

## THE SIX MODALITIES OF THE PAA

This text describes the six modalities of the Food Purchase Program (PAA). Greater emphasis will be given to the *Purchase with Simultaneous Donation and Institutional Purchase* modalities, particularly in light of their size and importance for the whole of Brazilian social policies and their potential for replication in other contexts.

The implementation of the PAA is structured around multiple modalities, each with their own stakeholders involved, in order to expand the scale and capillarity of the program. The various arrangements and modalities of implementation have ensured flexibility and the ability to adapt to different realities, which is fundamental for the coordination of the supply and consumption of something as complex as food.

Table 1 presents an overview of the six modalities of the PAA that will be addressed throughout this text. Each modality has a central core area that coordinates work and establishes the guidelines for implementation at the decentralized levels. The PAA depends significantly upon well-coordinated relationships between stakeholders and on local actors that are engaged in the implementation the program.

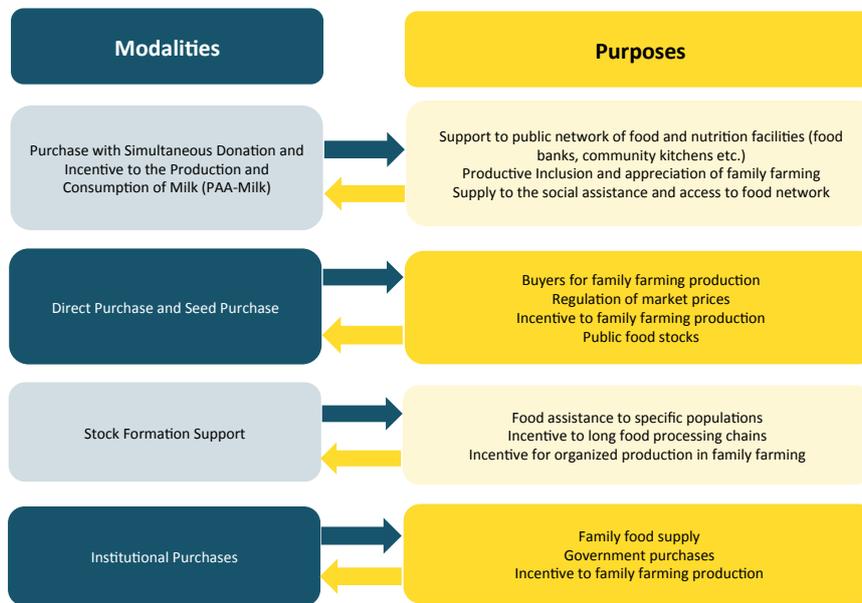
**Table 1: Summary of the PAA modalities**

Modality	Purpose	Source of funds	Executing Units	Form of Participation	Participation limits per farmer	Participation Limits per organization (cooperatives and associations)
Purchase with Simultaneous Donation	Purchase of various foodstuffs and simultaneous donation to entities	MDS	States/ municipalities that joined the program	Individual	R\$ 6,500.00 per year	Not applicable
			CONAB	Association or Cooperative	R\$ 8,000.00 per year	R\$ 2,000,000.00 per year
Direct Purchase	Purchase of products defined by the GGPAA to sustain prices	MDA or MDS	CONAB	Association or Cooperative	R\$ 8,000.00 per year	R\$ 500,000.00 per year
Stock Formation	Financial support for the creation of food stocks by supplier organizations	MDA or MDS	CONAB	Association or Cooperative	R\$ 8,000.00 per year	R\$ 1,500,000.00 per year. First operation limited to R\$ 300,000.00
Incentive to the production and consumption of milk	Purchases of cow or goat milk, intended directly for	MDS	State governments in the Northeast and northern Minas Gerais	Individual	R\$ 4,000.00 per semester	Not applicable
Seed Purchases	Purchase of seeds for food crops	MDS	CONAB	Association or Cooperative	R\$ 16,000 per year	R\$ 6,000,000.00 per year
Institutional Purchases	Purchase of various products by public agencies through public calls	From the budget of each agency	Buyer agency	Individual or Cooperative	R\$ 20,000.00 per year per buyer agency	R\$ 6,000,000.00 per year per buyer agency

GGPAA: PAA Steering Group; MDA: Ministry of Agrarian Development; MDS: Ministry of Social Development. Conab: National Company of Food Supply CONAB: Companhia Nacional de Abastecimento

Figure 1 shows the relationship between the PAA modalities and the objectives of each initiative.

