

Original Research Article

Feasibility and economic risk of programmed pruning cycle in arabic coffee

ABSTRACT

Coffee cultivation represents a great economic importance in Brazil, in which Arabica coffee represents a great part of the national production. However, the average yield of Arabica coffee is low, which reduces the profitability of the activity. One of the ways to regain vigor and increase productivity has been pruning systems. The system most adopted by coffee producers is “recepta” (cutting off the orthotropic branch at 0.8 m above ground), which has not resulted in efficient reinvigoration. It is believed that the implementation of new systems, such as programmed pruning cycle, can improve the productivity of Arabica coffee. However, the economic impacts and risks associated with this type of pruning are still unknown. The objective of this study is to determine the viability of the programmed pruning cycle in Arabica coffee by calculating the Net Present Value and the Internal Rate of Return, as well as to identify, using the Monte Carlo method, the risk of this technique. The results show that the programmed pruning cycle is the most economically viable. The use of programmed pruning cycle presents a low probability of obtaining negative Net Present Values, which is a practice with zero risk and economic yield.

Keywords: *Coffea arabica*, pruning management, financial analysis, production costs

1. INTRODUCTION

Coffee is one of the most valuable primary products in world trade and represents one of the most important agricultural activities in Brazil. Coffee cultivation is present in almost all of Brazilian territory, with 2,209,097 hectares destined to the cultivation and production of 49.7 million bags of coffee benefited in the year of 2016 [2].

Among the cultivated species, Arabica coffee (*Coffea arabica* L.) and Conilon (*Coffea canephora* Pierre) are the most economically important in Brazil. Arabica coffee accounts for 79.35% of the planted area, and 81.1% of the country's total coffee production [2]. Although it is the most cultivated specie in Brazil and has a high productive potential, the species presents low average productivity, about 21.66 bags benefited per hectare in 2016 [2].

Low productivity may be related to the management that has been used in the crop. One of the most important practice management is pruning, due to coffee producers accepting this management and it is accessible, also it is responsible for the maintenance of productive capacity; recovery of weakened plants; correction of problems related to plant architecture; disease severity control; increased crop longevity; and it contributes to reducing the biennial production [6, 5, 3].

The traditional pruning used in the crops caused a decrease in productivity in the following year, resulting, in some cases, the total absence of production (zero harvest). [6] reported that the most commonly used types of pruning in Arabica are skeletonization pruning (the

plagiotropic branches are cut about 30 to 40 cm from the stem); “recepta” (the stem are cut 40 to 60 cm from the ground); and the “decote” (the apex of the plant are cut at varying heights of 1.60 to 2.60 m). However, these pruning systems represent negative points that hinder cultural dealings in culture. Skeletonization causes changes in the canopy structure, making manual harvesting difficult. As well as in the “decote”, making harvest more difficult and causes super lateral shoot branches, making it difficult for light to enter the base of the plant; and in the “recepta”, the phenomenon of 'zero harvest' occurs in the year following the pruning practice.

[7] studying a new pruning system, programmed pruning cycle for Arabica coffee, verified an increase in the productivity, reducing biennial production, no occurrence of zero harvest and an increase in manual harvesting yield of the plants. However, there is no information about the economic viability of this type of pruning; which in spite of raising crop productivity, increased some production costs, such as man labor related to pruning and cutting. It is noteworthy the need to carry out studies that verify the economic viability of this new technology.

Therefore, the objective of this study was to evaluate the viability and economic risk of programmed pruning cycle in Arabica coffee, aiming the family coffee industry of *Espírito Santo*.

2. MATERIAL AND METHODS / EXPERIMENTAL DETAILS / METHODOLOGY

2.1 Economic viability evaluation

The Net Present Value (NPV) and the Internal Rate of Return (IRR) were used as indicators of economic result. These indicators have the advantage of 'time' dimension of monetary values. The NPV transfers instantly all expected cash variations, discounting them at a certain interest rate, and adding them algebraically, according to the following equation:

$$VPL = -I + \sum_{t=1}^n \frac{FC_t}{(1 + K)^t}$$

Since NPV is the Net Present Value; I is the capital investment at date zero; FC_t represents the return on date t of cash flow; n is the project review period; and K is the minimum rate for the investment, or capital cost of the investment project, which in the study was equal to 10%.

