

**NATIONAL FORUM FOR LAND REFORM
AND RURAL JUSTICE**

Inspection Panel Request

Land Reform and Poverty Alleviation Pilot Project

(No 4147 BR)

On December 10, 1998 the National Forum for Land Reform and Rural Justice forwarded an Official Letter to the Inspection Panel of the World Bank containing a reasoned argument indicating the occurrence of serious distortions in the purpose of the *Cédula da Terra* Program being implemented in five States in Northeast Brazil, as the basis for the request for an investigation into the above-mentioned Project. Outstanding among the arguments put forward are:

- The project failed to achieve its objectives of combating poverty;
- It was not being implemented as a pilot project;
- It did not allow its beneficiaries to pay the debt contracted when joining the Project;
- The Project is forcing up land prices in the respective Regions;
- It is being implemented as an alternative rather than a supplement to land reform through expropriation;
- It did not make provision for proper consultation and information in terms of the beneficiary populace and its representatives.

On May 27 this year, the Inspection Panel submitted a Report to the Board of the World Bank recommending that the investigation requested by the Forum should not be undertaken. This decision was considered by representatives of the Brazilian Government and the Executive Director for Brazil at the World Bank as an acknowledgement of the excellence of the Project.

With all due respect to the members of the Panel who analyzed this case, the Forum feels that the flaws noted in the process instruction procedures, as will be shown below, have a direct effect on the contents of the reply forwarded to the Executive Directors of the World Bank and the Forum. More serious still, by failing to note explicit cases of ethical and moral anomalies in the conduct of the Project, the decision taken by the World Bank on the recommendation of its Inspection Panel places this institution under suspicion.

This fresh Request for Inspection is based on the inclusion of the information in the replies from the Minister Extraordinary for Land-Ownership Policy to the Request for Information submitted by Senator Heloísa Helena and Federal Congressman Valdir Ganzer. As you will see below, these documents prove the claims of the Forum regarding the problems of the *Cédula da Terra* Program and clearly describe the discrepancies between statements issued by the World Bank and the Brazilian Government on the implementation of the Program.

With this fresh request submitted to the Inspection Forum, urged by the entities belonging to the National Forum for Land Reform and Rural Justice, we believe that we are offering the IBRD an opportunity to review its original position which is completely out of keeping with the standards of austerity

and probity of this institution.

1. Comments on the procedures of the Inspection Panel

Initially, we draw attention to the fact that the operating procedures of the Inspection Panel were modified by the Board of the World Bank during the period of the analysis of the Request for Inspection submitted by the Forum on December 10, 1998.

This Request was thus officially accepted under the Inspection Panel Operating Procedures of August 1994 and additional information dated October 1996, but was analyzed on the basis of the new Procedures stipulated in the II Panel Review, introduced in April 1999.

This alteration adversely affected the process, particularly because the Panel failed to undertake prior studies in order to indicate whether or not it should continue this investigation, as stipulated by the 1994 rules. The Panel merely judged the eligibility of the request on the basis of its new Procedures.

Additionally, through the visit of some of its members to Project Units in Brazil, the Panel ‘assessed’ the project based only on generic questions asked collectively to the beneficiaries of the associations visited, attempting by this means to analyze the differences in their social and economic status before and after the Project. In addition to the inconsistency of this type of approval, it ignores the core issue to be investigated: the comparison of this situation of the beneficiaries based on the objectives proposed by the Project.

2. Purchase of areas open for expropriation

Initially, the document affirms categorically that the World Bank considers that the loan in question and future loans did not and will not include ranches open for expropriation for the purposes of land reform (item 18 – page 5).

Despite this clear statement by the Bank which is accepted by the Panel, the official documents issued by the Extraordinary Ministry for Land-Ownership Policy forwarded to the Federal Chamber and the Senate show that this statement is not endorsed by the government, as the *Cédula da Terra* Program admits the purchase of areas, regardless of whether or not they are open for expropriation.

According to the Extraordinary Ministry for Land-Ownership Policy, “there are no constraints on the acquisition of land open for expropriation, although most of the areas acquired correspond to properties considered productive and/or of a size below than that characterized as open for expropriation” (page 7). This statement clearly shows that the Panel assumed a discourse that did not materialize in the implementation of the *Cédula da Terra* Program.

Also according to the Extraordinary Ministry for Land-Ownership Policy, “The *Cédula da Terra* Pilot Project made no provision for inspections by INCRA. This was a project undertaken by the States, with the intervention of the financing agents, the Banco do Brasil and the Banco do Nordeste” (page 7).