**Figure 1: Main modalities and purposes offered/served by the PAA**



Source: Ministry of Social and Agrarian Development (MDSA)

The next sections provide details on each modality of the PAA.

## 1. Purchase with Simultaneous Donation (CDS)

The Purchase with Simultaneous Donation modality leverages family farming production to support the local food needs of populations at food and nutritional risk that are assisted by governmental or non-governmental social protection institutions.

Perishable and semi-perishable agricultural products are purchased and simultaneously donated to entities of the social assistance network, public food facilities and (under certain conditions) public and philanthropic education institutions, usually in response to local demand for food supplementation under municipal social programs.

Target audiences often include:

- » **Consumer beneficiaries:** families and people served by the social assistance network, food and nutrition support facilities and (in some cases) the public school network.
- » **Producer beneficiaries:** family farmers who submit the PRONAF Eligibility Declaration (DAP). Each provider beneficiary (family unit) is subject to an annual limit of R\$ 6,500 to R\$ 8,000 in public purchases.

To participate in any PAA modality, the farmer must have the DAP, which is the document that identifies a family farmer as eligible for access to public policies. In order to obtain the DAP, the farmer must seek an agency accredited by the federal government (technical assistance organizations, farmers' unions and others).

To achieve greater capillarity in Brazil, the federal government adopts two separate arrangements for the Purchases with Simultaneous Donation modality: partnerships with states and municipalities; and Conab coordinating directly with family farming organizations.

## Partnerships with states and municipalities

States and municipalities interested in participating in this modality of the PAA sign the so-called 'Accession Agreement' with the federal government. By joining the program, these states and municipalities become 'executive units', agreeing to annual implementation targets and establishing financial limits for food purchases. The result is a plan that also defines the specific foodstuffs and their amounts to be purchased, the farmers from whom they will be purchased and the entities that will be served.

The entire process of enrolling, agreeing to terms and planning deliveries is done through a computer-based system called SISPAA, which also holds records of all the food purchased and distributed.

Based on the information entered into the system by the executing units, the federal government pays farmers directly through a magnetic card specific to the PAA program that they can use to withdraw the money.

Quality control for most of the products purchased in natura is performed through visual inspection, carried out directly by the entity receiving the donations. This assessment is recorded in the Receipt and Acceptability Statement, which is the document that proves the quantity/quality of the products received. The supply of animal products requires federal, state or municipal inspection (as determined in law), while the marketing of processed vegetable products (such as jams and preserves) follows the guidelines of the National Health Surveillance Agency.

The local operators of the program are advised to adopt routines for the acquisition and distribution of products, including the creation of centers for the reception and quality control of goods and their subsequent direct delivery to previously-registered social assistance entities. The operators must identify the target audience to be served by each delivery.

This 'system' for the modality is a relatively new development, having been implemented since 2012. Previously, actions in partnership with states and municipalities were carried out through transfers of funds from the federal government (through agreements) to these entities, which were put in charge of paying farmers and making purchases in addition to the distribution.

Consequently, the form of operation of the modality varied greatly between states before the switch to the Accession Agreements. It was also more difficult to control operations, since it depended on the executing units periodically submitting their execution reports (and their subsequent parsing). There are also reports from the executing units that the new 'system' has reduced the workload of administrative activities.

The choice to make the payments by bank card was intended to extend control of the program. The card is issued in the name of the participating farmer, and can be used both for withdrawals at banks/ATMs and as a debit card for purchases.