The IRR of a project is the rate that makes the NPV of the investment cash flow null. It makes the present value of future profits equivalent to the expenses incurred with the project, thus characterizing the rate of return on invested capital, and can be expressed by the equation:

$$0 = -I + \sum_{t=1}^n \frac{FC_t}{(1 + TIR)^t}$$

Cash flows are monetary values that represent the inflows and outflows of resources and products per unit of time, which make up a proposal or an investment project. They are formed by inflows (effective revenues) and output flows (effective expenditures), whose differential is called net flow. In order to reflect the real economic potential of the alternatives tested, all prices used in the economic analysis, whether of products or inputs, are represented by real values collected in the region of the study in 2017.

2.2 Sensitivity analysis

In addition to productivity, other elements that affect cash flow are likely to vary, such as input and output prices. It is difficult to predict at what levels the prices of these items will be in the future, in the years that make up the project horizon. In order to estimate the impact of any variations in the prices of these items on the project results, the sensitivity analysis method is used.

Sensitivity analysis consists of measuring to what magnitude a prefixed change in one or more project variables changes the final result. This procedure allows us to evaluate how changes in each of the project variables can influence the profitability of the investment.

The basic procedure to perform a sensitivity analysis is to: choose the indicator to be sensitized; determine its expression in function of the chosen parameters and variables; obtain the results from the introduction of the parameter values in the expression; print variations on one or more parameters and see how and in what proportions these variations affect the final results of the project.

Thus, for the sensitivity analysis of the present study, an unfavorable 10% variation in the prices of inputs and products were considered, and the effects on the Internal Rate of Return of each one were observed.

2.3 Economic risk analysis

To evaluate the risk involved in the various systems, the Monte Carlo Method technique was used. The basic principle of this technique is due to the relative frequency of occurrence of the event of a certain phenomenon tends to approximate the probability of occurrence of this same phenomenon when the experiment is repeated several times.

Given the impossibility of studying the probability distribution of all variables, the best alternative is to identify, through sensitivity analysis, those that have the greatest effect on the financial result of the project.

In view of the difficulty involved in identifying the probability distributions of each of the most relevant variables, it is common to use the triangular distribution, in which was used in this study. This distribution is defined by the most probable or mode average level, by a minimum level and a maximum level, which is important when one does not have sufficient knowledge about the variables.

Using the Excel program, probability distribution for each of the variables is proposed, in this case the triangular distribution. By generating random numbers, values are obtained for these variables, resulting in several cash flows and, consequently, several results indicators for the project. By repeating this procedure a significant number of times, the frequency distribution of the project indicator is generated, which allows to gauge the probability of success or failure.

2.4 Data source

The study area took place in the northwestern region of the state of *Espírito Santo*, at 634 m altitude, with a climate of type Am (tropical humid), average temperature of 21.4° C, average annual rainfall of 1260 mm and rugged topography.

For the study, a system of rainfed production was considered in non-motorized declivable areas in a crop with a life cycle of 24 years using two maneuvers in relation to pruning: The first one is related to the pruning traditionally used in the region, in which the plants are cultivated to grow wildly, and cut after the 8th year. After harvesting, the shoots are allowed to grow wildly until the 16th year, when they are re-fed and remain in growing wildly until the end of the life cycle of the crop (24th year). The second management refers to the programmed pruning cycle for Arabic coffee, in which the plants are renewed without zero harvest. Renewals, in this case, occur after the 7th, 14th and 21st years. In the programmed pruning cycle, the annual cutting of the plagiotropic branches is few and far between, which increases the expenses with pruning and cutting labor. The information about the performance pruning programmed pruning cycle in Arabica coffee is based on [7].