The lack of any INCRA inspections does not allow an analysis of the data and criteria established by the ‘outsourced’ Technical Reports which form the basis for the prices assigned to the ‘bare land’ and

the ‘improvements’. In most cases, these prove to be clearly fraudulent, such as Reports that are so similar that they resemble copies; Reports issued with a complete lack of technical elements to back them; Reports with no identification or the signature of the technical staff responsible; and other irregularities shown later.

Still along these lines, Official Letter N° 372/99 dated April 7, 1999 issued by the Economic Development and Planning and Management Unit, Maranhão State, addressed to the Executive Coordinator of NEAD/MEPF, stated that no prior inspection was undertaken of the fifty properties acquired in this State, but that on the basis of the data collected, “eight properties were open for expropriation, for reasons of social interest” (page 1). This means that almost 20% of the properties acquired in Maranhão State were open for expropriation for the purposes of land reform.

Waiving the inspection, particularly by INCRA, did not allow a detailed assessment of the productivity of the areas, while also encouraging fraud and other irregularities with adverse effects on the Treasury and the workers acquiring the land. Nevertheless, it is possible to note in the documentation forwarded by the Minister that there are many cases, as shown below, where the Project acquired various properties from one single owner, involving areas covering thousands of hectares that are completely non-productive, meaning with no useful or necessary improvements to the property.

Facts of this nature strengthen the claim put forward by the Forum regarding the flaws in the origin of land-ownership structure intervention programs such as the *Cédula da Terra* Program. Based on land purchase and sale systems, they turn into ‘trading counters’ for large-scale deals disposing of huge tracts of non-productive land that are settled on a cash-down basis, instead of being paid in TDA notes redeemable in up to twenty years, as is the usual practice for expropriation in Brazil.

2.2 – Participation of civil society in the implementation of the projects

The Inspection Panel Report states that the World Bank showed proof of efforts through visits to advise and consult the potential beneficiaries (item 20c, page 6) which demonstrates a lack of respect for the World Bank guidelines with regard to the participation of civil society. Initially, this issue is not related to consultation and information, but rather to the effective participation of the beneficiaries, organizations and entities in civil society interested in the conceptualization and implementation processes of this Project.

The official correspondence issued by the Maranhão State Government Agency mentioned above makes it clear that “the representatives of rural workers are not formally involved in the various Boards and Associations working with the *Cédula da Terra* Program” (page 3 – item 7.2). The same occurs in the other States, showing that there is no effective participation on the part of civil society in the implementation of this Program.

2.3 – Land payment conditions

The Inspection Panel Report stresses that the Minister for Land Reform improved the land payment rules, establishing a period of twenty years with three years grace-period and interest at 4% a year (item 22 – page 6). This statement is groundless as the Brazilian Government has made no alterations whatsoever

in the loan payment conditions so far. The document issued by the Minister Extraordinary for Land-Ownership Policy in response to the Requests for Information mentioned above assumes a stance that is somewhat different from that promised to the members of the Panel. The Minister stated, “Since year-end 1998, negotiations have been underway to review the *Cédula da Terra* Financing Conditions, adapting them to the conditions of the *Banco da Terra* (the Land Bank) ...” (page 10 – item 5.5).

This statement indicates that the conditions of the charges imposed under the *Cédula da Terra* Program should be close to those established by the *Banco da Terra* Land Bank. The forms of financing were defined on June 8, 1999 by the Brazilian Central Bank through BACEN Resolution N° 2,610/99, which stipulates in its Article 1, Item V – “Financial charges: updated on the basis of the General Price Index – Internal Availability (IGP-DI) issued by the Getúlio Vargas Foundation (FGV), in addition to the following interest rates applicable in function of the amount of financing by beneficiary: up to R\$ 15,000.00 (fifteen thousand reais): 4% p.a. (four percent a year); over R\$ 15,000.00 (fifteen thousand reais) and up to R\$ 30,000.00 (thirty thousand reais): 5% p.a. (five percent a year); over R\$ 30,000.00 (thirty thousand reais) and up to R\$ 40,000.00 (forty thousand reais): 6% p.a. (six percent a year); VI - rebate: applicable to the financial charges, and only when the payments are made by the due dates thereof, complying with the ceiling of R\$ 500.00 (five hundred reais) per amount of installment paid on an annual basis, as well as complying with the following limits: a) 50% (fifty percent) in the poorer regions; b) 30% (thirty percent) in the intermediate regions; c) 10% (ten percent) in other regions; VII – remuneration of the financial agents: 1% (one percent) on the total value of the loan, chargeable on the date of issue thereof, and 1% (one percent) on the value of each installment receivable.

