

# The Inspection Panel

## Report and Recommendation on Request for Inspection

**Re: Request for Inspection – BRAZIL: Land Reform and Poverty Alleviation Pilot Project (Loan No. 4147BR)**

### The Project

1. On April 22, 1997, IBRD's Executive Directors approved a loan of US\$90 million equivalent to the Federative Republic of Brazil (GOB) (Loan No. 4147BR) to finance a market-based land reform operation. According to the project documents, the project will test a mechanism whereby poor rural laborers and farmers, who are either landless or have insufficient land for subsistence, and who organize into associations, can obtain financing to purchase agricultural properties, as well as grants for initial investments and start-up activities. The loan became effective on September 12, 1997. The Project is to be carried out in the Northeast states of Bahia, Ceara, Maranhao, Pernambuco, and Minas Gerais (the Project States), and seeks to increase the incomes of about 15,000 poor rural families.

### The Request

2. On December 14, 1998, the Inspection Panel (the "Panel") received a Request for Inspection (the "Request") dated December 10, 1998<sup>1</sup> submitted by the Fórum Nacional Pela Reforma Agrária e Pela Justiça No Campo (The National Forum for Agrarian Reform and Justice in Rural Areas), ("the Forum"), and signed by representatives of ABRA – Associação Brasileira de Reforma Agrária (Brazilian Agrarian Reform Association), ANMTR – Articulação Nacional de Mulheres Trabalhadoras Rurais (National Group of Rural Women Workers), Caritas Brasileira (Brazilian Branch of Caritas), CIMI – Conselho Indigenista Missionário (Missionary Indigents Council), CNASI – Confederação Nacional das Associações dos Servidores do INCRA (National Confederation of Associations of INCRA staff), CONIC – Conselho Nacional de Igrejas Cristãs do Brasil (National Council of Christian Churches of Brazil), CONTAG – Confederação Nacional dos Trabalhadores na Agricultura (National Confederation of Agricultural Workers), CPT – Comissão Pastoral da Terra (Pastoral Land Commission), INESC – Instituto de Estudos Sócio-Econômicos (Institute of Socioeconomic Studies), MST – Movimento dos Trabalhadores Rurais Sem Terra (Movement of Landless Rural Workers), Rede Brasil sobre Instituições Financeiras Multilaterais (Brazilian Network on Multilateral Financial Institutions) and 853 individuals (the Requesters). In a letter dated December 21, 1998, the Secretary of the Forum and President of the CPT provided on behalf of the Requesters certain clarifications to the Request indicating what Bank policies and procedures had, in their opinion, been violated by the alleged actions and omissions of Management.

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<sup>1</sup> See Annex I

3. The above signatories to the Request include rural workers, poor farmers without land, or with land insufficient for subsistence, and organizations who represent them, including the Forum and/or its member organizations. The Request claims that they are being or may likely be materially and adversely affected by the design and execution of the project financed by the Bank loan and that they are likely to be similarly affected by follow-up loans, which the Bank intends to make to support such kind of projects in Brazil.
4. Specifically, the Requesters claim that the project is (a) not achieving its objectives, (b) is not being implemented as a pilot project, (c) will make it impossible for its alleged beneficiaries to repay the debts they enter into under the project, (d) has increased the prices of agricultural land available to rural workers, (e) is being implemented as an alternative instead of as a complement to Brazil's constitutionally mandated agrarian reform program, and (f) that the Bank has failed to consult and adequately inform project-affected people and their representatives. The foregoing would constitute violation of the following Bank policies and procedures: OD 4.01 on Environmental Assessment; OD 4.15 on Poverty Reduction; BP 17.50 on Disclosure of Operational Information; and GP 14.70 on Involvement of NGOs in Bank Operations. The GP is not under the purview of the Panel.
5. On January 8, 1999, the Panel notified the Executive Directors and the IBRD President of receipt of the Request (meaning "Registration" under the Panel's Operating Procedures).<sup>2</sup>

### **Management Response**

6. Management submitted its response to the Request on March 8, 1999 (the Response)<sup>3</sup>. In short, the Response states that,

"Management considers that the Brazil Land Reform and Poverty Alleviation Project is a very well designed operation. As a pilot, it is being closely supervised, studied and fine-tuned. The Project is already yielding significant results on the ground for a large number of poor rural families in the Northeast of Brazil, and shows exciting promise as a cost-effective, expeditious and non-conflictive means of achieving a redistribution of land assets. It has not and would not replace all alternative approaches to land reform, such as expropriation, but it does constitute an extremely important option in the Government's array of instruments for dealing with serious and longstanding land issues."

Adding that,

"The Requestors do not demonstrate real or potential harm to any direct Project beneficiaries, nor do they seek to improve the Project design or execution. The objective is to stop the Project and prevent expansion of market-based land reform, because they advocate "punitive expropriation" as the only "legitimate" means to redistribute land assets in Brazil. The foundation of this argument is philosophical, and centers on a

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<sup>2</sup> See The Inspection Panel, *Operating Procedures*, (August 1994) at para. 17.

<sup>3</sup> See Annex II.

policy choice of the Government, and not on the proper application by the Bank of its own policies and procedures.”

7. Management also questions the eligibility of the Request in terms which are summarized in Chapter V (Conclusions) of the Response as follows:

“The only specific claims of non-compliance with Bank policies and procedures are unsubstantiated and are drawn from a separate letter, signed by one Requestor and not part of the Request as defined by the Panel. None of the identifiable signatories of the Request is a Project beneficiary (para. 3.5), and no evidence is presented to show that the beneficiaries designated any of the Requestors to act as their agent in presenting the Request. On the other hand, there is now voluminous documentation from the actual beneficiaries, expressing their clear and passionate support for the Project. In addition, among the signatures to documents repudiating the Request are those of local representatives of churches of various denominations, local mayors and municipal assemblies, and rural syndicates (affiliates of the national *CONTAG*), also voicing their support for the beneficiaries’ position.”

Adding that,

“The Request does not meet the requirements for Registration or Inspection in Resolution 93-10 of September 22, 1993, establishing the Inspection Panel, or in the August 19, 1994 Operating Procedures of the Panel.”

### **Basis of this Report**

8. This report is based on the Request, the Response, and additional information provided by the Requesters, IBRD Management, local NGOs and Federal and State government officials, as well as the observations of the Inspection Panel Members Edward S. Ayensu (Lead Inspector) and Ernst-Günther Bröder (Panel Member)<sup>4</sup> who visited a representative sample of sub-projects in the States of Pernambuco and Bahia on April 22 through April 30, 1999.<sup>5</sup>

### **Questions Under Consideration**

9. Both the Request and Response agree on the overall objective of the project – reducing rural poverty – but disagree on the specific means to attain it. The statements made in Management’s Response require that the Panel, before making its Recommendation, must review questions raised about the registration of the Request and the status of the Requesters. As required by the recent 1999 Clarifications to the Resolution that established the Panel<sup>6</sup>, it will limit its comments on the content of the Request.

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<sup>4</sup> Assisted by Eduardo G. Abbott, Executive Secretary

<sup>5</sup> The Panel wishes to thank the Executive Director for Brazil for his comments and guidance, the representatives of the Requesters at the Federal and State level for their comments and guidance during the field visits, the LCC5C Director and staff for facilitating the Panel’s work and especially the State Governments of Bahia and Pernambuco for the information and logistical support provided during the field visits.

<sup>6</sup> The 1999 Clarifications are contained in the “Conclusions of the Board’s Second Review of the Inspection Panel” dated April 20, 1999.

## Question About The Registration of the Request

10. The Resolution that established the Inspection Panel states clearly that the Panel shall establish the eligibility of the Request<sup>7</sup>. In spite of this, Management, in its Response, questions the Registration procedures followed by the Panel and, as noted above, states that the Request “does not meet the requirements for Registration”. In point of fact, there are no requirements for Registration in the Resolution that established the Panel. The Registration is purely an administrative step introduced by the Panel as a means of informing the Board, Management, the Requesters and the public in a concise manner about the existence of a Request for Inspection and its main content. It does not and cannot be construed as implying any judgement on the eligibility of the Request. Paragraph 16 of the Panel's Operating Procedures provides that the “Chairperson, on the basis of the information contained in the Request, shall either promptly register the Request, or ask for additional information, or find the Request outside the Panel's mandate.”<sup>8</sup>
11. Management claims that the “specific claims of non-compliance with Bank policies and procedures are unsubstantiated and are drawn in a separate letter signed by one Requester and not part of the Request as defined by the Panel”. In fact, the Requesters, through the Secretariat of the Forum, provided not a separate letter of request as stated by Management, but some supplemental information (the specific policies and procedures that in their view were violated by the Bank's actions and omissions described in the Request) to complement, or supplement, the original submission to the Panel.<sup>9</sup> Given the clear supplemental character of this letter, the Panel saw no need to refer to it specifically in the Registration notice.
12. As provided by paragraph 19 of the Resolution, the Panel deals with the eligibility of the Request **after** receiving the Response of Management.
13. The Panel, therefore, finds that there is no foundation for Management's allegation that the Request does not meet any alleged requirements for registration.

## Questions About The Requesters

14. Management states that “of all signatories of the Request identifiable by name, organization, location and national identity number, none is a Project beneficiary” and that “there is no evidence that any beneficiary designated by the Requestors to act as their agents in presenting the Request” but Management acknowledges however that, by its own account, 4.8% (about 41 individuals) “are from States where the project is being implemented” (Para. 3.5)
15. The 1999 Clarifications of the Resolution provide that an “affected party consists of any two or more persons with common interests or concerns who are in the borrower's territory.” By Management's own account, at least 41 individuals who are in the Project States voiced their concerns about the Project by filing the Request. This fact alone is sufficient for the Panel to consider the Request and ask

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<sup>7</sup> Paragraphs 19 of Resolution No. IBRD 93-10 and Resolution No. IDA 93-6

<sup>8</sup> In fact, certain Requests have been clearly outside the Panel's mandate, see for example Request for Inspection submitted in relation to IFC's participation in Chile: Panguel/Ralco Complex of Hydroelectric Dams.

<sup>9</sup> The supplemental character of this letter is also acknowledged in the Response, see for example paragraphs 4.34 and 4.39.

Management to respond. Management, however, wants to restrict eligibility to “Project beneficiaries”<sup>10</sup>, that is civil associations that are already participating in the project. As stated before, however, the Resolution allows any party that feels that its rights or interests have been or are likely to be directly affected by an action or omission of the Bank to file a Request. Such action or omission must be a result of a failure of the Bank to follow its own operational policies and procedures.

16. Management also raises, as grounds for a summary dismissal of the Request, the issue of the representation of affected people by the organizations that are signatories to the Request (which is a moot point given the fact that at least 41 individuals that feel affected by the Project also signed the Request). The Panel notes that these organizations’ representation of the intended project beneficiaries, rural workers, and small farmers is widely accepted throughout Brazil. Management also states that representatives of these organizations at the State level opposed the Request. The Panel Members were able to meet with representatives of these organizations at the State level who, contrary to Management statements, vigorously supported the Request. Indeed organizations like CONTAG (the National Confederation of Rural Workers) have been legally recognized as legitimate representatives of rural workers and smallholders throughout the national territory.<sup>11</sup> Furthermore, Management in its Response on matters such as Disclosure by the Bank (para 4.37), Dissemination by the Borrower (para 4.38) and Participation by NGOs (para 4.41) does acknowledge the role of these organizations as representatives of the interest of the rural poor and the project’s “target population”. This acknowledgement is also shared by the Panel.
17. If as a direct result of the Bank’s failures, the project has resulted or is likely to result in a deterioration of the living conditions of the rural poor in the Project States, any group of them can submit a Request for Inspection.

### Questions About The Request

18. The Requesters raise a number of political and pragmatic issues that do not relate directly to Bank policies and procedures. The role of expropriation and the legality of alternative methods to carry out the constitutionally mandated agrarian reform program, for example, are clearly outside the purview of the Panel although they provide a useful context to understand the concerns of the Requesters about the Bank’s role in the Project. In any event, Management has stated that this and future loans will not include farms that may be expropriated under the agrarian reform programme.
19. After completing its field visit and the review of the Request and Response, the Panel must ascertain whether there is any *prima facie* evidence of acts or omissions of the Bank, resulting from violations to its own policies and procedures, that have or may have caused material adverse effects on people affected by a Bank-financed project. As provided in paragraph 7 of the 1999 Clarifications, “in respect of such field visits, the Panel will not report on the Bank’s failure to comply with its policies and procedures or its resulting material adverse effect.”

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<sup>10</sup>The only definition of Project “beneficiaries” in the Project documents is found in Section 1.02(b) of the Loan Agreement and refers to “any ‘civil association’ which has been selected to carry out a community subproject and has obtained a land loan” (as such terms are defined in the Agreement).

<sup>11</sup> See GOB Decree No. 53.517 of January 31, 1964 and the Articles of Association of CONTAG.