During the review of the payment process, there was a discussion about the possibility of using the same means of payment adopted in other social programs, such as the Bolsa Família card. However, the option was ruled out by the federal managers of the program so that the remuneration paid for the products supplied was not confused with social benefits.

## Conab coordination

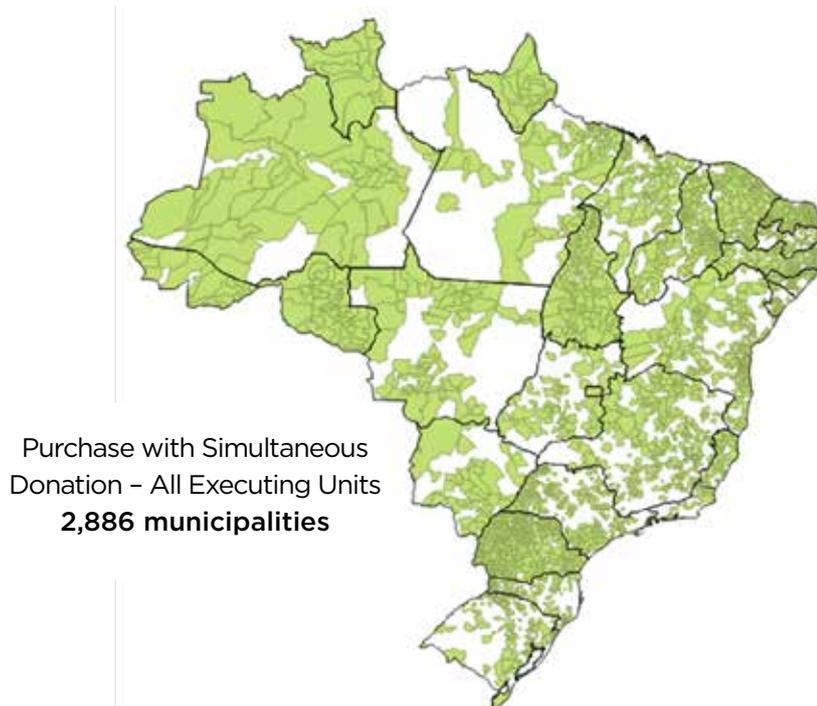
Conab (Brazil's National Company for Food Supply) is also an important partner in the development of this modality. The entity is present in all Brazilian states, and participates in the PAA through agreements with family farming organizations.

The organizations prepare the projects in coordination with the entities that will receive the food. The plans developed are then assessed by the social control instances. After review and approval by Conab, the projects are duly contracted and the organization issues a Rural Product Certificate (called *CPR-Doação*<sup>1</sup>).

Conab credits the resources necessary to develop the project in a specific account in the name of the organization. These funds are initially blocked, being made available gradually as the organization proves the delivery of food to the entities.

Including these two operating mechanisms (state/municipality partnerships and Conab coordination), the Purchase with Simultaneous Donation modality is the one that has absorbed the most funds, with widespread coverage throughout Brazil. Figure 2 shows coverage in the national territory for the more recent period (2011-2015). The total number comprises 2,886 municipalities, or over half (52%) of the total.

**Figure 2: Municipalities with access to the Purchase with Simultaneous Donation modality in the 2011-2015 period**



Source: Data obtained from the SAGI/PAA Portal

<sup>1</sup> The CPR was established by federal law. It is a fixed-price bond payable for the quantity and quality of products described in it and representative of the delivery promise of rural products, with or without collateral. With it, farmers, regardless of receiving payment in advance or not, can protect against price fluctuation risks in the futures market. The bond is issued by the farmer and used by Conab in the PAA's operations.

An issue that the modality still faces (in both execution arrangements) is the discontinuance of operations between the end of a project and the hiring of a new one. It is possible, for instance, for a municipality not to make any food purchases for extended periods, which hinders production planning for the farmer and the regularity of supply for the recipient entities.