Various organizations and entities in civil society have drawn up a series of forecasts, that are attached hereto, based on the financing conditions stipulated by the Central Bank Resolution, and have concluded that this debt is unpayable. These spreadsheets also reveal the difficulties encountered by the organizations, even when assisted by competent technical staff, in arriving at a common result of how much the beneficiary should pay for the installments. This is because the government has not issued the formula to be used for calculating the installments and the final amount of the financing. The margin of difference between the calculations does not invalidate these forecasts. These differences are insignificant, in view of the consensus that the financing undermines the feasibility of both the property and the life of the beneficiaries.

Based on a common assumption of financing of R\$ 15,000.00, with the IGP-DI and the inflation rate both at 4% p.a., the forecasts reach total amounts paid by the beneficiary which vary between 30% to 45% over the amount financed. It should be stressed that the impossibility of complying with the financial contract is found not only on the economic side, but also due to the type of agricultural activities that the beneficiaries undertake, due to their profiles as underprivileged members of society able to deal only with subsistence farming using minimal resources.

Should this problem not be sufficient, and contrasting with the reply given by the Bank to the Panel, the Beneficiaries of the project have not yet had access to the PROCERA credit.

3. Problems and Irregularities in the *Cédula da Terra* Program Implementation Process

The Loan Agreement signed between the Brazilian Government and the World Bank established certain clauses which allowed the Bank to cancel the loans. These conditions included “(c) at any time, the Bank may determine with regard to any contract to be financed with the outcome of the Loan

that representatives of the borrower or a beneficiary of the Loan have been involved in corrupt or fraudulent practices during the period of the acquisition or during the implementation of the above-mentioned contract...” (Article 1, Section 1.01, Line d, Item c, page 4)

As mentioned above and shown below, the documents issued by the Minister Extraordinary for Land-Ownership Policy add elements which reflect irrefutable irregularities in the process of implementing the *Cédula da Terra* Program. These facts indicate distortions in the purpose of this Project which would in themselves already justify its unilateral cancellation by the World Bank, according to the financing contract.

4. Cost of the *Cédula da Terra* Program and the its Purpose of Relieving Poverty

According to the assessment of the Panel, “Both the Request [Forum] and Response [World Bank] agree on the overall objective of the Project – reducing rural poverty – but disagree on the specific means to attain it”. (Item 9, page 3 of the Responses of the Panel to the World Bank and the Forum). This interpretation is not correct, particularly because the queries submitted by the Forum on the Project refer particularly to its objectives.

The Forum continues to state categorically that the results of the *Cédula da Terra* Program will impoverish the populace even further. It thus appeals for the IBRD to consider this interpretation, as this involves people at the utmost limits of poverty, and only inhuman insensitivity could believe them able pay off these loans offered for land purchase, as well as financing production, services and structure.

On the other hand, the Forum is confident that poverty could be eradicated through economic and social programs that build up citizenship and citizens’ rights, stressing the importance of undertaking true land reform.

Additionally, the Panel failed to analyze the claim that land prices were being pumped up because of the *Cédula da Terra* Program. Once again the information forwarded by the Government to Parliament strengthens the indications found previously. In Maranhão, says the document mentioned above, “the average prices in the appraisals undertaken by INCRA during 1998 hovered around R\$ 82.00, while the acquisitions under the *Cédula da Terra* Program reached an average of R\$ 152.00 per hectare” (item 7.1 - page 3).

Made by the agency responsible for the implementation for this Project in Maranhão State, this observation queries the feasibility of the program, as it boosts land prices and penalizes beneficiary families in economic terms.

It also reflects skewed reasoning on the part of the protagonists in this Project, stating that, in contrast to expropriation, this type of land purchase and sale transaction would be immune to corruption: in fact, it has frequently resulted in over-pricing the land!

5. Implementation of the program in the States: Analysis of the documentation

Listed below is information taken from documentation forwarded by Minister Raul Jungmann in response to the Request for Information forwarded by Senator Heloísa Helena and Federal

Congressman Valdir Ganzer, regarding the implementation of the *Cédula da Terra* Program in the States of Bahia, Minas Gerais, Maranhão, Pernambuco and Ceará. These data offer proof of distortions in the implementation of the Program and constitute the grounds for this Request submitted to the Inspection Panel.