The technical coefficients for the preparation of the cash flows and the information attributed to each of them were obtained through information provided by the Agribusiness Development Center [1] and by interviewing researchers and extension agents of the Capixaba Institute of Research, Technical Assistance and Rural Extension (INCAPER). In addition, part of the information that composes the yield and the harvest yield of the programmed pruning cycle were obtained by the results found by [7]. The price data received by the producers were raised by the daily quotations of the product, done by the Coffee Trade Center of Vitória-ES. The data of this study refer to the year of 2017.

3. RESULTS AND DISCUSSION

3.1 Evaluation of economic viability

In traditional pruning, the NPV was positive only at discount rates lower than 3.61%, different from what occurs when programmed pruning cycle is used, in which NPV is positive at a rate of 15.30% (Figure 1).

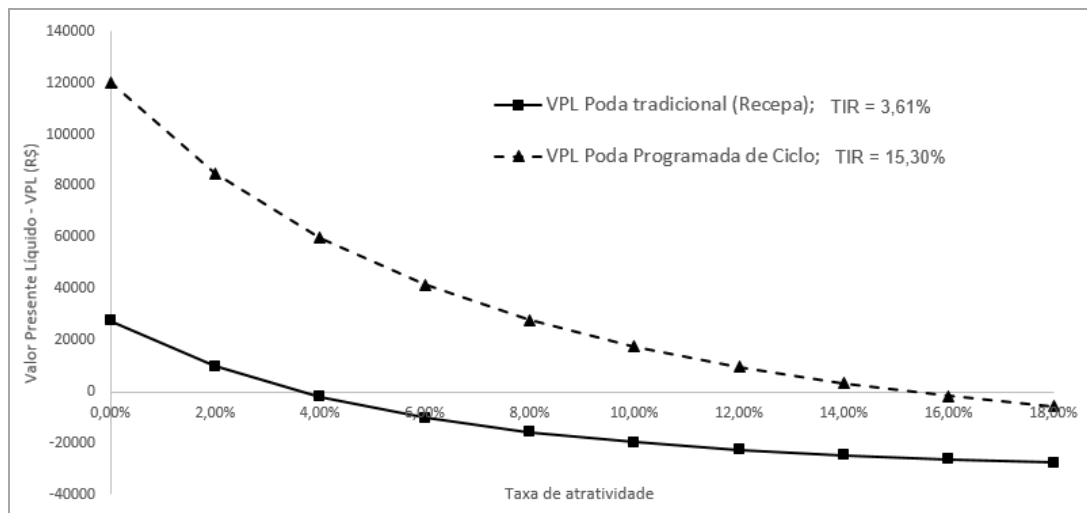


Figure 1 - Net Present Value (NPV) with a common planning horizon as a function of the different attractiveness rates, and Internal Rate of Return (IRR) for Arabica coffee cultivation conducted with two pruning operations

Through the data related to NPV, it is possible to verify that pruning represents a great economic impact on the coffee crop. If a minimum rate of attractiveness of 12% is considered, the cultivation of the coffee crop managed with traditional pruning using “recepa” becomes unfeasible, since this management generates a IRR of only 3.61%. The implementation of programmed pruning cycle is feasible, since it generates a IRR of 15.30%, about 3.3 percentage points more than the minimum rate of attractiveness. This result occurs due to the increase of the productivity and absence of the 'zero harvest' phenomenon provided by this innovative type of pruning, the cycle pruning cycle. On the other hand, in traditional pruning, there is no return in the year after this practice due to zero harvest, thus justifying the low IRR.

3.2 Sensitivity analysis

The results of the sensitivity analysis representing the effects on the Internal Rate of Return, considering an unfavorable 10% variation in the prices of inputs and products are represented in table 2.

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Table 2 - Reduction, in percentage points, of the Internal Rate of Return, for each pruning system of the coffee crop, due to an unfavorable 10% variation in the price of inputs and products