20. The Panel must, however, base its recommendation on an analysis of the evidence and information gathered by the Panel on specific policy violations, and the nature of the alleged actual or potential harm that may have been or could be caused by the Bank-financed project. In this context, the following considerations must be made:
- a) The project was given an Environmental Category “B” (no significant adverse environmental impacts are expected) in accordance to Bank policies and procedures. The project Operational Manuals reviewed by the Panel provide for environmental analysis and mitigation mechanisms for each subproject and no evidence of alleged negative environmental impacts was submitted to the Panel.
  - b) The Panel Members visited sub-projects selected by both the Requesters and Management and met with the beneficiaries and their leaders as well as with several leaders of other sub-projects, and were able to discuss and raise issues of cultivation, output projections and their personal situations before and during that stage of project execution.
  - c) Management provided the Panel with evidence of efforts to inform and consult with potential project beneficiaries in the Project states.
  - d) During its assessment, the Panel neither encountered any situation that constituted *prima facie* direct material harm to the project participants nor was it provided with evidence of actual or potential price increases for agricultural land that may result in a deterioration of the Requesters’ present living conditions. On the contrary, the projects that the Panel visited showed marked improvements in the livelihood of the participants at this stage of the process. The direct beneficiaries of the project did emphasize, however, that they needed three main types of assistance:
    - i. technical assistance to improve their agricultural projects and marketing skills,
    - ii. working capital to facilitate the sustainability of their projects, and
    - iii. assistance to improve their management skills especially in the conduct of the actions of the officers of their associations.
  - e) Of particular concern to the project in certain States of Brazil was the impact of continuous drought in project site areas. Special attention was needed by the beneficiaries of the project with respect to water harvesting technologies, adaptation of seed cultivators to local soil conditions for both domestic and commercial crops and the improvement of their livestock.
21. Given the project beneficiaries’ lack of resources, the terms and conditions of credits for land purchases, initial investments and working capital are essential to ensure the success of their subprojects and to avoid the likelihood of the possible harm alleged in the Request.
22. The Panel’s assessment is also made on the basis of the introduction of improved revised terms of the loans received by the beneficiaries for the purchase of land claimed by Management in the Response and confirmed by the Ministry of Agrarian Reform and other government agencies during the Panel’s visit: “20-year

repayment period with three years of grace, and a fixed interest rate of 4%" (para 4.10).

23. Also, contrary to what is stated in the Response (para 4.17) the project beneficiaries do not have access to the highly subsidized PROCERA credit. The Panel however learned assurances that a similar line of credit will be available to them.

#### Recommendation

24. In light of the above, the Panel does not recommend an investigation of the matters alleged in the Request.

#### Attachments

## **Annex 1**

### **Request for Inspection**

**FÓRUM NACIONAL PELA REFORMA AGRÁRIA  
E PELA JUSTIÇA NO CAMPO  
(National Forum for Agrarian Reform and Justice in Rural Areas)**

**CPT: Comissão Pastoral da Terra [Pastoral Land Commission]  
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The Inspection Panel  
1818 H Street, NW  
Washington, D.C. 20433, USA

Brasília, Dec 10, 1998

Gentlemen:

We attach a Request that the World Bank Inspection Panel be convoked to consider the Land Reform and Poverty Alleviation Pilot Project (16342-BR), together with two annexes (a letter dated October 13, 1998 from the Forum to the World Bank Executive Director for Brazil, and a Summary-Report on the meeting between Forum representatives and the Executive Director on October 14, 1998), and a list of 853 eminent persons from this country who have signed a petition calling upon the World Bank to withdraw its financial support for this project.

I trust that I may count upon your support in arranging for the Inspection Panel to take cognizance of the matter.

Sincerely,

Dom Tomás Balduino,  
Bishop of Goiás Velho,  
Chairman of CPT,  
on behalf of the Secretariat of the National  
Forum

**FÓRUM NACIONAL PELA REFORMA AGRÁRIA  
E PELA JUSTIÇA NO CAMPO  
(National Forum for Agrarian Reform and Justice in Rural Areas)**

**Request for the World Bank Inspection Panel to Consider  
the Land Reform and Poverty Alleviation Pilot Project (16342-BR)**

**EXECUTIVE SUMMARY**

The *Fórum Nacional pela Reforma Agrária e Justiça no Campo* (National Forum for Agrarian Reform and Justice in Rural Areas), an association which brings together the most important organizations of rural workers and civil society in Brazil, hereby requests that the Inspection Panel of the World Bank meet to consider the Land Reform and Poverty Alleviation Pilot Project (16342-BR), known in Brazil as the *Projeto Cédula da Terra* [Land Title Project], on the grounds that it is not achieving its objectives, is not being implemented as a pilot project, will make it impossible for its alleged beneficiaries to repay the debts they enter into under the project, and is being implemented as an alternative -- instead of a complement -- to the Brazilian Government's Agrarian Reform Program.

The various charges contained in this request have been presented publicly since the 1997 Public Hearing in the Federal Senate, which approved acceptance of the World Bank loan, and it was then that the various bodies constituting the Forum presented their main criticisms of the project.

The criticisms, backed with increasingly sound technical evidence, were repeated on a number of other occasions, both to the Brazilian Government and to the World Bank, but this had no effect on the implementation of the project, which instead has been strengthened by the World Bank's public promise to commit about US\$250 million per year to it over the next four years.

Consequently, in light of the World Bank's insistence on politically supporting and financing a project that will actually harm family farmers and impair the land reform process in Brazil, we wish to lodge an appeal with the Bank's Inspection Panel.

**1. The Land Title Project**

According to the Brazilian Constitution, agrarian reform is to be implemented through the expropriation of land, the payment of compensation in installments, and the settlement of landless rural families by the executing agency. Only uncultivated land may be expropriated. The process calls for the land in question to be inspected in advance to ensure that it is, in fact, uncultivated, and the government experts pronouncement may be overturned by judicial decision. The expropriation decree must be signed by the President of the Republic. The entire process is, therefore, regulated by the relevant legislation, and the rights of the interested parties against any form of abuse are guaranteed.

Despite all these guarantees, the large landowners are resisting the agrarian reform program. Their resistance is nothing new. All attempts to promote a more equitable distribution of land, which is now concentrated in the hands of a very few owners, have been thwarted by the unshakable resistance of these groups, who have employed a wide range of methods to achieve their aims. At times, they can successfully nip the program in the bud by preventing the laws and programs for implementing it from being approved, and at times they prevent it from being executed, either directly or else by putting in place their own programs, which are designed to render the official program ineffective.

Over the last four years, these forces have been mobilizing themselves, with the establishment of formal associations of large landowners that have played an active role in the press, Congress, and the Executive, their purpose being to paralyze the already modest land reform program introduced by the Federal Government.

Yielding to this pressure, the current Ministry of Agrarian Reform (*Ministério Extraordinário da Política Fundiária*) has engaged in two maneuvers designed to block the already modest land reform program launched by the Federal Government: the Agrarian Reform Decentralization Program, and the Land Title Project, the latter being the subject of this request.

The Agrarian Reform Decentralization Program consists of transferring to state governors and municipal mayors a number of functions currently exercised by the agency of the Federal Government responsible for implementing agrarian reform (INCRA – the Federal Land Reform Agency): i.e. the selection of the land to be acquired; acquisition of this land, either by purchase or by expropriation; selection of beneficiaries; and organization of settlements. To carry out these functions, the governors and mayors will be provided with resources transferred by the Federal Government.

One would have to be totally ignorant of conditions in Brazil to imagine that representatives of the Executive Power such as these would be capable of promoting the redistribution of land within their states and municipalities. In countless studies, Brazilian and foreign specialists in the social and political sciences have shown that the characteristic features of the structure of political power at regional and local level are nepotism and patronage. If implementation of land reform is placed in the hands of state governors and the mayors of municipalities, they will certainly show favoritism when purchasing land from their political allies, just as they will show political vindictiveness by expropriating land from their political adversaries; and instead of a judicious choice of suitable beneficiaries, we will be witnesses to the traditional bartering of land for votes that has been so rife in the urban land redistribution programs operated by these levels of government.

In the Chapter of the CAS (Country Assistance Strategy) for Brazil entitled “The Role of the World Bank Group: Social Development”, Paragraph 57 states: “The Bank will also consider new assistance on land reform, beginning with a pilot project. The pilot

will test a more cost-effective, easily implemented, and market-driven model to resettle families. If successful, the Bank would support a land-reform program on a larger scale.”

This pronouncement gave rise to the Land Title Project, the fancy name for the supposed Land Reform and Poverty Alleviation Project, dated April 1997.<sup>12</sup> Since 1996, the Minister of Agrarian Reform, Raul Jungmann, had been announcing this project, referring to it as the “new model for implementing land reform in this country.”

Essentially, the way that the Land Title Project operates is that the Federal Government opens lines of credit in the financial agencies of the state governments so that landless rural workers, and smallholders, can buy plots of land directly from large landowners. The World Bank is implementing this type of project in countries such as South Africa, Indonesia, and the Philippines, which just happen to be the settings for bitter struggles over land.

According to the justifications presented for the project, the main objectives are to provide different sources of funding for agrarian reform and eliminate the bureaucratic delays now being caused by the processes of inspection and expropriation. The program is to establish mechanisms that are supposedly more speedy and effective than the “cumbersome” expropriations necessitated by agrarian reform, according to the ideologically slanted interpretation adopted by the Ministry of Agrarian Reform.

The pilot project is being implemented in the states of Ceará, Minas Gerais, Bahia, Pernambuco, and Maranhão. It began in 1997, being intended to last for three years. The resources required total US\$150 million, with US\$90 million provided by the World Bank for financing investment in community projects, such as productive and social infrastructure, through the Poverty Alleviation Programs (the former PAPP, or Programs to Support Small-Scale Rural Producers); these are also financed by the World Bank. The remaining US\$60 million are to come from domestic sources, being provided by the Federal Government and the state governments. Resources intended for directly purchasing land (about US\$45 million) will benefit about 15,000 families, an average expenditure of R\$3,000<sup>13</sup> per family.

The project establishes the following formal (albeit not real) principles and conditions to govern access to the land fund:

- (a) The rural workers organize themselves into associations, identify the area to be acquired, and negotiate directly with the owners.

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<sup>12</sup> The information on this program has been taken from the document entitled *Cédula da Terra* produced by the Office of the Minister of Agrarian Reform, itself a translation of portions of the World Bank’s “Project Appraisal Document on a Proposed Loan in the Amount of US\$90.0 Million Equivalent to the Federative Republic of Brazil for a Land Reform and Poverty Alleviation Pilot Project” (Report No. 16342-BR, April 1997).

<sup>13</sup> TRANSLATOR’S NOTE: *sic*; in a parallel passage in Annex 1 of this document, the figure is quoted as US\$3,000.

- (b) Rural workers using the land fund would not be entitled to PROCERA resources or INCRA funding for development, food, or housing. This leaves them eligible only for loans from PRONAF (the National Program for Strengthening Family Agriculture), and these are inappropriate even for already well-established family farmers, because of their high cost.
- (c) The financing provided for land purchase has to be repaid over a period of 10 years, including a three-year grace period, the debt being adjusted according to the TJLP (the government long-term interest rate). This makes it one of the most expensive rural financing arrangements in the whole of Brazil; more expensive, even, than the operating credit provided for large-scale rural producers throughout the country (the interest rate for the 1998/99 harvest being 8.75%). The current TJLP (applicable up to February 1999) is 18.06% per year.

## **2. The Need to Establish an Inspection Panel for the *Cédula da Terra* Project**

The *Cédula da Terra* Project forms part of a set of measures adopted for the purpose of rendering the process of agrarian reform ineffective. These have been adopted by the Ministry of Agrarian Reform in response to the pressure exerted on the Brazilian Government by the large landowners.

Although this project has been presented to public opinion as an alternative to expropriation-based agrarian reform, it is turning into one of the most damaging of government programs, because it reasserts the power of the landowning oligarchy in rural areas and it perpetuates the subordination of the rural workers settled under this project to the business interests of the landowners.

We view the replacement of agrarian reform through expropriation by a market-based approach as unacceptable, since such a procedure does not allow the State to maintain control of the process or to ensure that the land fulfills its social function. In reality, the mechanisms associated with the project overturn one of the main social advances now incorporated into the Federal Constitution; namely, the requirement that land, through a system of private property, is to fulfill a social function.

In addition, the supposed market-based agrarian reform, as presented in the justifications for its design and projects, does not address -- properly and relevantly -- one of the issues relating to the social function of land; namely, the conservation of natural resources through the regulatory mechanisms of the State.

It is considered, therefore, that the State should employ expropriation in the public interest as a means of implementing agrarian reform. Expropriation means punishing (in accordance with current legislation) the owners of large tracts of land who keep them in an unproductive state and/or fail to fulfill the social function stipulated in the country's Constitution. If it is the case that the process now appears slow and

cumbersome, the Government has at its disposal a series of possible measures that have already been proposed by the Forum's member organizations for facilitating expropriation, lowering its cost, and speeding it up; otherwise, the preliminary drafts of legislation submitted by the Federal Government to Congress suggest that there is total connivance with the interests of the large landowners, and that they will be allowed, with impunity, to overprice the land they sell. At the same time, official studies issued by the Federal Court of Auditors (*Tribunal de Contas da União*) show that some of INCRA's Superintendencies have completed expropriations in only four months, without the cost being excessive. Consequently, the issue simply comes down to the Government's lack of political will.

It is therefore economically and politically unjustifiable that the Government should give up the legally accepted mechanism of expropriation, using instead land purchases as a means of carrying out a supposed land reform. However much the intention of replacing expropriation may be denied by representatives of the World Bank and by officials of the Federal Government, both the language in the Land Title Project and the reference in paragraph 57 of the CAS confirm that such an intention exists, and thus contradict the declarations of both the World Bank and the Federal Government. This is clear, for example, from the text of the project itself, which states: "The benefits of the market-assisted approach<sup>14</sup> are likely higher than those of the traditional approach (for which read 'expropriation')<sup>15</sup> because: (a) there are fewer delays; (b) beneficiary selection is better; and (c) sufficient funds for infrastructure investments are being provided." Even the choice of beneficiary states for the Land Title Project is significant, because these areas in particular contain enormous expanses of land that could be expropriated, so that the project unjustly provides an opportunity for selling off land that has been kept unproductive and retained as a store of value. In our opinion, therefore, the basis for the arguments justifying the Land Title Project is merely ideological, calling into question just how serious the World Bank can be about dealing with the issue.