## 2. Institutional Purchases (CI)

Created in 2012, this modality allows several government agencies at the three levels of government (federal/state/local) to use their own budgets to purchase family farming-sourced products through simplified acquisitions proceedings. This modality is used to supply food to public hospitals, military units, prisons, university cafeterias, nurseries and philanthropic schools, among others.

Purchases are made through a “public call”, an administrative proceeding for the selection of proposals. The public call establishes parameters such as: the products that will be purchased; quantity and specifications of the products; place of delivery; the selection criteria of the beneficiaries or supplier organizations; contractual conditions; and the list of documents required for qualification.

Each family unit may sell a maximum R\$ 20,000 per year per buyer agency. Participation in this modality is permitted for family farmers, agrarian reform settlers, foresters, fish farmers, extractivists, indigenous communities, quilombola communities and other traditional peoples who have a DAP. Cooperatives and other organizations with a *DAP Jurídica* (Legal Entity DAP) can also sell, provided they adhere to the per-family unit limit.

A federal law from 2015 established that federal agencies must use at least 30% of their funds to purchase food products from family farmers and their organizations. These agencies can use the PAA’s Institutional Purchase modality to meet this quota.

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The PAA innovated by simplifying food purchases by government agencies, making regulations more compatible with family farmer realities. Currently, the Institutional Purchase modality is considered by managers to be the “new frontier” for expansion of the PAA.

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Here is how the Institutional Purchase modality is implemented in practice:

1. The buyer agency defines its demand for foodstuffs, considering the principles of adequate and healthy food.
2. The buyer agency checks the supply of family farming foodstuffs in its region, considering the diversity, volume and seasonality of products.
3. The buyer agency conducts at least three price surveys in the local market to set the purchase prices of products.
4. The buyer agency then prepares the public call notice.
5. The buyer agency announces the public call through publications of easy access to family farmers (including local/regional/state/national newspapers, websites or notice boards in public locations) for at least ten days.
6. Family farming organizations prepare sales proposals according to the criteria of the public call.

7. The buyer agency accepts the proposals that contain all the documents required in the public call notice and whose sale prices do not exceed the purchase price set for each product in the public call.
8. The buyer and the supplier sign the contract establishing the schedule and places of delivery for the products, the date of payment to the family farmers and all other purchase and sale terms.
9. The deliveries then begin, according to the established schedule.
10. Payments are made directly to the farmers or their organizations

For organic or agroecological products, in case it is not possible to find three local suppliers for the price survey, the suggestion is to add 30% over the price of equivalent conventional products.

The Institutional Purchases modality encourages healthy eating by bringing the supply of food closer to consumers, offering products that are fresh, diverse, of better quality and appropriate to local food habits.

**Family farmers** improve their food production to meet the demands of the local consumer market and open a new marketing channel for their production.

**Government agencies** use their purchasing power to boost the local economy, thus contributing to the social and productive inclusion of family farmers, have access to easier purchasing of food and get to strengthen the Food and Nutrition Security Policy for the nutritional demand of their clients (children, students, elderly and people undergoing hospital treatment, prisoners etc.).

Finally, **consumers** receive a healthy diet, rich in nutrition terms and adequate to their eating habits and needs.

### 3. Incentive to Milk Production and Consumption (PAA-Milk)

The modality, created to promote milk consumption by families registered in the Single Registry and individuals assisted by food security programs<sup>2</sup>, operates via purchases of *in natura* milk from family farmers, which is then processed<sup>3</sup> and distributed to the public. This means the program benefits target audiences both by encouraging regular milk consumption by households suffering from food and nutrition insecurity and by helping small producers with daily demand for their production at prices closer to those practiced in the retail market.

The implementation of this modality is restricted to a specific area of Brazil that includes the Brazilian Northeast and the north and northeast regions of the state of Minas Gerais. It is currently managed by the Ministry of Social and Agrarian Development, and operated at the other end through agreements<sup>4</sup> with state governments. The funds for this modality are linked to the Ministry's budget.