Description	Traditional Pruning (Receipt)	Scheduled Pruning Cycle
1. Land Purchase	-0.459	-0.978
2. Seedlings (Planting and Replanting)	-0.043	-0.092
3. Lime	-0.031	-0.033
4. Nitrogen-N	-0.482	-0.412
5. Phosphorus -P ₂ O ₅	-0.062	-0.065
6. Potassium -K₂O	-0.224	-0.182
7. FTE BR ₁₂	-0.042	-0.042
8. Zinc sulfate	-0.003	-0.003
9. Boric acid	-0.003	-0.003
10. Organic fertilizer	-0.070	-0.079
11. Other Fertilizers	-0.063	-0.060
12. Formicide	-0.002	-0.003
13. Fungicide	-0.045	-0.042
14. Insecticide	-0.030	-0.029
15. Spreader Sticker	-0.003	-0.003
16. Plastic bags	-0.088	-0.099
17. Jute Bags	-0.024	-0.028
18. Herbicide	-0.019	-0.018
19. Total Man Labor	-1.744	-0.853
19.1 Cleaning the area	-0.007	-0.015
19.2 Marking the contour levels	-0.002	-0.005
19.3 Marking the planting lines	-0.002	-0.005
19.4 Marking the pits and pits digging	-0.034	-0.074
19.5 Internal transport of inputs	-0.082	-0.078
19.6 Liming and fertilization in the pits	-0.007	-0.015
19.7 Planting and replanting	-0.014	-0.030
19.8 Coated fertilizers	-0.071	-0.064
19.9 Pulverizing	-0.072	-0.066
19.10 Ant Pest Control	-0.011	-0.011
19.11 Phytosanitary treatment	-0.126	-0.115
19.12 Hand weeding	-0.124	-0.125
19.13 Hand trimming	-0.116	-0.110
19.14 Pruning	-0.008	-0.153
19.15 Thinning	-0.155	-0.164
19.16 Harvest	-0.982	-0.553
19.17 Internal Harvest Transportation	-0.106	-0.119
20. Drying and Processing	-0.318	-0.359
21. Storage	-0.020	-0.022
22. Soil analysis	-0.013	-0.012
23. Other Expenses (Administration, etc.)	-0.126	-0.120
24. Residual Land Value	-0.219	-0.039
25. Product Sale (benefited coffee)	-4.086	-4.670

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It can be observed that in both types of pruning the variable "Product Sale" was the one with the greatest impact on IRR. Thus, the 10% drop in the coffee benefited price would reduce the IRR of 4.67 and 4.09 percentage points for the coffee planted with the scheduled pruning cycle and with the traditional pruning, respectively.

The results from the table were classified in order of importance the items that most affected the financial results of each type of pruning in the cultivation of Arabica coffee. For programmed pruning cycle, in addition to "Product Sale", the most economically relevant items are: "Land Purchase", "Total Man Labor", "Nitrogen-N", "Drying and Processing" and "Potassium -K₂O". For traditional pruning, in addition to the "Product Sale", the most important items would follow the following order: "Total Man Labor", "Nitrogen-N", "Land Purchase", "Drying and Processing" and "Potassium -K₂O".

It is possible to observe that the man labor represents a greater economic impact in the traditional pruning than in the programmed pruning cycle. Therefore, the programmed pruning cycle changes the architecture of the plants and according to Verdin-Filho et al. (2017), is one of the reasons for increasing harvest yield. It can be affirmed that the practice of pruning among the other items demands greater labor.

3.3 Economic risk analysis

Even though programmed pruning cycle in Arabica coffee seems to be a viable activity, there are uncertainties mainly in the price paid for the product. One of the purposes of the economic evaluation of projects is to reduce the great risk assumed in the decisions, so that the producer knows the margin of safety of the results of the analysis before making his/her final decision.

Sensitivity analysis, which considers the influence of each variable on the project results, is the first step in dealing with risks. However, several variables can fluctuate simultaneously. Therefore, it is important to have a sense of the probabilities of occurrence of adverse situations involving the most important variables of the project, as well as their consequences on the financial results.

Therefore, the accumulated probability distribution of the NPV of the different pruning managements, obtained by means of Monte Carlo Method, is expressed in figure 2. It is known that the information used in the evaluation of projects are always important for the future of the variables values which form the cash flow and, therefore, are estimates that can led to errors. With this analysis, it is possible to estimate the probability that the project will become unviable, given the risks that the projections adopted in the cash flow will not be done with the implementation of the project.