In 1998, even before the Land Title Project was actually implemented and there could be any chance of assessing its impact, and under considerable pressure from the parliamentary rank and file of the party in office, the National Congress approved a bill presented by Senator Espiridião Amin establishing the Land Bank (*Banco de Terras*)<sup>16</sup>, which is nothing more than the Land Title Project in a revised and expanded form. It placed no limitations on the regions or land where expropriation was to be implemented, gave no clear indication of the interest rate to be applied, and specified, among the sources of funds, TDAs (Government Agrarian-Reform Bonds) and external financing. The use of TDAs in the Land Title Project is evidence that expropriation was to be replaced by land purchases.

Therefore, the project was not a pilot project, but an fraudulent institutional device for replacing agrarian reform with a market in land, to the detriment of landless rural workers and the clear benefit of the large landowners. Indeed, the World Bank publicly committed itself to this approach by approving a loan of about US\$250 million per year to the expanded version of the Land Title Project. The World Bank, therefore,

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<sup>14</sup> TRANSLATOR'S NOTE: "The proposed pilot project" is the meaning of the expression used in Portuguese by the writer when translating this extract from Annex 4 of the Project Appraisal Document.

<sup>15</sup> TRANSLATOR'S NOTE: Comment in parentheses added by the writer.

<sup>16</sup> TRANSLATOR'S NOTE: Also referred to as the *Banco da Terra* (see Annex 1).

even before a more judicious evaluation of the Land Title Project could be made, committed itself to the Government's "Land Bank" program, which was merely the same thing in expanded form.

Because of the conditions applicable to these loans, borrowers from the Land Title Project and the Land Bank will be unable to meet their financial obligations. The crisis that is now devastating Brazilian agriculture will prevent farmers from producing sufficient output to repay the installments on their loans, as adjusted according to the project indexes. This is obvious from the following table, which simulates a R\$3,500 loan borrowed under the program's conditions.

**Land Title Project: Comparison of Changes in Costs  
With Changes in Inflation and Farm Income  
Simulation of a R\$3,500 Loan**

**Conditions: (i) 10-year repayment period, with a three-year grace period;  
(ii) annual installments of R\$500, adjusted for the TJLP  
(government long-term interest rate)**

<b>Year</b>	<b>Repayment amount* - R\$1.00 (a)</b>	<b>Adjustment for projected inflation rate** - R\$1.00 (b)</b>	<b>Change in debt amount, adjusted for inflation rate</b>	<b>Projected farm income*** - R\$1.00 (c)</b>	<b>Income/debt</b>
1998					
1999					
2000					
2001	970.00	541.22	-44%	415.07	-57%
2002	1,145.18	552.04	-52%	391.67	-66%
2003	1,352.00	563.08	-58%	367.34	-73%
2004	1,596.17	574.34	-64%	342.03	-79%
2005	1,884.44	585.83	-69%	315.20	-83%
2006	2,224.77	597.54	-73%	288.34	-87%
2007	2,626.57	609.49	-77%	259.88	-90%
	11,799.13	4,023.54	-66%	2,379.53	-80%

\* TJLP = 18.06% p.a.

\*\* Rate = 2% p.a.

\*\*\*Rate = -4% p.a.

Studies of rural areas in Brazil show that **the poorest groups are unable, for financial and educational reasons, to meet the explicit and implicit prerequisites of the land-purchase program.** Their extreme poverty is reflected not only in their lack of the physical resources for subsistence, but in their absolute lack of education and social organization. It is unlikely that such people can take the initiative to establish a group for buying land, or, still less, to hold their own in negotiations with large rural landowners in their regions. For example, what is already happening in the implementation of this project in Ceará, Maranhão, and Bahia is that landowners gather together groups of landless rural workers and establish, **on their behalf, land-purchasers' associations** that serve as a "screen" behind which they can use public money to carry out land deals in their own interest, as shown by the examples quoted by Professor Zander Navarro in the study of the Land Title Project he carried out in 1998 at the behest of the World Bank itself. Moreover, it is the landowners who take the initiative in land-purchase operations, openly supported by the specialists from the state governments' land agencies. In such negotiations, the workers become mere objects.

In dozens of cases that have been observed, the workers' associations established for land purchases become politically subordinate to the former owners of the land. In addition, the areas of land sold are those that are most edaphically and climatically unsuited to agricultural and livestock production. All this serves to consolidate the subordinate position of those rural workers, who, under the project, do eventually purchase land from the dominant oligarchy. Consequently, the process taking place in rural areas is not one of democratization, but the reaffirmation of social injustice.

**The project's participatory mechanisms do not comply even with the criteria established by the Bank itself.** The mechanism devised to ensure that there would be openness and objectivity in project implementation – the State Councils (*Conselhos Estaduais*) – will be incapable of achieving this objective. In practice, because of the patterns of political power at regional and local levels, the operation of these Councils is a pure formality that does no more than give a semblance of popular participation to decisions that will really be made by governors, mayors, and local political bosses. According to information obtained from INCRA, each of the states is preparing an Operational Manual to determine how the project is to be regulated and operated; however, the beneficiary organizations, such as CONTAG and MST, have never been given access to these documents.

Those who have studied the Land Title Project make the point that its concrete result will be to **heat up the land market** and thus reverse the trend toward lower prices that had been observed over the last few years. **Expanding the project to make it nationwide will substantially increase land prices, placing a special burden on the project over the medium term.** By replacing expropriation by land purchases, the Land Title/Land Bank program is rewarding the large landowners, who, instead of being paid in TDAs (agrarian reform bonds) that would be paid off in up to 20 years, receive immediate cash payments. In this way, unproductive tracts of land are being turned into financial assets. **Thus, the market approach to land reform is once more benefiting the large landowners,** by providing them with the opportunity to make money out of land that they had kept unproductive and retained as a store of value.

Finally, it must be pointed out that the organizations representing rural workers have devoted enormous efforts to participating in project preparation, but have been totally ignored. They appeared, and presented documentation, at the Senate's 1997 public hearing on the World Bank loan. The workers presented arguments to the World Bank Mission in Brasilia and the Brazilian Government to show that the Bank should not be supporting lines of credit that are incompatible with land reform, and that are unsustainable for the people involved. Instead, the Bank should open lines of credit for other areas that relate to land reform and which suffer from a chronic lack of resources, such as expropriations, capital investment and operating costs, technical assistance, agro-processing, etc. Revision of the program was on the agenda in the negotiations between CONTAG and the Federal Government during the 1997 "Call of the Land" campaign (*Grito da Terra*), which mobilized supporters nationwide. One proposal was to redirect the resources of the program into a Land Credit Fund for financing a land rationalization process in regions with large concentrations of smallholdings and giving priority to encouraging young people to remain on the land. In addition, the rules governing this Fund would not allow it to be used for purchasing expropriable land.

During the *Grito da Terra* negotiations, the Minister, Mr. Jungmann, responded that he was willing to revise the Land Title Project, in cooperation with the financial institution concerned. The World Bank, in its turn, argued that, even though its policy was to encourage participation, in all cases the responsibility for establishing the necessary mechanisms lay with the borrower. While each of the parties was pushing its responsibilities onto the other, the demands of the workers went unheeded by both the Bank and the Government. In short, the World Bank's policy on participation consisted of talk and no action.

**For the above reasons, which represent an attempt to demonstrate the harmful economic, social, political, and institutional effects of the Land Title Project, we call for consideration of the case by the World Bank's Inspection Panel.**

Brasília, December 10, 1998

/s/ Horácio Martins de Carvalho, ABRA (Brazilian Land Reform Association)

/s/ Justina Cima, ANMTR (National Group of Rural Women Workers)

/s/ José Romualdo de Souza, Brazilian Branch of Caritas

/s/ Paulino Silvestre Montejo, CIMI (Missionary Indigenist Council)

- /s/ José Vaz Parente, CNASI (National Confederation of Associations of INCRA Agents)
- /s/ Ervino Schmidt, CONIC (National Council of Christian Churches of Brazil)
- /s/ Manoel José dos Santos, CONTAG (National Confederation of Agricultural Workers)
- /s/ Dom Tomás Balduino, CPT (Pastoral Land Commission)
- /s/ Aurélio Vianna Junior, INESC (Institute of Socioeconomic Studies)
- /s/ João Pedro Stédile, MST (Movement of Landless Rural Workers)
- /s/ Flávia Barros, Brazilian Network on Multilateral Financial Institutions

**THERE FOLLOWS A LIST OF 853 EMINENT PERSONS FROM THIS COUNTRY WHO HAVE SIGNED A PETITION CALLING UPON THE WORLD BANK TO WITHDRAW ITS FINANCIAL SUPPORT FOR THE LAND TITLE PROJECT.**

**ANNEXES 1 and 2**

**FÓRUM NACIONAL PELA REFORMA AGRÁRIA  
E PELA JUSTICA NO CAMPO  
(National Forum for Agrarian Reform and Justice in Rural Areas)**

Secretariat: CPT: Comissão Pastoral da Terra [Pastoral Land Commission]  
Rua 19, Nr. 35, 1<sup>o</sup> andar,  
Tel.: 062/212-6466  
Fax: 062/212-0421  
Email: cptnac@cultura.com.br

Goiânia,

October 13, 1998

Mr. Gobind Nankani,  
IBRD Country Director for Brazil

Fax: 061/329-1010

**RE: Preparatory document for the meeting on October 14.**

Dear Mr. Nankani:

As indicated in paragraph 57 of the most recent Country Assistance Strategy (CAS) document on Brazil (June 12, 1997), the World Bank has considered providing loan support for a pilot experiment in market-driven land reform in Brazil. The Bank-financed pilot project, entitled the "Land Reform and Poverty Alleviation Pilot Project" and dated April 1997, has come to be known in Brazil as the *Cédula da Terra* [Land Title] Project. According to the justification presented in the document relating to this program, the main objectives are to provide different sources of funding for agrarian reform and eliminate the bureaucratic delays now being caused by the processes of inspection and expropriation, establishing mechanisms that are more speedy and effective. The pilot project is being implemented in the states of Minas Gerais, Bahia, Pernambuco, Maranhão, and Ceará, with a resources totaling US\$150 million, US\$90 million being in the form of World Bank lending. Of the total, the sum of US\$45 million is to be used for purchasing land for about 15,000 families, an average expenditure of US\$3,000 per family.

Since the project was publicly announced, the various organizations representing Brazilian civil society and making up the National Forum for Agrarian Reform and Justice in Rural Areas<sup>17</sup> and the Brazilian Network on Multilateral Financial Institutions<sup>18</sup> have been very concerned about its consequences, at the political and socioeconomic levels.

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<sup>17</sup> The National Forum for Agrarian Reform and Justice in Rural Areas is an organization that has existed since 1995, its objective being to help coordinate the activities of the various bodies supporting the implementation of land reform in Brazil. The Forum is broad and multiparty, bringing together social movements and nongovernmental organizations such as ABRA (the Brazilian Land Reform Association), the Brazilian branch of Caritas, CAPOIB (the Coordinating Council of the Indigenous Peoples of Brazil), CIMI (the Missionary Indigenist Council), CNASI (the National Confederation of Associations of INCRA Agents), CONIC (the National Council of Christian Churches of Brazil), CONTAG (the National Confederation of Agricultural Workers), CPT (the Pastoral Land Commission), INESC (the Institute of Socioeconomic Studies), MST (the Movement of Landless Rural Workers), etc.

In this context, criticisms of the Land Title Project were included in the agenda of the negotiations held during the 1997 “Call of the Land” campaign (*Grito da Terra*), when the participating organizations presented arguments to the Brazilian Government to show that the World Bank should not be supporting lines of credit that are incompatible with land reform; that instead it should open lines of credit for other areas relating to land reform, such as support for settlement projects. At that time it was also proposed that the resources should be redirected into a Land Credit Fund, to be used for financing a land rationalization process in which young farmers would be enabled to purchase land; however, the regulations would not permit the fund to be used to purchase expropriable land.

During the negotiations, the Minister, Mr. Jungmann, responded that he was willing to revise the project. The World Bank gave assurances that the initiative for making such revisions lay with the borrower; i.e. with the Minister. Nevertheless, despite this apparent consensus, nothing was done; or rather, the project was expanded through the establishment of the Land Bank (*Banco da Terra*). This Bank, established as the result of a legislative bill presented by Senator Espiridião Amin, is an expanded version of the Land Title Project. It imposes no limitation on expropriable land, and includes TDAs (agrarian reform bonds) among its resources, in addition to external financing. That is to say, before the Land Title Project – a pilot project – had even been evaluated, the Brazilian Government committed itself to expanding and institutionalizing it, with the backing of the World Bank, as announced repeatedly in the press.

At the end of 1997, a public hearing on the two projects was held in the Federal Senate, with the participation of the Forum’s member organizations. The expression of their concerns began with a warning and an accusation of a more general political nature, and these provide a good summary of our main concerns: **It was reiterated that Brazil is noteworthy for its absurd pattern of concentrated land ownership, which blocks the whole national development process, and that only fundamental land reform can remedy this problem. Attention was drawn to the dangers of replacing expropriation procedures with market-based land reform, since the latter is a profound infringement of the basic constitutional principle that land has a social function. This is our main criticism, because land reform consists of a transfer of rights from one owner to many owners; therefore, it necessarily presupposes expropriation, and if this now appears slow and cumbersome, the Government has at its disposal a series of possible measures that on several occasions have been proposed by the Forum’s member organizations for facilitating expropriation, lowering its cost, and speeding it up. It is therefore politically unacceptable that the Government should give up the legally accepted mechanism of expropriation, using instead land purchases as a means of carrying out land reform. Even the choice of beneficiary states for the Land Title Project is significant, because these in particular contain enormous expanses of land that could be expropriated, so that the project unjustly provides an opportunity to sell off land that has been kept unproductive and retained as a store of value.**

In addition, attention was drawn to problems caused by the following issues:

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<sup>18</sup> The Brazilian Network on Multilateral Financial Institutions was established in 1995 and includes a number of NGOs and social movements that monitor policy and undertake activities relating to the sectors affected by the projects financed in Brazil by such institutions. The purpose of the Network is to provide democratic access to the relevant information, together with a forum for contacts and discussion on the institutions’ policies and projects, so that representations can be made to the Brazilian Government at the local, regional, and national levels.