2 The criteria for eligibility to the PAA-Milk were amended by Resolution 74 of the PAA Steering Group (GGPAA).

3 In order to be purchased by the government for distribution and consumption, the milk must be pasteurized by the producers.

4 Through the agreement, the federal government transfers funds to the state governments, which are then responsible for buying, processing and distributing the milk.

In order to purchase the milk, state governments hire private dairy producers or family farming organizations to receive, collect, pasteurize, package and transport the milk to distribution points set up in pre-defined locations.

Given the perishability of the product, the collected milk must be maintained in cooling tanks until their transportation in trucks suitable for pasteurization and packaging units. The distribution points also require a cooling structure.

The process of collecting, processing and distributing the milk consumes a significant portion of the resources for this modality. Thus, bearing in mind the goal of strengthening family farming, farmer cooperatives should be privileged in lieu of hiring private dairy producers. In addition to the other requirements to join the PAA, producers must have proof of vaccination of the animals. The amount paid per liter of milk is prefixed by the PAA Steering Group<sup>5</sup> according to the average prices practiced in the local market. The amount to be paid to the dairy producer is also fixed by specific legislation.

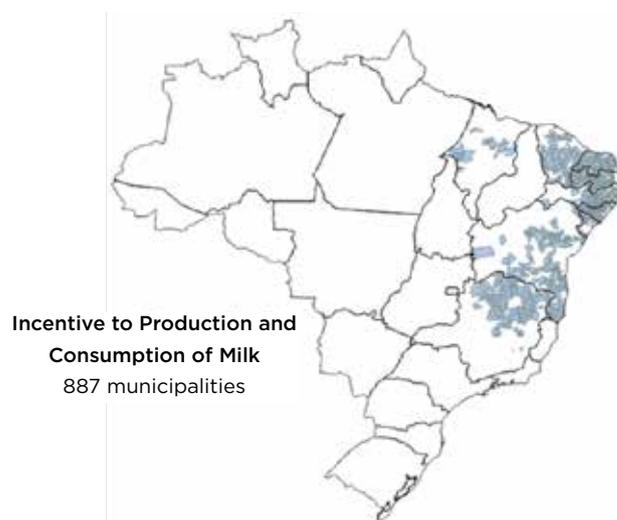
Unlike other modalities that adopt annual trade limits, the PAA-Milk establishes ceilings on a per-semester basis. This was due to the need to avoid concentrating all deliveries of the product during the harvest period (rainy season), when it is more abundant and has lower prices on the market. There is also a trade limit of one hundred liters per day per producer.

The distribution logistics of the modality is quite complex and expensive: It depends on the availability of the beneficiary to go to the distribution points at specific times to pick up the product. Another issue has to do with perishability. Even in cases in which the locations from which the milk is distributed to the population have the necessary infrastructure, the product sometimes suffers with quality issues after delivery to the final beneficiary (during transport or accommodation at their residence).

Some states are making progress in this modality by innovating in the ways they serve the public: instead of delivering the milk directly to the final consumer, they are distributing it to entities of the social assistance network, public food facilities and units of the public and philanthropic education system, among other public entities that serve meals regularly. Figure 3 shows the coverage of the PAA-Milk between 2011 and 2015.

<sup>5</sup> The main issues to be discussed regarding the program are defined at a federal collegiate council composed of representatives from the ministries related to the topic. How the program is managed and the operation of its Steering Group will be addressed in depth in the next text.

**Figure 3: Municipalities with access to the PAA-Milk modality in the 2011-2015 period**



Source: Data obtained from the SAGI/PAA Portal

## 4. Direct Purchase (CD)

The Direct Purchase modality allows family farmers to sell food to the federal government at reference prices, fixed within an intermediate range between a minimum price and the market price. These purchases are part of a strategy to promote family farming through price support. The government defines which products will be bought under this modality, and purchases are made in 'purchase complexes' - fixed or mobile - located close to the production sites.