The irregularities outlined are duly supported by the corresponding Annexes, taken from the official documentation issued by the Brazilian Government on the implementation of the *Cédula da Terra* Program and forwarded to the above-mentioned Members of Parliament.

A – BAHIA STATE

In Bahia State, 2,025 families were ‘benefited’, involving 43 associations and R\$ 8.8 million. The Reports forwarded are so precarious that they do not allow any more consistent conclusions to be drawn. We highlight:

Precarious nature of the Technical Report for the Definition of Land Prices

1. The Appraisal Reports defining the land prices barely identify the ‘class’ or ‘type of soil’ of the property (Annexes 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14). In many of these Reports, the land prices are established solely through a few ‘pearls’, such as “soil predominantly first class” (Annexes 1 and 16);

Phantom Reports

2. Many Reports were issued without the signatures of the respective technicians responsible (Annexes 1 and 2);

Preferential Option for non-productive Land

3. At least fourteen properties sold to the *Cédula da Terra* Program had no type of improvements whatsoever (100% non-productive), constituting a total area of 12,756 hectares, corresponding to 34% of the total area acquired under this Program in Bahia State. We stress that we refer solely to the areas that are completely non-productive, while emphasizing that other non-productive properties could not be identified through the INCRA documentation, due to the precarious nature of the Technical Reports. (e.g.: Annexes 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14);

Non-Productive Land: *Cédula da Terra* Program

- Great Deals for Banks and Industries

4. The Duraflora company owned by the Duratex and Banco Itaú Groups in São Paulo sold six properties to the Project, all completely non-productive, covering a total area of around 6,106 hectares, equivalent to 16% of the total land acquired by the *Cédula da Terra* Program in Bahia State, located in the Conde and Esplanada municipal districts (Annexes 4, 6, 7, 8, 9 and 10);

5. Similarly, the Companhia de Ferro Ligas da Bahia – FERBASA company sold the Program 3,675 hectares of completely non-productive land corresponding to three properties located in the Entre Rios and Esplanada municipal districts (Annexes 12, 13 and 14);

6. Together, the areas sold by Duraflora and Ferbasa are equivalent to 26% of the total land acquired by the Program in this State.

Over- Valuation of Bare Land and Improvements

7. The discrepancies among the appraisals are striking, suggesting cases of over-valuation of property. The prices for bare land vary from R\$ 37.00 to R\$ 350.00, and on the same ranch, the same values are assigned to different soils;

8. Discrepancies are also noted in the assessment of the improvements, such as wire fencing whose prices vary from R\$ 400.00/km to R\$ 1,900.00/km, without identifying the number of wires. (Annexes 15 and 17)

B. MINAS GERAIS STATE

Many Appraisal Reports dated after Land Purchases

1. The seventeen areas acquired under the *Cédula da Terra* Program in Minas Gerais dated 1998 were covered by two Reports. One was prepared by SUDENOR and the other by accredited agents, mostly prepared by the technical staff of EMATER-MG. All the Technical Reports written by the accredited agents (except one) are dated after the acquisition date of the property (The acquisition dates are given in Annex 1, and see the Technical Report in Annex 4, for instance).

2. These Technical Reports should assess matters such the support capacity of the property, its natural resources, soil fertility, etc.. According to the Manual, the Accredited Agent should undertake “...a survey of the natural resources in order to check the adequacy of the support capacity of the property offered, in terms of the number of beneficiaries” (page 7 – item ii). The post-sale preparation of these Reports in fact explains how they can indicate the exact number of families who were in fact benefited.

3. There are also cases where the technician who prepared the Report mentions the number of families already involved in the project, under the item covering the support capacity. The Technical Report on the Fazenda Formosa ranch (formerly the Fazenda Gado Bravo ranch) states in item 9 (Determination of support capacity – number of families – in compliance with item 6, 7 and 8), “The families already found under the Project will be able to subsist under these conditions and produce surpluses on the property” (page 3) (Annex 2).