- (1) the probable increases in land prices resulting from the heating-up of markets in regions where the programs are implemented, thus providing even larger rewards for those who had previously hoarded land; and
- (2) **errors in the calculation of the debt-carrying capacity of the potential borrowers**, who would be required to repay their debts over seven years, with a three-year grace period and charges based on the TJLP (the government long-term interest rate).

Once again, during the 1998 *Grito da Terra* campaign, the issue was brought before the Minister, Mr. Jungmann, and this time there was a call for the Land Title Project and the Land Bank to be eliminated and replaced by a Land Rationalization Program that would not apply to land eligible for expropriation. The Government's response was unequivocal, stating that the Land Bank and Land Title Projects would be continued and not revised, and that the points raised by the *Grito da Terra* movement would not be examined until the Land Bank's operating rules were defined.

Even more worrying were the recent statements by the Chairman of INCRA, Mr. Milton Seligmann, who said that the agency was going to cease carrying out any expropriations that worked to the detriment of market-based mechanisms for obtaining land, such as the Land Bank and Land Title Programs. This made it clear to the member organizations of the Forum that, in contrast to what Mr. Seligmann stated in his letter of September 21, 1998, **these Programs cannot be regarded as complementary activities [“ações complementares”], but really as activities proposed by the Government as alternatives to the implementation of a genuine agrarian reform.**

Unfortunately, all attempts to establish a productive dialogue with the Ministry of Agrarian Reform and INCRA regarding the need to revise the projects proved fruitless. We are therefore bringing our concerns to the attention of the World Bank and requesting, as representatives of the interested parties, that **the World Bank withdraw its support for the Land Title Project and the Land Bank, and that the resources in question be used for a different purpose, since, if they are applied as they have been so far, they will certainly bring material harm to rural communities that are already considerably impoverished.**

The items presented above constitute all the points we wish to bring to your attention for the moment.

Sincerely,

[Illegible signatures]

pp/National Forum for Agrarian Reform and Justice in Rural Areas

[Illegible signature]

ABRA (Brazilian Land Reform Association)

The Brazilian Branch of Caritas

CAPOIB (Coordinating Council of the Indigenous Peoples of Brazil)

[Illegible signature]

CIMI (Missionary Indigenist Council)

[Illegible signature]

CNASI (National Confederation of Associations of INCRA Agents)

CONIC (National Council of Christian Churches of Brazil)

CONTAG (National Confederation of Agricultural Workers)

CPT (Pastoral Land Commission)

[Illegible signature]

INESC (Institute of Socioeconomic Studies)

[Illegible signature]

MST (Movement of Landless Rural Workers)

[Illegible signature]

Brazilian Network on Multilateral Financial Institutions

**FÓRUM NACIONAL PELA REFORMA AGRÁRIA  
E PELA JUSTIÇA NO CAMPO  
(National Forum for Agrarian Reform and Justice in Rural Areas)**

**Summary report on the meeting of October 14, 1998 from 11.00 AM to 12.30 PM at the Office of the World Bank, Brasília, between representatives of the National Forum for Agrarian Reform and Justice in Rural Areas and the Brazilian Network on Multilateral Financial Institutions, and representatives of the World Bank.**

In order to discuss the *Programa Cédula da Terra* [Land Title Project],<sup>19</sup> financed by the World Bank, representatives of the organizations comprising the National Forum for Agrarian Reform and Justice in Rural Areas (ABRA, CNASI, CONTAG, CPT, INESC, and MST), together with members of the Brazilian Network on Multilateral Financial Institutions, met with Mr. Gobind T. Nankani, World Bank Country Director for Brazil, on October 14 at 11.00 AM in the Office of the World Bank in Brasília. Accompanying Mr. Gobind Nankani were the Land Title Project Coordinator, Mr. Túlio Barbosa, the advisers, Mr. John Garrison and Mr. Antônio Magalhães, and Mr. Marcelo Vieira, the representative of the Office of the Secretary of International Affairs, Ministry of Planning.

When the session opened, Mr. Gobind Nankani emphasized the importance that the World Bank attached to the meeting, and said that he expected it to be the first in a series of discussions of Bank activities relating to land issues in Brazil.

The representatives of the Forum and Network began by expressing their considerable concern over the consequences of this Program, because it had been designed as an activity to complement the land reform process, but now the Government was planning to use it as an alternative to expropriation. The member organizations of the Forum believe that this change deeply infringes the constitutional principle that land has a social function, and that -- in addition -- the Government has at its disposal a series of possible measures that could lower the cost of expropriation and speed up the process, but that these are not being adopted because of pressure from the large landowners. The Forum also pointed to several problems arising from the Land Title Program, such as probable increases in land prices resulting from the heating-up of markets (thus providing even larger rewards for those who had so far hoarded land), and overestimation of the debt-carrying capacity of the potential borrowers, who will be required to repay their debts over seven years, with a three-year grace period and charges based on the TJLP (the government long-term interest rate). In addition, the program has led to the formation of a series of associations, and the effects of this **have tended to favor local elites**; moreover, the program has certainly **not significantly changed the land-tenure structure** in the regions where it has been implemented.

In light of these problems, the Forum declared that it could not understand why, **even before the Land Title Project had been evaluated, the Brazilian Government had committed itself to expanding and institutionalizing it** by establishing the Land Bank, in practice a sort of expanded Land Title Project, for which the Government hoped

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<sup>19</sup> *Cédula da Terra* is a land-reform pilot project based on the sale and purchase of land. It is being implemented in the states of Minas Gerais, Bahia, Pernambuco, Maranhão, and Ceará, with financing of about US\$150 million, of which US\$90 million is being provided by the World Bank.

to secure the backing of the World Bank. This is symptomatic of the **lack of participation** that has so far characterized the entire implementation phase of the program, since, on different occasions in 1997 and 1998, the member organizations of the Forum approached the Ministry of Land Reform in order to discuss the matter, but these approaches proved absolutely fruitless. Moreover, the Consultative Council for the Program has no decision-making power at all. Because of this, the Forum opted to bring its concerns directly to the attention of the World Bank and request, as representatives of the interested parties, that **the World Bank withdraw its support for the Land Title Project and the Land Bank, and that the resources in question be used for a different purpose, since, if they are applied as they have been so far, they will certainly bring material harm to rural communities that are already considerably impoverished.**

In attempting to defend themselves against these criticisms, the representatives of the World Bank asserted that the Land Title Project is based on other similar programs that have worked well in other countries. They emphasized that the Brazilian program **is at the evaluation stage**, this being coordinated by UNICAMP, and acknowledged that this process could bring to light the sort of problems raised by the Forum, especially as regards the inadequate organizational and debt-carrying capacities of borrowers in semiarid areas. They maintained that any conclusions regarding the possible expansion of the program would be based exclusively on this evaluation, **and the Bank undertook to share its findings with the member organizations of the Forum.** The resources for supporting the Land Bank (about US\$1 billion) would be released in tranches over a period of between five and seven years, and only if positive results were being achieved. In addition, the Bank's representatives again emphasized that the Land Title Project and the Land Bank are *complementary activities*, and are quantitatively insignificant in light of the targets that the Government has set in the area of expropriation. Finally, they stressed that, in the case of the Land Title Project, the resources from the Bank were intended solely for direct investment grants for settlement areas, and not for the purchase of land, the cost of which would be met by the Brazilian Government.

The Forum questioned the alleged complementary nature of these activities, particularly in the context of the deep cuts expected in INCRA's funding under the budget package. In the end, the Forum restated its position that **it is only through expropriation that changes can be made in the country's absurd pattern of concentrated land ownership**, which blocks the whole national development process. **The Forum criticized the Bank for conniving with the interests of the large landowners, since, through this program, it was helping provide artificial advantages in the sale and purchase of land. The Forum repeated its request that IBRD withdraw its support for the Land Title Project, and that the resources be used for supporting an effective land reform process, by – for example – supporting investment in settlements established in expropriated areas.**

Goiânia, October 31, 1998

Luciano Wolff,  
CPT/FIAN  
Forum Secretariat

## **Annex 2**

### **Management Response**

**MANAGEMENT RESPONSE TO  
REQUEST FOR INSPECTION PANEL REVIEW OF  
BRAZIL: LAND REFORM AND POVERTY ALLEVIATION PILOT PROJECT  
LOAN 4147-BR**

Management has reviewed the Request for Inspection of the Brazil Land Reform and Poverty Alleviation Pilot Project, filed on December 10, 1998 and the separate letter dated December 21, 1998. The following Response has been prepared by Management.

**Contents**

**Chapter**

<b>I</b>	<b>Introduction.....</b>	<b>1</b>
<b>II</b>	<b>The Bank's Involvement in Land Reform in Brazil and Loan 4147-BR .....</b>	<b>3</b>
<b>III</b>	<b>The Nature of the Request and Some Considerations on Its Eligibility.....</b>	<b>6</b>
<b>IV</b>	<b>Response to Claims of Adverse Impact of the Project and Violations of Bank Policies and Procedures.....</b>	<b>8</b>
<b>V</b>	<b>Conclusions.....</b>	<b>24</b>

<b>ANNEX A:</b>	<b>Matrix of the Request for Inspection and Management Response</b>
<b>ANNEX B:</b>	<b>Project Supervision and Improvements Introduced</b>
<b>ANNEX C:</b>	<b>Project Studies Undertaken</b>
<b>ANNEX D:</b>	<b>Beneficiary and Official Support for the Project</b>

## Abbreviations Used in this Document

ABRA	Brazilian Agrarian Reform Association
<b>BNB</b>	<b>Bank of the Northeast of Brazil</b>
<b>BNDES</b>	<b>National Development Bank</b>
BP	Best Practice
<b>CAS</b>	<b>Country Assistance Strategy</b>
<b>CdaT</b>	<b><i>Cedula da Terra</i> (the Project)</b>
<b>CMU</b>	<b>Country Management Unit (of the World Bank)</b>
<b>CONTAG</b>	<b>National Confederation of Agricultural Workers</b>
<b>ERR</b>	<b>Economic Rate of Return</b>
<b>FAO</b>	<b>Food and Agriculture Organization</b>
<b>GP</b>	<b>Good Practice</b>
<b>INCRA</b>	<b>National Institute for Colonization and Agrarian Reform</b>
<b>InfoShop</b>	<b>World Bank Public Information Center</b>
<b>MST</b>	<b>Movement of the Landless</b>
NGO	Non-Governmental Organization
<b>OD</b>	<b>Operational Directive</b>
<b>OP</b>	<b>Operational Policy</b>
<b>PROCERA</b>	<b>Credit Program for Land Reform Beneficiaries</b>
<b>QAG</b>	<b>Quality Assurance Group</b>
<b>R\$</b>	<b>Brazilian Real (Currency)</b>
<b>STU</b>	<b>State Technical Units</b>
<b>TDA</b>	<b>Government Agrarian Reform Compensation Bond</b>
TJLP	Long Term Interest Rate

## Chapter I: Introduction

1.1 The Request for Inspection concerns the Brazil Land Reform and Poverty Alleviation Pilot Project, financed in part by Loan 4147-BR, for \$90 million, which was approved by the Bank's Board on April 22, 1997 and became effective on September 12, 1997. This was the first market-based land reform operation approved after a Board Seminar in July 1996 that had discussed the benefits of this approach. For this reason, and because of its innovative aspects, the Project was considered under Regular Procedures (i.e., full discussion) at the request of one Executive Director.<sup>20</sup>

1.2. The Project is testing a market-based land reform mechanism whereby beneficiary associations obtain financing to purchase agricultural properties which they judge to be suitable and for which they negotiate directly with willing sellers. It seeks to benefit 15,000 poor rural families in Northeast Brazil. Implementation, originally planned for three years, is far ahead of schedule: some 8,000 families have already received land and titles, the remaining 7,000 have negotiated land purchases and will receive loans shortly, and the demand for Project support has been so strong that another 28,000 families are currently waiting for approval of pending proposals. Pre-project economic analysis, supported by case studies of actual properties and on-farm investment activities, suggests that the Project is leading to substantial increases in beneficiary incomes. The Brazilian Government wishes to expand the pilot and to involve other states within and outside the Northeast. Management assesses that this expansion is well justified by the results to date, and preparation work is advanced for an Adaptable Program Loan. The Brazil pilot Project is also attracting strong interest from other countries, both in Latin America and other regions. The Bank is facilitating cross-country dissemination of results, with similar projects under preparation in Latin America, Africa and Asia.

1.3. The Request, as defined by the Inspection Panel in the Notice of Registration, is dated December 10, 1998. The Requestors argue on philosophical grounds that "punitive expropriation"<sup>21</sup> is the only legitimate means for achieving land reform in Brazil. For that reason, they do not seek improvements in the design or execution of the Project; they wish to stop the pilot and any contemplated expansion. The Request does not refer to violations of specific Bank policies or procedures, but makes a number of general claims which are cited in the Notice of Registration: (a) the Project is not achieving its objectives; (b) the Project is not being implemented as a pilot; (c) beneficiaries will be unable to repay debts entered into under the Project; (d) the Project will lead to increased prices of agricultural land available to rural workers; (e) the Project is an alternative/substitute instead of a complement to Brazil's Constitutionally-mandated land reform program; and (f) the Bank failed to consult and adequately inform project-affected people and their representatives.

1.4. In a separate letter dated December 21, 1998 from one of the Requestors, it is alleged that the Project violates ODs 4.15 (Poverty Reduction) and 4.01 (Environmental Assessment), BP 17.50 (Disclosure of Operational Information), and GP 14.70 (Involving Non-Governmental Organizations in Bank-Supported Activities). The Panel registered the claims regarding OD 4.15 and BP 17.50. The Notice of Registration mentions only the

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<sup>20</sup> The Project is part of the Bank's Rural Development Compact and was rated by the Quality Assurance Group (QAG) as one of the two best-practice operations in the Latin America and Caribbean Region in 1997, in terms of quality at entry.

