequate policies are put in place to stimulate domestic production and strengthen the competitiveness of Brazilian commercial agriculture on the world market, such effects can either be avoided or at least cushioned.