4. Some Expert Reports explicitly state that they were undertaken after the acquisition of the area

and the implementation of the Project. The Technical Report for the Fazenda Acary ranch in the Pintópolis district, for instance, is dated December 12, 1998, while the acquisition date is March 18, 1998. The agricultural technician who prepared the above-mentioned Report noted that “This Report is prepared after the project is already being implemented”. (page 4) (Annex 3)

Conflicting Reports

5. Some of the Technical Reports (prepared by the Accredited Agents) contradict the Inspection Reports prepared by SUDENOR. The Report on the Fazenda São Vicente da Direita ranch in the Montes Claros municipal district prepared by SUDENOR mentions an area of “...lithosol constituting the range of hills covering 390 hectares, not suitable for croplands” (page 2) while the Technical Report mentions only 30 hectares of unusable land and another 303 hectares of unused arable land (page 1 – item 5) (Annex 4).

Non-Productive Land – Excellent Financial Asset

6. Of the seventeen properties acquired in 1998, seven cover over 1,000 hectares. In addition to their size, those properties lacked productive activities when the negotiation process was undertaken with the associations.

7. The Fazenda Lagoa da Solidão ranch (total area of 1,160 hectares) had an area of 578 hectares (49.83% of the total area) of unused arable land;

8. The Fazenda Espírito Santo ranch (total area of 774 hectares) had no productive activities whatsoever. According to the SUDENOR Report, this property had “...abundant vegetation, with an abandoned appearance, due to lack of care and crops. No economic activities are under way, with the exception of a few head of free-range cattle” (page 1) (Annex 4);

9. The Fazenda Gado Bravo ranch (total area of 1,532 hectares) had 610 hectares of unused arable land (38.92% of the total area) and a further 300 hectares (19.58% of the total area) of natural grazing lands, mainly *cerrado* savannas and *campos gerais* prairies (Annex 2);

10. The Fazenda São Vicente da Direita ranch (total area 1,364 hectares) had 390 hectares (28.59% of the total area) of land unsuitable for crops, and 303 hectares of unused arable land (22.21% of the total area, or 31.10% of the usable land);

11. The Fazendas Califórnia I and II ranches (area of 1,373 hectares each) were split off from the former Fazenda Ramalhudo Mártires ranch (total area of 4,840 hectares) and acquired by two separate associations. These two ranches each consist of three glebes of non-contiguous areas. The Fazenda Califórnia II ranch had 200 hectares of natural grazing land (14.56% of the total area) and 371 hectares of unused arable land (27.02% of the total area). We did not have access to one of the Reports on the Fazenda Califórnia I ranch, but as the Reports are identical, we can assume that these lands also showed extremely low productivity levels.

Cédula da Terra Program Finances and Purchases Non-Productive

Tracts of Land where Production is “Impossible”

12. According to the analyses presented in the Reports, some areas lack the technical conditions or need heavy investment in order to become productive and ensure the survival of the families;

13. At the Fazenda Marabá II ranch located in the Semi-Arid region and covering almost 2,000 hectares, according to the Technical Report “there is no water available for irrigation, as all water is consumed by the irrigation project on the left bank of the Rio Gorutuba River...” (page 1 – item 5). The SUDENOR Report affirms that there is a pipe well with a flow-rate of 25,000 liters an hour (page 2), but the EMATER Report mentions a flow of only 12,000 liters an hour, sufficient only for consumption by humans and livestock, and concludes by stating that “We stress that this region is poor in underground water.” (page 5) (Annex 5).

14. The acquisition of these areas and others in similar situations runs counter to the eligibility conditions as, according to the Program Operations Manual, in Minas Gerais State, the areas appropriate for the program are those which, among other factors, offer “...conditions for access, water supplies, and reasonable infrastructure” (item e – page 5);

15. Some areas have poor soils which will require heavy investments. According to the Technical Reports, the Fazenda Acary ranch (124 hectares) and Fazenda Vargem das Canoas ranch (639 hectares), acquired by the Pintópolis Small Landholders Community Association (*Associação Comunitária de Minifundistas de Pintópolis*) suffer from serious constraints on their use. The Report on the Fazenda Acary ranch (Annex 3) analyzes only the apparent fertility of the soils and concludes that “The Class III lands (28.2% of the area) offer moderate to severe constraints on use. They require intensive or complex measures in order to be cultivated (...) The Class V lands (71.8% of the area) are not suitable for annual crops, but can be used safely and on a long-lasting basis to produce certain useful permanent plants (forage), being particularly well-adapted for reforestation and grazing lands”. (page 2 – item 6.b)

16. The Technical Report on the Fazenda Vargem das Canoas ranch offers a similar diagnosis, stating that “The Class VI lands (65% of the area) offer severe limitations which make them inadequate for annual crops” (page 2 – item 6.b).