Products that can be purchased under this modality include rice, beans, maize, wheat, sorghum, cassava flour, wheat flour, whole milk powder, cashew nuts and Brazil nuts, all at reference prices set by the program's Steering Group. The annual sales limit is of R\$ 8,000 per family unit and R\$ 500,000 per supplier organization, subject to the per-family-unit limits.

The Direct Purchase modality is funded by the budgets of the Agrarian Development and Social Development ministries, and operated by Conab. The quality control of goods is done according to Conab regulations. Laboratory tests are conducted for certain products (such as cassava flour).

Payment is made within ten days after issuance of the Nota Fiscal (Brazil's official invoice) through Banco do Brasil (a public bank), which acts as the official financial agent of the PAA. In case the recipient does not indicate a bank account for receipt of the amounts, Conab issues a "Money Order", payable at any Banco do Brasil branch upon submission of a personal identification number issued by the Internal Revenue of Brazil and an official ID.

The food items purchased under this modality are intended for people in vulnerable situations and those served by the social assistance network, public food and nutrition facilities and the public and philanthropic school system. They can also be used to integrate food baskets often distributed to groups in vulnerable situations or subject to food and nutrition insecurity. Figure 4 shows how coverage for this particular modality was quite restricted to a few populations

**Figure 4: Municipalities with access to the Direct Purchases modality in the 2011-2015 period**



Source: Data obtained from the SAGI/PAA Portal, according to the form of access to the PAA-Milk, Conab, states and municipalities

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The Direct Purchase modality was more widespread at the beginning of the PAA, when it was used to intervene in several major production chains for family farming, such as those for Brazil nut, cashews, beans, rice and maize, causing long-lasting market-altering effects in the trade of these products. The initial success limited the need for further intervention by the program.

## 5. Stock Formation Support (FE)

Under this modality, food products from the current harvest are purchased from farmers (organized into formal groups) specifically to aid the formation of stocks in their own organizations. The modality is operated directly by Conab working directly with family farmer organizations, which in turn receive financial support for the formation of food stocks. The products are later sold, and the proceeds are returned to the government.

The limit is of R\$ 8,000 per year per family unit and R\$ 1.5 million per supplier organization, subject to the per-family-unit limits, with the first operation limited to R\$ 300,000.

In general, this modality works as follows: when it identifies the possibility of stocking on a certain product, a farmer organization sends Conab a Proposal for Participation. The proposal must include the specification of the product, quantity, proposed price, time required for the formation of stock and the farmers who will be benefited (the latter must have a DAP). If the proposal is approved, the organization issues a specific bond, called Rural Product Certificate, and Conab clears the funds.

The organization/cooperative then uses the funds to buy the products from the family farmers listed in the proposal, processes them and keeps them in their own stock until they're traded in the conventional market at a more favorable time. The Rural Product Certificate has a term of 12 months, and must be settled by the organization at the end of that period - the debt can be settled in cash.

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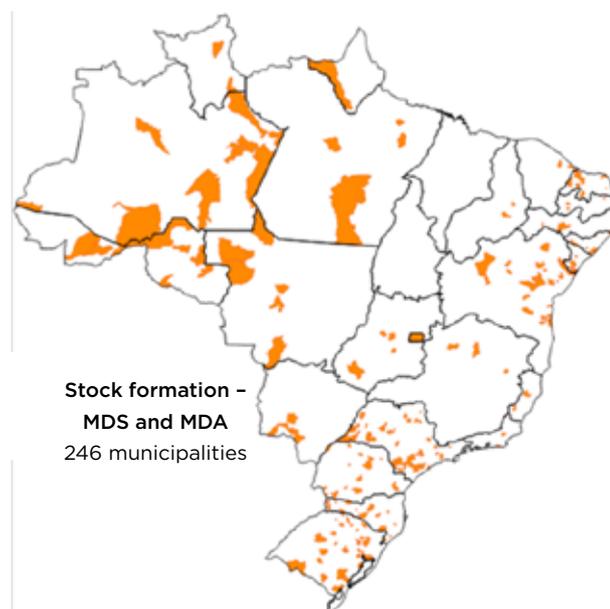
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The modality also helped organize the trade of some products and strengthen organizations linked to family farming. One noteworthy example is its contribution to the Brazil nut trade, for which it acted as an important tool in reducing the number of middlemen and increasing the prices that extractivist populations were able to collect.