<sup>21</sup> See quotes in paragraph 3.1.

December 10, 1998 Request signed by eight organizations and 853 individuals. We note however, that in drafting its Notice of Registration the Panel has actually drawn material from the December 21, 1998 letter as well. Management will address in this Response the contents of both the Request and the letter, and all claims of adverse impacts and violations of Bank policies and procedures.

1.5. The Management Response includes the present Chapter I (Introduction); Chapter II (The Bank's Involvement in Land Reform in Brazil and Loan 4147-BR); Chapter III (The Nature of the Request and Some Considerations on its Eligibility); Chapter IV (Response to the Claims of Adverse Project Impacts and Violations of Bank Policies and Procedures); and Chapter V (Conclusions). These are followed by a series of supporting Annexes; particular attention is drawn to Annex A, which includes a Matrix of the Request for Inspection and Management Response. Finally, Management is also making available for consultation by the Panel written materials it has received, including signatures, six videotapes and three audio tapes, *presenting directly the views of several thousand Project participants* and indicating, more eloquently than any Bank report could ever hope to do, their knowledge of, participation in, commitment to, and deepest hopes for the success of the Brazil Land Reform and Poverty Alleviation Pilot Project.

## Chapter II: The Bank's Involvement in Land Reform in Brazil and Loan 4147-BR

### THE CONTEXT: BANK INVOLVEMENT IN LAND REFORM ISSUES IN BRAZIL

2.1 Management concurs fully with the Requestors that unequal access to land assets is one of the root causes of rural poverty in Brazil. As such, efforts to address land issues deserve high priority and the full support of the Brazilian Government and international partners like the World Bank. However, Management disagrees with the Requestors' position that the only legitimate means to pursue land reform is through "punitive expropriation."

2.2 The Bank has sustained a long-term partnership with the Brazilian Government to address income and human development issues in the Northeast of Brazil, the region containing the largest concentration of rural poor in Latin America. Land issues have figured prominently in this agenda. In the early 1970s, the Bank launched a major collaborative research undertaking with local institutions to develop an analytical data base and identify the main causes of poverty in the Northeast. An interim Bank report in 1975 (*Rural Development: Issues and Options in Northeast Brazil*, Report No. 665a-BR) and the final published research study in 1981 (*The Agricultural Economy of Northeast Brazil*, Johns Hopkins University Press) clearly linked excessive land concentration to rural poverty. Recommendations urged rapid initiation of land redistribution. In response, under various rural development projects the Bank supported the establishment/strengthening of State Land Institutes, settlement and land titling activities. In the late 1970s, the Bank-financed Parnaíba Valley Development Project in the State of Piauí (Loan 2015-BR) included purchase of about 200,000 ha of land for redistribution by the Government, with active participation of rural syndicates. In 1985, the Bank financed a larger-scale regional program (Loan 2593-BR) to prepare a technical cadaster, acquire lands and settle families, and strengthen the State Land Institutes in nine Northeast states and northern Minas Gerais. Around 900,000 ha were acquired through purchase and expropriation for settlement. While some of these efforts of the 1970s and 1980s were successful, there were also many weaknesses. The Bank and the Government continued to search for more efficient and effective instruments to address what remained a very serious land distribution issue.

2.4 Since the early 1990s, a shift towards demand-driven community-based development programs generally in the Northeast (v. state-administered efforts through public institutions) has yielded significant results. Emerging lessons began to influence thinking as well on new ways to tackle land issues. The 1995 Brazil Poverty Assessment (Report No. 14323-BR) contributed to the debate, suggesting that stabilization, falling land prices and low inflation were creating an environment in which promotion of efficient land markets could improve access of the poor to land as an important anti-poverty instrument.

Meanwhile, reflecting on worldwide experience, a 1996 Bank Land Policies Paper reviewed the costs, inefficiency and conflictive nature of administrative instruments (expropriation, land purchases and re-distribution by governments) to achieve land reform, and recommended experimenting with market-based mechanisms. A Board Seminar on this paper generally endorsed the findings.

2.5 In 1996, the Bank and the Brazilian Government decided that the time was ripe to try a new approach to land redistribution. To seize the moment and act quickly, a small component was developed within the ongoing Ceara Rural Poverty Alleviation Project (Loan 3918-BR). The State government supported a land acquisition program led directly by rural communities, benefiting about 700 families, with complementary on-farm investments financed through the community-based development portion of the Project. Community response to the experiment was extremely enthusiastic; it was executed rapidly and at relatively low cost compared to traditional expropriation and other state-administered methods of land reform. The State reported that about the same number of families obtained access to land in only a 12-month period, as had over the previous two decades. These findings prompted the Federal Government to seek Bank support for a broader pilot in five Northeast states. The Bank agreed, and the June 1997 CAS for Brazil and CAS Update of May 1998 cite community and market-based approaches to land redistribution and rural infrastructure as key elements of the Bank's rural poverty strategy.

#### **Brazil Land Reform and Poverty Alleviation Pilot Project (Loan 4147-BR)**

2.6 The Land Reform and Poverty Alleviation Pilot Project (Loan 4147-BR; \$90 million), known in Brazil as *Cedula da Terra (CdaT)*, was approved by the Board on April 22, 1997 and became effective September 12, 1997. Following on the successful Ceara experiment (para. 2.5), the Project targets poor rural laborers and farmers who are either landless or have insufficient land for subsistence, in the Northeast states of Bahia, Ceara, Maranhao, Pernambuco and Minas Gerais. The Project seeks to increase the incomes of 15,000 such families by assisting them to purchase land and obtain complementary investments to raise the productivity and output of the properties they acquire.

2.7 The Project is completely demand driven, with the government facilitating and assisting decisions made by rural laborers and farmers organized into community associations.

- The association searches for suitable land, negotiates a purchase with willing sellers, presents the proposed purchase to the State Land Institute and requests confirmation that the title to the land is clear and no other conditions threaten the transaction, and that the negotiated price is consistent with market conditions.
- The community then presents its land purchase proposal to the State Technical Unit (STU) of the State Rural Poverty Alleviation Project, which verifies beneficiary eligibility.
- Upon clearance by the STU, the community receives a loan, funded by Federal Government budget resources and administered by the Bank of the Northeast, and completes the transaction with the property seller. The association members decide how to divide the land among themselves and each individual's corresponding repayment obligation.

- The community association also presents to the STU proposals for complementary sub-Projects and technical assistance to help members establish themselves on the property and improve its productivity and output. Typical community subprojects include physical and social infrastructure, productive facilities and equipment. Community labor and land constitute the counterpart contribution.
- The State government authorizes the transfer of funds for the sub-projects directly from the State sub-accounts of the Loan 4147-BR Special Account at the Bank of Brazil, to the account held by the community association, which can then draw the resources to implement the sub-projects.

2.8 Project implementation, originally planned to benefit 15,000 families over three years, is running well ahead of schedule. At end-January 1999, some 8,000 families had already received land and titles to a total of 204,000 ha, or about 25 ha per family. The remaining 7,000 families have negotiated land purchases and will receive loans shortly. Demand is running far ahead of the Project, with another 28,000 families currently in the queue for approval of purchase proposals totaling about 808,000 ha. The Federal Government has advanced financing for land purchases (which it had expected to provide only in the final 18 months of the Project) to maintain the rapid pace of execution set by the beneficiaries. Bank-financed sub-project investments are also now moving rapidly after initial delays, as STUs adjusted to the sheer volume of investment proposals from the community associations. The Bank has disbursed \$29 million of Loan 4147-BR, and an additional \$12 million is in the pipeline for which the Government will soon be requesting reimbursement. With the recent approval of the 1999 Federal Government budget, it is expected that the Project will be completed relatively quickly. The first 18 months of implementation has been an important period of learning, and the findings are discussed in Chapter IV. The immediate lesson, though, is that the clients of agrarian reform – landless rural families – strongly desire rapid access to land in a participatory and non-conflictive manner.

2.9 In the face of extraordinary demand for access to the *Cedula da Terra* program, the Brazilian Government wishes to expand the pilot Project on a much larger scale and involve other states outside the Northeast. Based on results of the pilot, Management assesses that the Bank should support Brazil in expanding the program, and processing is well advanced for an Adaptable Program Loan. The APL was ready for appraisal and negotiations when the Request was received. In the circumstances, processing has been halted pending Panel and Board consideration of the merits of the Request. However, while the Government understands the reason for this delay, it is causing anxiety on the part of communities which have made the effort to organize and identify properties, and are awaiting the resources to be able to proceed.

## **Chapter III: The Nature of the Request and Some Considerations on Its Eligibility**

### **Nature of the Request**

3.1 Management considers that the Request is essentially an effort to present a philosophical position with respect to land reform. The basic thesis of the Request is that “punitive expropriation” is the only just and constitutionally sanctioned approach to land reform in Brazil. The Requestors are not seeking to improve the design or execution of the Project or proposing changes to help ensure better compliance with Bank policies and procedures. The objective is to stop the operation and any contemplated expansion, because the Requestors do not believe that the Government should be pursuing a voluntary, market-based approach to achieve redistribution of land assets in Brazil.

*“Expropriation means punishing (in accordance with current legislation) the owners of large tracts of land who keep them in unproductive state and/or fail to fulfill the social function stipulated in the country’s Constitution.” (Source: the Request)*

*“The central motivation for our condemnation of the pretense of ‘market-based agrarian reform’ is not based on its burdensome means for transferring land to settlers: rather we are defending, in the Brazilian case, expropriation and resulting redistribution for the purposes of land reform...as the best way to repair the moral and ethical deviations which have generally characterized the history of private land ownership in Brazil.” (Source: Supplemental letter to the Request)*

**3.2 Management accepts the legitimacy of other viewpoints regarding land reform, and recognizes this to be a highly emotive subject of debate in Brazil. It does not suggest that the approach piloted under Loan 4147-BR should supplant all other land reform instruments available to the Brazilian Government. It does believe, however, that it would be imprudent for a country with estimates ranging between 1.0 and 2.5 million landless families living in acute rural poverty not to be actively testing alternative means to achieve swift and cost-effective changes in the distribution of land assets.**

3.3 Bank staff and Management have attempted to engage in discussion proponents of what might be described as the “expropriation only” approach but, as with many other disputes founded on philosophical considerations, it is not always possible to bridge the void through information and facts. The following excerpt from a letter from the President of the Brazilian Agrarian Reform Association, one of the organizational signatories of the Request, to a Bank staff member in February 1999 reflects the tenor of some of these exchanges.

*“If the Federal Government wishes to have a dialogue on land reform it must withdraw from the agenda and from its land strategy ‘market-based land reform’. On this we have nothing to say or discuss: we are totally opposed...The World Bank knows...that it has intentionally entered into a national (even an international) strategic debate...the World Bank has enough wisdom to understand the scope and delicacy of this theme and the international repercussions which it will incur if it persists with this financing.”*

## Some Considerations on the Eligibility of the Request

3.4 Contrary to the requirements set forth in the Inspection Panel Resolution and Operating Procedures,<sup>22</sup> the Request does not demonstrate actual or potential harm to Project beneficiaries. The sum and substance of the Requestors' complaint goes to a policy choice of the Brazilian Government in the area of land reform, rather than to the proper application by the Bank of its own policies and procedures. Moreover, it is Management's view that the Requestors themselves do not meet the eligibility criteria to file a Request for Inspection.

3.5 Of all signatories of the Request identifiable by name, organization, location and national identity number, none is a Project beneficiary. Also, there is no evidence that any beneficiaries designated the Requestors to act as their agents in presenting the Request. The large majority (more than 80%) of the Requestors are from outside the Northeast, and only 4.8% are from States where the Project is being implemented. At least 25% of the Requestors are Federal employees, mainly of INCRA, the Federal entity historically responsible for expropriation (the approach to land reform advocated by the Requestors) and currently a part of the Ministry of Agrarian Reform, which in turn is the implementing agency for Loan 4147-BR at the Federal level.

3.6 In significant contrast, Management is making available for consultation by the Inspection Panel materials it has received from participating States, including more than 6,000 signatures and other documents, six videotapes and three audio tapes, from actual and potential beneficiaries and community associations, concerning all aspects of the Project. Some of these materials pre-date the Request and are therefore not a reaction to it. Overall, they testify to the participants' belief in the *Cedula da Terra*, their understanding of what it involves in terms of financial and other commitments, the benefits they believe they will achieve through the Project, the harm which stopping the program/Project would cause, their preference for obtaining land through non-conflictive means rather than through invasion as has been encouraged by some of the Requestors, and the fact that these beneficiary associations have not asked anybody to represent them in a Request or related letter to the Bank, nor have they been consulted about such a Request or letter.

3.7 Management understands that the Panel could not have discerned the breakdown of the Requestors or the extent to which they do or do not represent the Project beneficiaries for the purposes of the Request. It considers, however, that if this information had been available to the Panel, the Request would not have qualified for registration and is not eligible for inspection.

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<sup>22</sup> Inspection Panel Resolution: IBRD Resolution 93-10 and IDA Resolution 93-6 of September 22, 1993. Operating Procedures, adopted by the Panel on August 19, 1994.

## **Chapter IV: Response to the Claims of Adverse Project Impacts and Violations of Bank Policies and Procedures**

4.1 The Request of December 10, 1998, and the separate letter of December 21, 1998, make ten claims of adverse Project impacts and violations of Bank policies and procedures. The Request itself presents six general claims of adverse Project impacts without referring to any specific Bank policies or procedures (para. 1.3). The separate letter reiterates these points and also alleges four violations of specific policies and procedures, of which the Notice of Registration registers two (OD 4.15 and BP 17.50; para. 1.4). In the interests of transparency, Management will respond to all claims. At the same time, however, we wish to make clear at the outset that we disagree that there have been any adverse impacts or that any Bank policies or procedures have been violated. Moreover, Management believes that none of the claims is substantiated.