17. This diagnosis prompted the EMATER technician to conclude that the land, “...will need intensive practices when used for crops, such as: terracing, heavy manuring, soil correction, drainage and irrigation in areas with insufficient rainfall” (page 3). This leads to the conclusion that, in parallel to the lack of water resources, these lands will demand heavy investments, undermining the sustainability of the settlement project.

18. These cases all lead to the conclusion that areas unsuitable for farming or areas requiring heavy investments were acquired in order to settle families benefiting from the resources of the *Cédula da Terra* Program. These acquisitions run counter to the guidelines contained in the Operations Manual which states “Property eligible for purchase and sale should offer the potential for the sustainable development of its natural resources with a production infrastructure able to provide support for the families involved with low levels of additional investments” (page 5).

C. MARANHÃO STATE

According to the information forwarded by Minister Jungmann, fifty areas were acquired by the *Cédula da Terra* Program for a total of R\$ 5,242,678.99, benefiting 1,591 families.

Cédula da Terra Program Boosts Land Prices

The average price per hectare paid by the *Cédula da Terra* Program tops the average prices in the appraisals undertaken by INCRA in the course of 1998. According to the Government Report, the INCRA expropriations were located at around R\$ 82.00/hectare, while acquisitions under the *Cédula da Terra* Program reached an average of R\$ 152.00/hectare, 185% higher than the expropriation prices (see Report attached).

No Loans or Technical Assistance for Farming Activities

2. The beneficiary families have not had access to PROCERA funding or technical assistance. According to the State Report, 37 areas were qualified to receive PROCERA financing, but no funds were released by April 7, 1999. Nor is there any official technical assistance program or allocation of specific resources for such assistance, designed to provide aid for families settled under these projects.

Lack of Participation by Civil Society

3. There has been no participation on the part of organized civil society in the process of implementing the *Cédula da Terra* Program in Maranhão State. According to the Report, the rural workers' representatives are not formally involved in the Boards at the various levels of the *Cédula da Terra* Program, although some unions have demanded and monitored work at the field level.

Associations set up for the Occasion

4. Many associations were established merely to comply with the formalities of the *Cédula da Terra* Program. According to the official information supplied, fourteen of the fifty associations have been in existence for only one year. This lack of organization seriously undermines the possibilities of survival for

the beneficiary families.

Areas Open for Expropriation

5. At least eight areas were open for expropriation from the total of fifty properties acquired, for the purposes of land reform in the social interest.

Over-Priced Land

6. The Appraisal Reports allow at least four areas to be picked out whose average cost per hectare is at levels appreciably higher than the market rates. The Fazenda Belmonte ranch in the Bacabal municipal district was purchased for R\$ 311.39/hectare; the Fazenda Boa Vista do Acaraí ranch in the Balsas municipal district for R\$ 204.55; the Fazenda Sítio Campinas ranch in the São Luís municipal district for R\$ 755.67 and the Fazenda Alegria ranch in the Gonçalves Dias municipal district for R\$ 250.54/hectare.

7. It is also possible to note a marked discrepancy between the land prices surveyed among the entities mentioned. In the case of the Fazenda Boa Vista do Acaraí ranch, the prices surveyed varied from R\$ 75.90 to R\$ 250.00 per hectare. The same occurs with the Fazenda Tanque ranch, with a variation of R\$ 80.00 to R\$ 300.00 per hectare. It is important to note that in most cases the prices supplied by C.R.I./Presidente Dutra are always higher.

8. The case of the Sítio Campinas estate is an excellent example because the average value per hectare was around R\$ 1,125.00, according to the local survey. This figure was challenged by the technician responsible for the Report, which was in fact one of the few assessments not signed by agricultural engineer Eriberto Batista. As noted above, this property was in fact acquired at R\$ 755.67 per hectare.

Monopoly on Issue and other Irregularities in the Appraisal Report

9. The soil analyses in the fifty Reports all showed the same assessment: “clayey, rich in organic matter with fair natural fertility and good water retention capacity”;

10. Agricultural engineer Eriberto Batista da Silva was responsible for at least 36 Technical Reports;

11. Six of the Technical Reports are not signed by the technician responsible;

12. Few Reports were accompanied by the respective plans describing the location of the

property.

13. The case of the Fazenda Maracassumé ranch (called the Fazenda São Rafael in the General Report) in the Viana municipal district is important because the Inspection Report itself recommends “a new demarcation of the area as its limits, as the descriptions of its borders found in the plans and descriptive memorandum are not in keeping with the actual situation found in the field, with discrepancies between the area and the perimeter. Additionally, the technical items presented do not comply with the standards and procedures adopted by the State land agency” (part IV, page 6).