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Figure 5 illustrates the 246 municipalities that were served between 2011 and 2015. Coverage is dispersed through 25 of Brazil's 27 states. The highest concentrations are found in the South and Southeast regions.

**Figure 5: Municipalities with access to the Stock Formation modality for the 2011-2015 period**



Source: Data obtained from the SAGI/PAA Portal

## 6. Seed Acquisition (AS)

Under this modality, seeds are purchased from beneficiary suppliers for donation to beneficiary consumers who comply with the requirements set in relevant legislation.

The seeds acquired by the government are donated to families who have the DAP, with priority for those enrolled in the Unified Registry, women, settlers, indigenous peoples, *quilombolas* and other traditional communities.

Associations and cooperatives present their demands to one of the public agencies responsible for this modality (mostly agencies that deal with agricultural, indigenous, quilombola and environmental issues, among others). These agencies prepare a Distribution Plan, which is then sent to Conab to be used as a reference for the purchase of seeds. These same agencies receive and distribute the purchased seeds.

Purchases conducted by Conab can be made directly with the seed producer organizations for contracts up to R\$ 500,000 or through a public call for contracts over that amount. Each

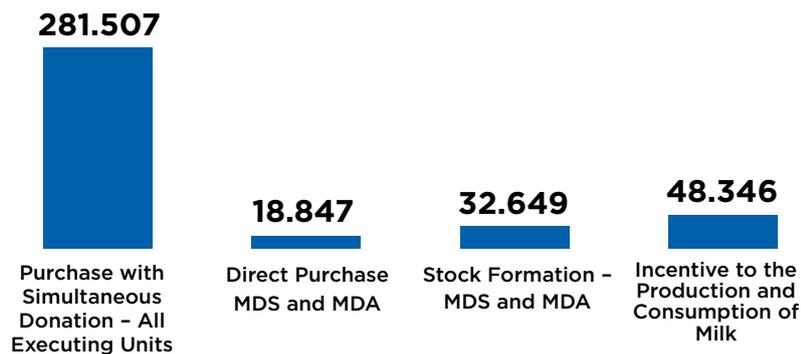
organization can provide up to R\$ 6 million per year under the PAA's seeds modality, with the limit per farmer R\$ 16,000 a year.

The seeds acquired through the PAA must comply with the certification rules in force, in addition to being tested for transgenics, purity, germination and vigor. The purchase of genetically modified seeds is prohibited.

## Participation of family farmers

A review of the share of participation of family farmers in the different PAA modalities is shown on Figure 1<sup>7</sup>. The Purchase with Simultaneous Donation modality was the one with the highest share of participation between January 2011 and June 2015 (281,503 farmers), followed by the *PAA-Milk* and Stock Formation modalities. The results are expected, since the order is in line with overall budget allocations. Since farmers have a maximum annual sales limit, the number of participants is directly proportional to the volume of funds invested.

**Graphic 1: Number of farmers in the PAA in the four most-accessed modalities - January 2011 to June 2015**



Source: Data obtained from the SAGI/PAA Portal

In the next text, we will address the institutional arrangement behind the implementation of the PAA, detailing the responsible stakeholders and the main aspects related to this management model.

<sup>7</sup> The numbers do not include operations under the Institutional Purchase modality, which are not funded by ministry budget allocations.