4.2 As some claims are closely related, Management has re-grouped them into the following four clusters for the purposes of this Response, indicating in each case whether the point originates in the Request (R) or the separate letter (SL).

### **Cluster (a): claims concerning the Project's contribution to poverty reduction and its current or potential impact on participants' income and welfare**

1. the Project violates OD 4.15 on Poverty Reduction (SL)
2. beneficiaries will be unable to repay debts entered into under the Project (R)
3. the Project is not achieving its objectives (R)
4. the Project will lead to increases in the prices of agricultural land (R)

### **Cluster (b): claims concerning the pilot nature of the Project, whether a market-based approach is crowding out expropriation as a means to redistribute land assets, and about the constitutionality of this approach to land reform in Brazil**

5. the Project is not being implemented as a pilot (R)
6. the Project is an alternative/substitute instead of a complement to Brazil's constitutionally-mandated land reform (R)

### **Cluster (c): a claim concerning environmental assessments:**

7. the Project violates OD 4.01 on Environmental Assessment (SL)

### **Cluster (d): claims concerning consultation, disclosure of information and NGO participation:**

8. the Bank failed to consult and adequately inform Project-affected people and their representatives (R)
9. the Project violates BP17.50 on Disclosure of Operational Information (SL)
10. the Project violates GP 14.70 on involving Non-Governmental Organizations in Bank-supported Activities (SL)

Cluster (a): Claims about the Project's Contribution to Poverty Alleviation  
**and Its Impact on Participants' Incomes and Welfare**

**4.3 Claim No. 1: The Project Violates Operational Directive 4.15 on Poverty Reduction.** The separate letter to the Request does not directly link any alleged harm to specific provisions of OD 4.15, but states generally that:

*“Execution of the Project does not meet the basic objective of poverty reduction stated in OP 4.15 [reference should be to OD 4.15] – Poverty Reduction. On the contrary, it will lead to increased poverty of future Project beneficiaries who, on the one hand will not be capable of settling their debt with the land credit institution, as demonstrated in the initial request, while on the other they will not be eligible for the minimum funds necessary to start up productive activities, since they will not have access to credit for land reform implementation (food, development, housing) or to PROCERA.”*

4.4 OD 4.15 is based on the findings of the 1980 and 1990 World Development Reports and a policy paper on Strategies to Reduce Poverty, endorsed by the Board in January 1991. It is distinguishable from other Bank policy directives, which provide more specific instructions and guidance to Bank staff. OD 4.15 makes broad recommendations for sound design and implementation of Projects that aim to reduce poverty. Management believes these have all been observed in the design of the Brazil Land Reform and Poverty Alleviation Pilot, which was rated by the Quality Assurance Group (QAG) as one of the two best projects in the Latin America and Caribbean Region in 1997, for quality at entry.

- The pilot Project builds on previous Economic and Sector Work, is reflected in the CAS, is the result of strategic choices among options, and provides an opening to pursue poverty reduction through an innovative approach (Chapter 2 provides further information on the context and evolution of Bank work on land issues in Brazil, which preceded the development of the Project).
- The Project concentrates on geographical areas where the rural poor live and on assets which the poor hold, effectively targeting beneficiaries.
- The Project is demand-driven, with beneficiaries organizing into associations, identifying and negotiating the purchase of properties, assuming responsibility for purchase of the land, identifying and implementing complementary sub-projects, and contracting technical assistance to improve their capacity to manage and develop the lands they acquire, in accordance with a Project Operational Manual<sup>23</sup> in each State.
- The Project finances the creation and improvement of productive assets, and cost recovery and sustainability are features of the Project design.
- Detailed economic analysis was undertaken, which demonstrates that the Project will have a strong positive impact on the poor and that economic and financial returns would remain robust under various scenarios.

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<sup>23</sup> The Project Operational Manual (agreed by the Bank) is issued by each participating State and contains the overall operating procedures for the execution of the project.

- The Project employs systematic monitoring and comprehensive evaluation, combined with regular, well-conceived and executed supervision and follow-up.

**4.5 Claim No. 2: Beneficiaries Will Be Unable to Repay Debts Entered into under The Project.** As mentioned in para. 4.4 above, detailed economic and financial analyses of expected Project impacts were carried out during Project preparation. Based on field visits by experienced local consultants, four typical farm models were developed for different sub-regions of the Northeast, taking into account the likely low level of capitalization, formal training and management skills of Project beneficiaries. The main finding was that family farming units would not only be viable, but that incomes of beneficiaries would increase significantly, even after netting out repayment obligations incurred under the Project. Sensitivity analysis (*inter alia* for possible payment of inflated land prices, higher than estimated without-project family incomes and simpler production systems than those used in the farm models) established a very high degree of robustness of the expected economic and financial returns.

**4.6 Economic Rate of Return (ERR).** The expected ERR for the overall pilot Project is 32%, ranging from 26% in semi-arid areas to 75% in peri-urban locations. Details of the analyses are provided in the Project Appraisal Document.

**4.7 Financial Viability.** Perhaps the more relevant question, from the standpoint of the Requestors, concerns the expected financial viability of the Project at the level of individuals and the community associations. Overall, the pre-Project analyses indicated very good prospects for financial sustainability. There are several reasons why this is indeed likely, despite the fact that many settlements created under traditional land distribution programs are still struggling to survive financially.

- i. The Project depends on beneficiary initiative and selection of lands they want to buy. This results in a positive selection bias in favor of rural landless families with initiative. It also means the lands selected are often among the best available in the area and are suitable for production systems compatible with beneficiaries' own experience and skills. In contrast, expropriated lands must be unproductive/underutilized, and are often of poorer quality.
- ii. Project beneficiaries have immediate access to matching grant resources for complementary investments (housing, small-scale irrigation schemes, etc.). These funds, which include initial start-up support of US\$1,300 equivalent per family, are critical for the initial capitalization of new farmers and allow beneficiaries to immediately make productive use of their newly acquired properties. The separate letter following the Request criticizes access to these matching grants for unclear reasons, but they are actually an important design feature of the Project aimed at reducing beneficiaries' dependence on continuing Government support. Comparable investments in traditional administered settlement schemes on expropriated properties typically depend on lengthy budget approval mechanisms and are therefore often inadequate or significantly delayed.
- iii. The Project includes funds with which beneficiaries can themselves contract technical assistance, which assures rapid and effective delivery of technical services. Beneficiaries tend to select technicians they feel will produce results for them and, if they are not satisfied, have the freedom to make changes. In contrast, public extension and other technical services typically neglect smallholders, and farmers have little choice about the agent assigned to serve them.

4.8 A number of evaluation studies of the Project have been conducted throughout 1998, among them detailed case studies on subprojects in Bahia and Ceara, which have focused on the question of financial viability (paras. 4.12-4.14). In line with the pilot approach of this Project, some minor adjustments to project design, including the financial terms of the loans for land purchase, are being made on the basis of the findings from the studies.

**4.9 Conditions of Land Purchase Financing.** With respect to land purchase financing, this Project component is financed entirely by the Federal Government, which provides loans to community associations to acquire the lands they have selected (para. 2.7 summarizes the arrangements). Initially, the terms of the *Cedula da Terra (CdaT)* loans were for 10 years, including a three-year grace period, at a positive real interest rate with constant amortization determined by the Brazilian Development Bank (BNDES) based on its average cost of long-term borrowing (TJLP). At the time of Project appraisal in January 1997, the TJLP was 11% in nominal terms and inflation was 8%, yielding a real interest rate of 3%. This rate was the basis for the economic and financial modeling done at Project appraisal. Since all land loans have a three-year grace period, the first payments were not due until 2001.

4.10 As a result of stabilization efforts in Brazil, inflation fell to 2% in 1998 and the TJLP rose to about 12% for most of the year, yielding a real interest rate of 10%. In December 1998, the TJLP rose to just over 18%, and has since declined again to 12.8%. If the exceptionally high December 1998 rate were to persist over a long period, some beneficiaries in areas with less favorable agro-climatic conditions would experience repayment difficulties. The Federal Ministry of Land Reform monitored this situation throughout last year, taking into account the findings of case studies carried out as part of the Project. In December 1998, the Ministry decided on changes in the financing terms for land purchase. In accordance with Complementary Law No. 93, *CdaT* beneficiaries would be able to refinance their loans retroactively, with the new terms which include a 20-year repayment period with three years of grace, and a fixed interest rate of 4%. With these new terms, annual repayments would be about R\$400. The retroactive adjustments would be made before the first payments of any Project beneficiaries fall due.

4.11 The Request mentions projections of per family annual revenues, cash flow and debt service projections, which Management is unable to reconstruct or interpret. The projection of R\$410 of per family annual revenues mentioned in the Request is significantly below any realistic expectations, even for the most disadvantaged communities. The typical production system observed among beneficiaries on the 30-50 ha family plots under the Project in these areas includes livestock (mainly goats), fodder crops, some lower-value subsistence crops (beans, corn, manioc) and a small area of higher value products for sale depending on the location (sweet potatoes, cashew and others). The resulting net cash flow would range from R\$1,000 after two years of Project implementation, to R\$3,300 after five years. It bears repeating that these are the expected results in the *least* favorable areas; results in areas with better agro-climatic conditions would be considerably higher.

**4.12 Case Studies and Supervision Findings of Actual Results.** In 1998, FAO conducted case studies of several *CdaT* community associations in the States of Ceara and Bahia, where Project implementation was most advanced. The purpose was to verify the economic and financial viability of the pre-Project assumptions, based on the

experiences of ongoing sub-projects, with special attention to the more difficult semi-arid zones of both States. The case studies are based on field visits to a large number of sub-projects. In Ceara, these included sub-projects financed under the earlier experimental component of the Ceara Rural Development and Poverty Alleviation Project (para. 2.5), which have existed longer and thus allow for a better evaluation of actual v. potential financial viability.

4.13 Box 1 summarizes the results of the FAO case studies. Overall, they confirm the likely economic and financial viability of most sub-projects. For sub-projects in more favorable agro-climatic zones, the actual financial returns greatly exceed projections made during Project preparation. For those in the least favorable semi-arid zone of Ceara, profitability is somewhat less than estimated at appraisal. These findings were taken into account by the Ministry of Agrarian Reform, in designing adjustments to the financial terms for the *CdaT* program in December 1998 (para. 4.10). With the revised financial terms, sub-projects in the semi-arid should be financially viable, particularly if they have access to water, which is also a criterion used by the STUs for land-purchase approval in semi-arid zones.

#### **Box 1: Results of Case Studies of Financial Viability**

##### **of Ongoing *Cedula da Terra* SubProjects**

**Coastal Zone of Ceara:** Beneficiaries are producing coconuts, cashew and livestock, and will achieve annual family incomes of R\$5,000-6,000 in Year 3, eliminating any doubt as to their financial viability and capacity to pay annual installments on land purchase loans under current *CdaT* terms.

**Coastal Highlands of Ceara (Serra):** Beneficiaries typically produce vegetables and fruit (bananas). Depending on skills, estimated family incomes range from R\$1,500 to R\$3,200 in cash. Other sub-Projects visited in the same region have potentially higher returns. Even in the worst cases, family incomes should be sufficient to pay land purchase loans.

**Semi-arid Zone of Ceara:** This is the most difficult area, typically with subsistence production systems (beans, corn, manioc), some livestock (mainly goats, but occasionally cattle as well), and some higher value crops in relatively small irrigated areas. With normal rainfall, family incomes would reach about R\$2,500 in Year 3 and R\$3,500-4,000 in Year 10, but a significant share of this income is in the form of on-farm consumption. Without irrigation, cash income would range from only R\$650-2,300, and with very limited irrigation from R\$1,600-5,000. The only beneficiaries who would potentially be unable to meet payments in years of drought would be those with no irrigation. Therefore increasing emphasis must be put on ensuring that all beneficiaries in this zone have access to irrigation, and that *CdaT* avoid approving land purchases where no irrigation is available, unless it can be put into place quickly through complementary investments.

**Northern Coast of Bahia.** Typical production systems include coconut, fruits and livestock, and family incomes are expected to reach R\$10,000 after five years and R\$20,000 after ten years, leaving no doubt as to capacity to repay land purchase loans. (Surprisingly, per family costs of land in this area have not been significantly higher than in other areas.)

**Cacao Region of Bahia.** Annual family incomes will range from R\$2,000-5,000 in Year 3 and R\$4,000-8,000 in Year 10, depending on climatic conditions. Sufficient cash income

should be available to repay land purchase loans. Expected financial outcomes in the extreme South of Bahia are similar to, or marginally better than, those in the cacao region.

**Semi-arid Region of Bahia.** Production systems are similar to those in the semi-arid zone of Ceara (beans, corn, manioc and livestock), although access to irrigation is much better. Family incomes are expected to reach R\$1,700 in drought years, and R\$4,300 in years of normal rainfall, which should be adequate to make annual land purchase payments.

4.14 As the Project is being intensively supervised and there has been exceptional interest in it (including by government teams from other countries), Bank staff and consultants have visited the field frequently. They typically find that community associations have a clear idea of the production systems they will implement, appropriate to the natural, human and financial resources available to them. In many cases, associations have purchased land that they earlier rented or sharecropped, and therefore have a very good notion of its production potential. In other cases, they have purchased lands that were under production but have recently been semi-abandoned (for example, coconut, cacao and bananas), and therefore allow for rapid cash returns. Most associations understand their repayment obligations and express the expectation of being able to comply. Even more impressive, some communities have already been able to accumulate savings towards repayment, and some are inquiring about the possibility of prepayment to shorten amortization periods and total interest payments.<sup>24</sup>

4.15 **Quality of Land Sold under the Market-based Approach.** The Request claims that most land purchased by rural workers and subsistence farmers under the Project is of the poorest quality. In fact, all evidence suggests that although lands have been acquired under the Project at lower than expropriated land prices, they are generally of good quality. Project beneficiaries may be poor and under-educated, but they have worked the land all their lives as subsistence farmers or laborers, and are unlikely to select a poor quality property to purchase, knowing, as they do, that their ability to repay their land loan depends on its productivity. It is possible that some groups prefer to remain in an area long familiar to them rather than move, in which case they may purchase a property with more limited natural resources, but this is not very common. The general experience thus far is that communities buy good quality lands, even if they have to relocate.