14. The case of the Empresa Comercial Agropecuária e Industrial do Rio Munim company in the Presidente Vargas municipal district is also symptomatic. This company was responsible for the sale of nine areas totaling 3,679 hectares. The Appraisal Reports state that 3,320 hectares were “unused arable areas” meaning 90% of the total area was non-productive. The company received a total of R\$ 253,890.00 for the area sold.

15. The Technical Reports for these nine areas were prepared by the same technician, with the wording of the Reports being identical for at least four areas.

D. PERNAMBUCO STATE

The *Cédula da Terra* Program acquired 28 properties up to March 1999 in Pernambuco State. According to the Reports, twenty-one of them are medium-sized properties and seven are large areas, with one being a non-productive property (page 2). Many of these areas were acquired during the second half of 1998 and the first six months of 1999 (Annex 1).

Initially, it is noteworthy that the properties acquired in Pernambuco State had an average price per hectare of R\$ 359.02. This was far higher than in other States, for instance: R\$ 138.06 (38.45%) in Ceará; R\$ 195.86 (54.55%) in Minas Gerais; and R\$ 231.88 (64.58%) in Bahia.

Among the properties acquired in Pernambuco State, the Appraisal Reports for three areas covering over 1,000 hectares present problems, including the acquisition of non-productive areas and the prices paid for the land or improvements.

Prices of Land and Improvements

1. The Fazenda Vale da Boa Esperança ranch in the Gravatá municipal district (Annex 2) was acquired on June 3, 1998 for R\$ 700,470.00. This amount represents 14.32% of the total amount spent of R\$ 4,890,210.08 on the purchase of all 28 ranches. The 1,134 hectares of this ranch representing the 8.32% of the total area acquired, settling 71 families (9.95%).

2. In addition to the total price for the property, another noteworthy point is the amount paid for some improvements. A house measuring 187.7 m² was valued at R\$ 20,300.00, and two other houses were assessed at R\$ 18,600.00 each.

3. A comparison of the improvements of other areas acquired shows that these figures are high. A

house measuring 208.37 m², (larger and more luxurious) on the Fazenda Casa de Pedra, for instance, was purchased for R\$ 5,216.00.

4. Even if they were luxury buildings, the question is: what is their use for a settlement of 71 families? These improvements increase the final price of the property, but will probably not be used or used to a very limited extent by the families as a whole. The Report leads to the conclusion that the area was over-valued in terms of its non-productive aspects.

Acquisition of Land Open for Expropriation

5. Some Appraisal Reports show that various areas acquired by the *Cédula da Terra* Program were open for expropriation for land reform purposes in the social interest. These areas offer low productivity, in the best of cases, but at least one area was open for expropriation.

6. The Fazenda Casa de Pedra ranch in the Granito municipal district (Annex 3), is the clearest example of a non-productive property which was open for expropriation for land reform purposes. According to the Appraisal Report, 1,151.52 hectares were unused arable land, meaning 70.23% of the total area of the property (1,639.52 hectares) was non-productive.

7. The Fazenda Serra do Ingá/Prata ranch in the Exú municipal district, (Annex 4) is another example of an area with low productivity, at the very least. According to the Appraisal Report, 1,408 hectares were natural grazing lands, covering 54.09% of its total area of 2,602.7 hectares and meaning poor productivity at the very least. Additionally, 369 hectares were unused arable land, meaning that at least 14.18% of the total area was non-productive.

8. According to the attached Appraisal Report, the above-mentioned Fazenda Vale da Boa Esperança ranch had 230 hectares of natural grazing lands, meaning 20.28% of its total area. It also had 197 hectares of unused arable land (17.73%). The remainder of the area (totaling 1,134.00 hectares) consisted of 480 hectares of artificial grazing lands (42.32%) and 227 hectares of legally preserved land (20%). Under the best of hypotheses, the artificial grazing land and the unused arable area, equivalent to 38% of the total area, reflected the low productivity of this property.

E. CEARÁ STATE

It is important to note initially that the *Cédula da Terra* Program required the Mortgage on the property acquired as collateral for financing the land purchases.