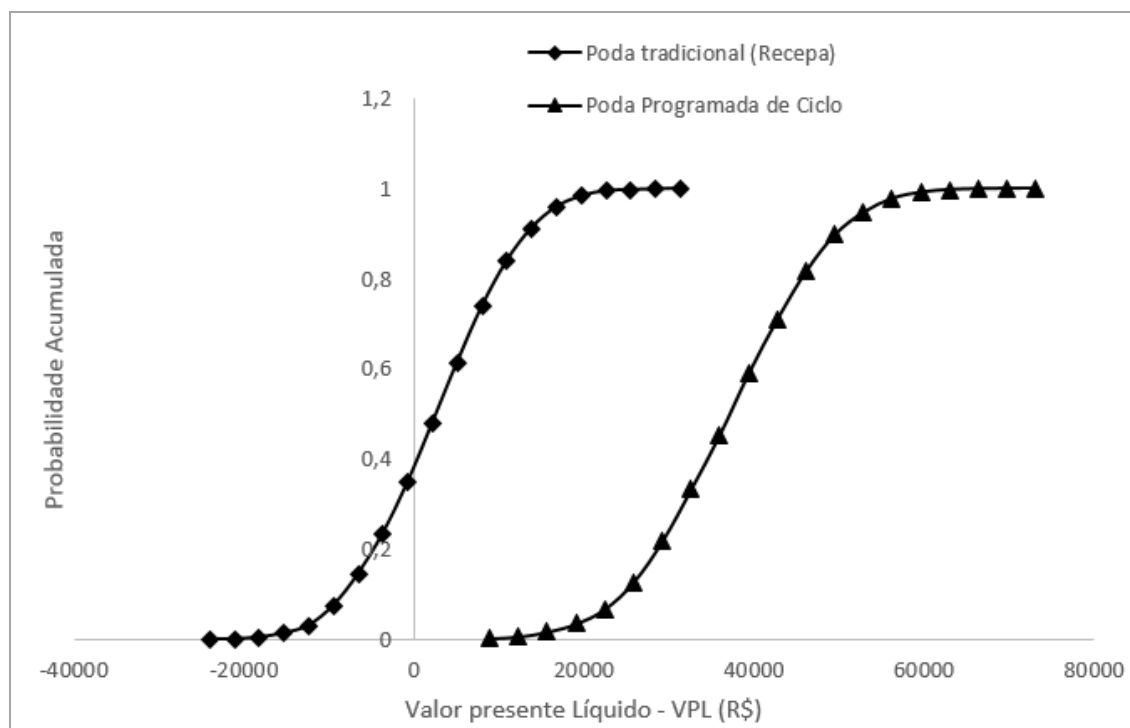


Figure 2 - Cumulative probability distribution of the Net Present Value (NPV) obtained by Monte Carlo Method of the cultivated Arabica coffee planted with two pruning managements

It can be observed from the Monte Carlo Method that when using programmed pruning cycle, the NPV probability is negative, at an attractiveness rate of 10% it is null, in other words, this pruning system besides being economically feasible presents greater stability and investment certainty for the coffee producer. In relation to traditional pruning, it is observed that there is a 30.5% probability of NPV being negative. Therefore, considering the possible fluctuations in the prices of the most important items for the project results (defined in the triangular distribution), the probability that, under traditional pruning, the activity becomes unviable under less favorable market conditions is relatively high.

In addition to ensuring greater income stability and lower risks to family coffee producers, programmed pruning cycle in Arabica coffee crop presents great diffusion potential, since it is easy to be understood and carried out, and also because this pruning is already done and well accepted in Conilon coffee crop. Therefore, it is a recommended practice that increases the productivity of the crop and guarantees income and stability of family farmers who do not have mechanized operations in the activity.

4. CONCLUSION

At the discount rates considered, programmed pruning cycle is more economically viable than traditional pruning by means of the “recepa”.

The adoption of innovative pruning management, programmed pruning cycle in Arabica coffee presents an economic yield and low probability of obtaining negative Net Present Values.

The economic risk associated with programmed pruning cycle in Arabica coffee is null.

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COMPETING INTERESTS

Authors have declared that no competing interests exist.

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