4.16 To date, there are no known cases of clear sub-project failure, although it would be unrealistic to assume that this will never happen at either the individual or association level. In the event that individuals fail in their commitments, the Project Operational Manual defines clear procedures for substitution of community members.

4.17 **Access to PROCERA Credit.** In claiming violation of OD 4.15, the Request also asserts that Project beneficiaries will not be able to finance their start-up productive

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<sup>24</sup> All of the financial and economic analysis done on the basis of pre-Project models, those completed in 1998 and based on actual properties and crop patterns, as well as the detailed analyses of capacity to meet land purchase repayment obligations in the six main sub-regions of the Project area, are available to the Panel on request.

activities through *PROCERA* (a special credit line for land reform, established in June 1986 to complement the National Agrarian Reform Program of October 10, 1985). This is not the case. *CdaT* beneficiaries became eligible for *PROCERA* credit through INCRA Decree 567 of November 20, 1998. To date, no Project participants have received *PROCERA* credit because the authorizing decree became effective only in late 1998. According to INCRA's *PROCERA* Coordinator, it normally takes two years from the time of formal settlement on a land reform plot, even for beneficiaries of traditional land reform schemes, to access *PROCERA*. Project beneficiaries do receive community investments and start-up grants, and therefore have support during the installment period. While access to credit after this initial period is important, and the Project financial projections do indeed assume some credit access, the heavily subsidized terms of the *PROCERA* line are not essential for financial viability.

**4.18 Financial Obligations of Recipients of Expropriated Lands under Traditional Land Reform Schemes.** Finally, Management wishes to point out that the Request conveys a misleading impression that beneficiaries of expropriation processes receive their lands free of charge in Brazil. Article 25 of the *Estatuto da Terra* (National Land Statute) states that expropriated land should be sold, not provided free, and Article 81 of the same law establishes a repayment period of 20 years at an annual interest rate of 6%. Once a project is considered "emancipated" (sufficiently viable to transfer responsibility and titles to the participants), beneficiaries are legally required to pay the cost of land plus investments made. In practice, few schemes actually been "emancipated", but when this occurs the participants will have higher obligations than do the Project beneficiaries, due to the difference in terms and the inclusion of investments in the loans to be repaid.

**4.19 Claim No. 3: The Project Is Not Achieving Its Objectives.** The objective of the pilot Project is to help reduce rural poverty and test a market-based land reform mechanism, whereby beneficiary associations would obtain financing to purchase and establish agricultural properties which they judge to be suitable, and for which they negotiate directly with willing sellers. Community response to the pilot has been exceptionally favorable, and implementation is running ahead of schedule. As indicated earlier, 15,000 rural families were to have been settled over a three-year period, using this mechanism. In less than 18 months, 8,000 families have already received land and titles, 7,000 have already negotiated land purchases and will receive loans shortly, and 28,000 families are organized into community associations and have selected properties which they wish to purchase. The only thing holding back these 28,000 families is lack of resources, which the Brazilian Government is attempting to negotiate with the Bank through an expansion of the pilot under an Adaptable Program Loan (paras. 1.2 and 2.9). Case studies and intensive supervision confirm good prospects for sustainability of the vast majority of sub-projects, with no known failures to date.

**4.20 Claim No. 4: The Project Will Lead to an Increase in the Prices of Agricultural Land.** The Notice of Registration indicates that the Requestors claim the Project has increased the price of agricultural lands available for rural workers. In fact, the actual claim in the Request is that the Project *will* lead to an increase in land prices *in future*. Theoretically, the availability of land purchase financing should stimulate the demand for land, and this could lead to increases in land prices. Whether this will occur in practice depends on the price elasticity of land demand and supply, and on the scale of Project-

financed land purchases. Measuring this effect is complicated by the large number of simultaneous factors that influence the land market over time.

4.21 All available data indicate that land prices in Brazil have been falling in recent years, and have continued to do so even in States that are participating in the pilot Project (see *Reydon and Plata, 1998*). These falling prices are generally attributed to economic stabilization and removal of agricultural subsidies following introduction of the *Real Plan* in 1994. This trend could come to an end, or even be reversed, depending on the evolution of the current economic crisis in Brazil, but Management believes that price movements would have little to do with the pilot Project because it is too small to exert a significant influence on the market. In 1998, 221,428 ha were acquired in five Northeast states. This represents 0.3% of the agricultural land, and only a fraction of all land transacted in the same year, in these states.

4.22 Although it is planned to expand the pilot, both within and outside the Northeast region, it is unlikely that the area acquired in any one state and given year will exceed the scale of the Project in the states where it was implemented in 1998. Moreover, discussions with landowners and bankers in various states confirm the large stock of land held by banks as collateral for defaulted farm debt or by absentee-owners interested in selling. Comparing the size of the land market and the scale of the project, it seems highly unlikely that the pilot, or its expansion, would significantly affect the price of agricultural land. Nonetheless, Management is aware of the theoretical potential for some impact and has had this matter under consideration since the earliest design stage of the Project. We will continue to monitor the situation, and would certainly react to any clear indications that land prices were increasing in response to Project activities. In particular, if the concentration of Project activities in a small area seemed to be leading to local land price increases, a conscious effort would be made to broaden the geographic scope of the project in order to reduce this potential local pressure on land prices.

<p><b>Cluster (b): Claims about the Pilot Nature of the Project, about the Constitutionality of Pursuing a Market-based Approach to Land Reform in Brazil and Whether It Is Crowding out Expropriation</b></p>
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4.23 **Claim No. 5: The Project Is Not Being Implemented as A Pilot.** The Requestors contend that the Project is not being implemented as a pilot and is being expanded without proper evaluation (the latter point is not mentioned in the Notice of Registration). Even if true, this claim about whether the Project is a pilot would not *per se* be grounds for alleging harm to individual participants. Management in fact believes that this Project *exemplifies* a successful approach to piloting. The Project was designed to test a new methodology, with a limited number of targeted beneficiaries in five states (i.e., less than the total number of Northeast states, but adequate to test the mechanism under different conditions). Due to the huge demand for participation, the pilot is being implemented much faster than originally planned, but it still accounts for less than 10% of all land reform beneficiaries in 1998.

4.24 As this is a pilot Project, there has been intensive supervision, international and national seminars, studies and workshops. The Project is being supervised with very strong input from the field. In addition to formal supervision from Headquarters, Bank staff

in the Brasilia and Recife Offices have made some 18 visits to participating states since the Project started. The Project has also been visited by the CMU Director and discussed in three major seminars, with extensive participation by Government and the Bank, the private sector, NGOs, academia, international specialists and representatives of multilateral/bilateral organizations. There have been a number of workshops involving the STUs and the community associations of each state. As an example, the material which Management is making available to the Panel includes a report and audio tapes of a meeting of the presidents and some members of all the community associations involved in the Project, in Bahia in November 1998. The findings and recommendations were reviewed by the beneficiaries with State authorities and the Minister of Agrarian Reform.

4.25 Field case studies and other studies on selected Project issues have been completed. An ambitious evaluation exercise is underway, based on household interviews with representative panels of Project beneficiaries, beneficiaries of traditional (expropriation-based) land redistribution, and non-beneficiaries. The following are some of the principal lessons learned and adaptations that have been made to the pilot Project and are being reflected in the design of an Adaptable Program Loan to support expansion of the pilot (paras. 1.2 and 2.9).

- Landless rural families strongly desire rapid access to land in a participatory and non-conflictive manner.
- The market-based approach piloted under the Project expedites the settlement of landless rural families, with land acquisition – from identification to purchase – typically taking less than 90 days.
- Projected household incomes (five years after land acquisition) range from 3 to 10 times the pre-Project household income and permit these households to service their land loans.
- To date, communities have generally chosen good quality land at costs that represent savings relative to traditional land reform and without upward pressure on land prices.
- Self-selection for Project participation has proven effective in targeting the landless rural poor; the vast majority of beneficiaries have household incomes and characteristics consistent with the target population.
- The amount allocated to technical assistance was increased during land purchase and subsequent production planning over the first three years after installation to help ensure increases productivity and incomes.
- The approval process for complementary investment sub-projects has been streamlined, such that funds are immediately deposited with the community association following land acquisition and disbursed once a sub-project proposal has been approved.
- Heightened efforts are being made by the STUs to strengthen and better mobilize those community associations, which are newly formed under the Project.
- Financial conditions for the land loans are being retroactively adapted (to those of Complementary Law 93, of 1998), with the repayment and grace periods increased to 20 and 4 years, respectively.

4.26 **Claim No. 6: The Project Is an Alternative/Substitute Instead of A Complement to Brazil's Constitutionally-Mandated Land Reform.** The Request

questions the constitutionality of a market-based approach to achieve land reform, suggesting that the Project somehow violates the Brazilian Constitution and related legislation. Management understands that expropriation is *only one* of the land reform instruments, which can be used in Brazil, and is satisfied that alternative approaches are legally permissible. Management does not disagree that expropriation is an important and necessary instrument at the disposition of the Brazilian Government, nor does it expect that the market-based approach piloted under Loan 4147-BR would supplant all other land reform instruments.

**4.27 Constitutionality/legality of Alternatives to Expropriation.** Property is one of the fundamental rights guaranteed by Brazilian Constitution of 1988 (Article 5, XXII). Nonetheless, the Constitution also provides that under certain and specific circumstances, the Federal Government may expropriate land. Article 184 authorizes the Federal Government to expropriate for the purposes of agrarian reform:

*“It falls under the Republic’s authority to expropriate for social interest, for purposes of agrarian reform, rural property which is not performing its social function, against prior and fair compensation in agrarian debt bonds (TDA) with a clause providing for the maintenance of real value and redeemable within a period of up to twenty years as from the second year of issue, and the use of which shall be defined in law.”*

However, while Article 184 provides the legal discretion/authority for the Federal Government to expropriate under certain conditions, it neither precludes other means to achieve agrarian reform nor restricts the private purchase and sale of land. This interpretation is supported by: (a) a specific legal opinion issued by the General Counsel of the Brazilian Ministry of Land Reform; (b) the customary legal opinion which the Bank receives from the Attorney General of the Ministry of Finance as a condition of effectiveness, stating that the Loan Agreement is enforceable and in conformity with Brazilian legislation; and (c) writings by respected Brazilian legal scholars (eg., Constitutional expert Dr. Jose Afonso da Silva, *Curso do Direito Constitucional Positivo*, 1992, in which he comments on Article 184 of the Constitution: “*It does not mean that land reform can only be done through this way [expropriation]*”). Finally, the principal land legislation of Brazil, the 1964 Land Statute, or *Estatuto da Terra*, clearly establishes in its Title II (Land Reform), Chapter I (Objectives and Means to Access Rural Property), Article 17 that:

*“The access to rural property shall be implemented through the distribution or redistribution of land, through the execution of the following measures: (a) expropriation for social interest; (b) donation; (c) purchase and sale; (d) gathering of vacant land; (e) (vetoed – this para. Dealt with public land illegally occupied or explored by third parties); (f) inheritance or bequest.”*

**4.28 The Market-based Approach – Complementarity or Substitution of Other Land Reform Instruments?** Management has never suggested that the market-based approach, which is being piloted under Loan 4147-BR, should supplant all other land reform instruments in Brazil. It does believe, however, that it would be imprudent for a country with estimates ranging between 1.0 and 2.5 million landless families living in acute rural poverty not to be actively testing alternative means to achieve swift and cost-effective changes in the distribution of land assets.

4.29 The concerns about substitution may have arisen because of the overwhelming success of the pilot Project on the one hand, and the continuing high costs and limited sustainability of traditional land reform on the other. The Table below shows the per family cost of traditional land reform to be about twice as high as the market-based approach being piloted under the Project.

**Table: Per Family Cost of Market-based v. Traditional Land Reform (R\$)**

<b>Northeast</b>	<b>Admin.</b>	<b>Land (including improvements)</b>	<b>Start-up Money</b>	<b>Infrastructure</b>	<b>Total</b>
<b>NPV Costs</b>					
Traditional		\$6,578*	\$2,331	\$2,407	\$13,246
Market-based	\$1,930	3,521	1,300	3,258	8,519
Savings	441 77%	46%	44%	-35%	36%
<b>Initial Costs</b>					
Traditional	\$2,941	\$8,229*	\$2,980	\$3,193	\$17,343
Market-based	478	4,847	1,300	3,758	10,383
Savings	84%	41%	56%	-18%	40%

\* Excluding very significant costs related to frequent judicial action.

**Source:** Project PAD, updated with most recent information in Project files.

4.30 In 1998, during which most of the approximately 8,000 families who have already received lands and titles were processed, US\$55 million equivalent, or 3.5% of total expenditures spent by the Government on its traditional land reform program, were spent in the *Cedula da Terra* program. The approved budget for 1999 includes R\$30 million for *CdaT*, or 2.1% of the total budget of R\$1.4 billion allocated for the traditional land reform program. At the same time, in the five participating Northeast states, the Project has increased the overall number of families benefited by land reform under any approach, rather than replaced the traditional approach. In 1997, the last year before effective Project implementation, about 15,800 families were benefited in the Project states by traditional land reform. This number remained at about 15,600 in 1998. The size of areas expropriated also remained roughly constant: 521,800 ha in 1997 v. 508,300 ha in 1998. At the national level, the traditional land reform program was significantly expanded over the same period.