Preparation of the Reports and Assessment of the Situation of the Families

1. When commenting on the question covering the inspections, the public agent made the following

statement: “In view of the fact that the program provides the communities with the means required for the sustainable development of the properties, it is concluded that the settlers must have the capacity to pay for the land and to substantially improve their social and economic status, particularly in terms of the quality of life.” (page 2 of the Response document) (Annex 1)

2. With regard to the obvious optimism of the public agent in relation to the prospects of the *Cédula da Terra* Program in Ceará State, it should be stressed that the information in the Appraisal Reports prepared by IDACE does not lead to this conclusion. These Reports contain only an estimated income spreadsheet for the planned exploitation activities. Based on the hypothesis that the estimated productivity and prices are confirmed, even so, it is not possible to make a statement such as this, as the costs of paying for the financing for the land were not taken into consideration in any of the cases.

3. If the purpose is to upgrade living conditions, the least that should be done would be to include the costs of financing the property in the same spreadsheet, in order to check the real payment capacity of the “beneficiaries”, as well as the sustainability of the project.

4. With regard to family incomes, it is stated that a survey under way shows an increase of 20% - 30% in income. But the data corroborating this statement are not given, and no forecast is provided for the impact of payment of the installments of the financing on this income. It should be stressed that the families are still within the grace period, and have thus not yet begun paying for the land.

5. Of the 97 properties acquired, 47 cover up to 500 hectares, 32 measure 500 – 1,000 hectares, fourteen cover 1,000 – 2,000 hectares, and four are more than 2,000 hectares in size. This means that over one-half of the properties are larger than 500 hectares. There are at least two cases in which the same proprietor sold more than one property to the *Cédula da Terra* Program. Ms. Maria Mirtes Pessoa sold two properties in the Acaraú municipal district and another in the Bela Cruz municipal district, totaling 2,108 hectares. The same technician carried out the inspection for all three properties (Annex 2).

6. It should be stressed that among the properties acquired at Acaraú, the Sítio São Felipe estate owned by Ms. Maria Mirtes Pessoa received the highest price for land in Classes I-III: R\$ 300.00 per hectare, which is well above the average for the other acquisitions (Annex 3).

Acquisition of Areas Open for Expropriation

7. With regard to the productivity of the properties acquired, the public agent states “However, Technical Appraisal Inspections with Reports attached herewith were undertaken by IDACE, revealing the ranching and farming potential for production activities on the above-mentioned properties, including those covering over 500 hectares, even though this State has undergone two years of drought, and which are thus not open for expropriation, proving the supplementary and ancillary nature of the *Cédula da Terra* Program in terms of the Land Reform process.” (page 3 of the Response document) (Annex 1).

8. In this case, its hurry to defend the Program prompted the public agent to make untrue statements which can be proven through an analysis of the Reports attached to this inaccurate Response. Initially, the Extraordinary Ministry for Land-Ownership Policy admits in the general information the possibility that land open for expropriation could have been purchased, demonstrating the inconsistency of

the argument that the *Cédula da Terra* Program is allegedly supplementary and ancillary.

9. Second, the Reports do not support the statement that the property was not open for expropriation. An analysis of the Reports makes it clear that no procedures were undertaken to assess the productivity of the lands, such as determining land use rates, etc.. Without these data, the statement made by the public agent becomes groundless and even irresponsible.

10. Finally, an analysis of some Reports shows strong indications that property open for expropriation was acquired despite non-compliance with social functions. The Fazenda Esperança II ranch in the Parambú municipal district, for instance, covers a total area of 1,421 hectares, of which 70% are Classes I-III soils, meaning with good exploitation potential. However, the Report states that the distribution of the areas of the property has 200 hectares of natural grazing lands (14% of the total area) and 932 hectares of unused arable land. Some 65.58% of the total area of this ranch is completely non-productive, characterizing a situation open for expropriation for the purposes of land reform. (Annex 4)

11. Cases of this nature are not rare, with the same thing happening, for instance, with the Condado property sold by Mr. José de Carvalho Melo in the Quixeramobim municipal district. This property covers 2,065 hectares, of which 1,282 hectares were unused arable land, meaning 62.98% of the property was non-productive. (Annex 5)

Participation and Organization of the Beneficiary Families

13. With regard to the profile of the associations, it is noted that several of them were established just for purchasing the land. This becomes clear in some Reports which categorically state that: “The Community Association did not demonstrate experience in collective efforts”, as is the case with the Arvoredo and Massapê properties in the Quixadá municipal district. In various other cases, it was noted that the community was at the “initial stage of organization”.

Brasília, August 27, 1999

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De: Carolyn Brissett / Robert Brissett

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