4.31 Finally, as a practical matter, the Project is likely to remain a complement to, rather than a substitute for, expropriation because it does not generally deal with larger properties. The Project depends entirely on the initiative of community associations whose members are willing to work closely together to select a property, negotiate the price, assume financial obligations, prepare and implement complementary sub-projects, and contract technical assistance. Given the difficulties of organizing larger beneficiary associations of this kind, the average size has been small compared with that of INCRA

settlements, and Management does not expect this to change. In other words, the Project typically targets smaller properties not subject to expropriation. The large majority of the properties acquired under the pilot Project could not have been legally expropriated, because they do not reach the minimum size required for expropriation under the Constitution and related legislation. The average size of properties expropriated by INCRA in the Northeast was 1,566 ha in 1997 and 1,463 ha in 1998 (2.3 and 1.8 times the Project average, respectively, in each of the two years). In addition, of the small number of properties that could have been legally expropriated on the basis of their size, many would not have been considered unproductive (i.e., meeting the non-performance of social function criterion, which is also required for expropriation). According to INCRA, because of these restrictions, nearly four million properties (corresponding to approximately 200 million ha of land, some of the best in the country) are out of the reach of expropriation. In summary, the market-based approach has, for all the reasons detailed above, been a complementary instrument rather than a substitute for expropriation. Looking to the future, the market-based option would not replace alternative approaches to land reform, such as expropriation, but it would constitute an extremely important option in the Government's array of instruments for dealing with serious and long-standing land issues.

**4.32 Expropriation as A Form of Punishment.** The Requestors assert that land reform through expropriation punishes owners who maintain large tracts of unproductive land. Whatever the theoretical merits of this argument, expropriation in Brazil has, in practice, resulted in compensation well above the market value of the land and thus in a significant transfer of resources to the previous landowners.

**4.33** Under the pilot Project, land has been acquired at an average cost of R\$182/ha or R\$4,847/family. The nominal cost of expropriated land in the Northeast in 1998 was R311/ha and R\$8,229/family. Since part of the expropriation compensation is paid in long term government bonds (TDAs) at below-market interest rates, the nominal values for expropriation need to be adjusted to present value terms to be comparable to the cash payments to owners under the Project. Employing an estimated medium- to long-term interest rate of 16%, the cost of expropriated land in the Northeast in 1998 was R\$249/ha and R\$6,578/family – still well above the unit costs under the Project. Moreover, in many cases expropriated owners later obtain additional compensation through judicial actions. A recent study shows that the final cost, after judicial action, of expropriated land in the Northeast has averaged three times the initial compensation amount. As the President of INCRA testified during the Senate hearings on the *Cedula da Terra* program:

*“...We are paying some rural properties amounts in excess of R\$100 million [around US\$100 million at the time]. None of those properties is worth 10% of that value. Those values are the result not of over-valuation by INCRA, but actually of under-valuation. When INCRA under-values, the owner goes to the courts, which normally rule in their favor. These processes take several years, accruing compensatory interest charges...For years and years we paid 12% plus TR [an inflation adjustment], compensatory interest and interest on arrears...This is the worst business...Is this what the beneficiaries [of agrarian reform] want? Is this punishment? It could be a psychological punishment, but it is not reflected in material terms from any point of view.”*

**Cluster (c): Claims Concerning Environmental Assessment**

4.34 **Claim No. 7: The Project violates OD 4.01 on Environmental Assessment.**

The final sentence of para. 1(b) of the supplemental letter to the Requests claims that:

*“Moreover, the appraisal policy of the World Bank, such as OP 4.01 [reference should be to OD 4.01] Environmental Assessment, was not put into effect.”*

The claim is not discussed elsewhere in the Request, no information is presented to show harm, and the Inspection Panel did not include this item in its Notice of Registration. Management agrees with the Panel on this point. However, in the interests of providing full information about the Project, Management would like to make the following points.

4.35 In compliance with OD 4.01, the Project was screened and given an Environmental Category “B”, as no significant adverse environmental impacts were expected to result from Project activities. Given that the specific properties to be purchased and the complementary investments that would be needed would be identified only in the course of implementation, the approach followed (typical of programmatic projects of this kind) was to make provision in the State Operational Manuals for proper environmental screening, analysis and mitigation mechanisms for subprojects. Concerning eligibility criteria for the purchase of land, the Manuals state that properties considered for purchase must demonstrate potential for sustainable exploitation of natural resources; they must be properly demarcated and legal reserve areas registered in writing; they cannot be located near indigenous reserves if they are not clearly demarcated; and no properties will be considered which are primary forest or on which there are land claims by indigenous people. By way of illustration, in the material which Management is providing to the Panel, are examples of environmental protection plans for land purchases and on land investments.

<p><b>Cluster (d): Claims Concerning Consultation, Disclosure of Information and NGO Participation</b></p>
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4.36 **Claim No. 8: The Bank Failed to Consult and Adequately Inform Project-Affected People and Their Representatives; Claim No. 9: The Project Violates BP 17.50 on Disclosure of Operational Information; and Claim No. 10: The Project Violates GP 14.70 on Involving Non-Governmental Organizations in Bank-supported Activities.**

The Request alleges that information about the Project, including the Operational Manual, was not made available to Project beneficiaries or their representatives, as required under BP 17.50 (incorrectly referred to as OP 17.50 in the Request). The intent of BP 17.50 is to establish a mechanism through which transparency concerning Bank-supported operations is effected by the release by the Bank of relevant information to the public through the Public Information Center (InfoShop) at key stages of Project preparation.

4.37 **Disclosure by the Bank.** Management has disclosed all standard information on the Project (Project Information Document/PID, Environmental Data Sheet, and Project Appraisal Document/PAD) through its InfoShop. Moreover, the Country Management Unit for Brazil is located in the field and routinely assists interested parties who may not know how to access the InfoShop in Washington, D.C., to obtain documents which are available to the public. Meetings of Bank staff with some representatives of the Requestors have taken place, including a meeting with the Bank’s Country Director on October 14, 1998. In

this meeting, the Director indicated the Bank's willingness to maintain an open dialogue on land issues in general, and on the Project, offering to share the major findings of ongoing evaluation studies with the Requestors and welcoming a mutual exchange of views on these findings. The Bank intends to continue its efforts to find common ground on land issues with the Requestors and other organizations, building on the process already started in order to ensure the best possible outcome for the beneficiaries.

**4.38 Dissemination by the Borrower.** With respect to the Operational Manual and related information at the local level, the STUs in the States where the pilot Project is being executed sent copies of their OM's early on to representatives of most of the organizations which have signed the Request. Specifically, the OM was sent to various church groups, the *Movimento sem Terra (MST)* and the State Federations and National Confederation of Rural Workers (*FETAG/CONTAG*). Management is making available to the Panel some 100 examples of the covering letters attaching the OM to organizational signatories of the Request and other institutions. In addition, all States have conducted information campaigns about the Project through radio, television, pamphlets and posters. Examples of tapes used on television and radio, as well as many examples of the pamphlets and posters about the Project, are also being made available to the Panel. In many of the declarations in the video and audio tapes which have been provided to the Bank and are available to the Inspection Panel for consultation (para. 1.5), beneficiaries themselves describe having first heard about the program through radio and television, or through the local rural syndicates, the church or the MST. Given that 8,000 families have already received lands and titles, 7,000 will receive loans shortly, and another 28,000 are at varying stages in the process – all in less than 18 months – it is simply not credible that there has not been a major effort at information dissemination about this Project.

**4.39 Participation of Beneficiaries.** The design of the Project places beneficiaries in the driver's seat, and its success depends entirely on their active participation, through community associations, in all stages of the Project cycle. The associations must select the land they wish to purchase, negotiate the price with the seller, take the loan, identify and execute complementary investments, and contract technical assistance to improve productivity and output of their new properties. The Supplemental letter claims that:

*“...the States of Ceara and Bahia...community associations are being constituted (i) by the agents of the state governments, mediators of the interests of the landowners, or (ii) by the landowner himself, interested in selling his land. In the great majority of cases studied, the rural workers are not aware of the commitment they are pledging, because the information that they are assuming a credit burden is omitted from them.”*

4.40 Management believes these assertions are unfounded. With respect to the States of Ceara and Bahia, a number of community associations pre-date the Project. In Ceara, 84% of the participating associations existed before the Project, some of them for as long as 9 or 10 years. Of the remaining 16%, some were established at the initiative or with the participation of the local rural syndicate; others followed the example of neighboring communities. In Bahia, most of the new associations have been formed with the support of the church, the local rural syndicates, the MST and other pre-existing local organizations. In addition, the States have organized meetings with each of the associations to review the conditions of the land loans. In the videotapes available to the Panel, almost all communities state that they knew they had to pay for the land and the conditions of the loans. The communities themselves held meetings to discuss whether they should take the loan. The results of these meetings are regularly recorded in minutes signed by all members of the community association. Examples of such signed minutes are available to the Panel. Management is aware of some cases where landowners or their agents have attempted to use the community associations, but the members have resisted, and the communities and STUs have been very attentive to this possibility. The fact that the average cost of the Project lands has been below expropriated land prices suggests that landowners who may be attempting to subvert the process are not generally succeeding.

4.41 **Participation by Non-governmental Organizations.** The local chapters of several of the rural movements which have signed the Request have been involved in the Project, and have played an important role in disseminating information about it, helping to organize new community associations, assisting communities in processing their paperwork, providing transportation for them to be able to visit alternative properties, and helping with the decision-making process about which property to select. Community associations are also free to contract with any local technician or organization for the provision of technical assistance to help them improve the productivity and output of the lands purchased. In the video and audio tapes which the Inspection Panel may wish to consult (para. 1.5), there are numerous examples of beneficiaries mentioning such help:

*“The MST lets us know about the Project, helps us to get organized, lends us money during our organization phase, and is now providing technical assistance to us.”*

*“We were part of one of the invasions [of private farms] organized by the MST, when one of the [MST] leaders told us about the CdaT Project and helped us to get organized to be able to participate in it.”*

*“The rural syndicate [local affiliate of CONTAG] let us know about the Project, helped us to form the association to participate, helped us with the paper-work, helped us with the negotiation of the land, and continues helping us with the whole process.”*

Statement by a local Catholic priest: *“The CdaT program should be implemented at a much faster pace. We have been able to organize the communities to participate in it at a much faster pace than the speed with which the money is becoming available.”*

4.42 Despite this kind of help on the ground at the local level, the national leadership of some of the most important rural movements remain opposed to the *Cedula da Terra* program and have refused to participate in formal Project councils. The following excerpt from the Senate Hearings in Brazil on the pilot Project reflects this position. In discussing the invitation to representatives of the national movements to participate in the

Consultative Council for the Project, the MST representative to the Senate Hearing had this to say:

*“...Not only will we not participate in the council, but we will fight this type of Program. I would like to leave this fact very clear and to be objective, because we do not want to create illusions with anyone about this Program.”*

## Chapter V: Conclusions

5.01 Management considers that the Brazil Land Reform and Poverty Alleviation Project is a very well designed operation. As a pilot, it is being closely supervised, studied and fine-tuned. The Project is already yielding significant results on the ground for a large number of poor rural families in the Northeast of Brazil, and shows exciting promise as a cost-effective, expeditious and non-conflictive means of achieving a redistribution of land assets. It has not and would not replace all alternative approaches to land reform, such as expropriation, but it does constitute an extremely important option in the Government's array of instruments for dealing with serious and longstanding land issues.

5.02 The Requestors do not demonstrate real or potential harm to any direct Project beneficiaries, nor do they seek to improve the Project design or execution. The objective is to stop the Project and prevent expansion of market-based land reform, because they advocate "punitive expropriation" as the only "legitimate" means to redistribute land assets in Brazil. The foundation of this argument is philosophical, and centers on a policy choice of the Government, and not on the proper application by the Bank of its own policies and procedures. The only specific claims of non-compliance with Bank policies and procedures are unsubstantiated and are drawn from a separate letter, signed by one Requestor and not part of the Request as defined by the Panel. None of the identifiable signatories of the Request is a Project beneficiary (para. 3.5), and no evidence is presented to show that the beneficiaries designated any of the Requestors to act as their agent in presenting the Request. On the other hand, there is now voluminous documentation from the actual beneficiaries, expressing their clear and passionate support for the Project. In addition, among the signatures to documents repudiating the Request are those of local representatives of churches of various denominations, local mayors and municipal assemblies, and rural syndicates (affiliates of the national *CONTAG*), also voicing their support for the beneficiaries' position.

5.03 For the reasons shown above, Management respectfully submits that the Request does not meet the requirements for Registration or Inspection in Resolution 93-10 of September 22, 1993, establishing the Inspection Panel, or in the August 19, 1994 Operating Procedures of the Panel.

**Matrix: Summary of Request Claims and Management Response<sup>25</sup>**

Request for Inspection		Management Response
Claims of Actual or Potential Harm	Bank Policy or Procedures Cited	
<p><b>Cluster (a) Claims concerning the Project's contribution to poverty alleviation and its impact – current or potential – on participant's incomes and welfare:</b></p> <p><b>Claim 1:</b> The Project violates <b>OD4.15</b> on Poverty Reduction</p>	<p><b>OD4.15</b> on Poverty Reduction (December 1991) This OD makes broad recommendations for sound design and implementation of poverty alleviation projects.</p>	<p><b>Response 1:</b> Management followed OD4.15 in designing the project, which was rated by the Quality Assurance Group (QAG) as one of the two best projects in the Latin America and Caribbean Region in 1997, for quality at entry.</p> <p>The Project has the following features:</p> <ul style="list-style-type: none"> <li>(i) It builds on economic and sector work, reflects the CAS, makes strategic choices among options, and adopts an innovative approach to poverty reduction;</li> <li>(ii) It effectively targets beneficiaries, concentrating on areas where the poor live and assets which the poor hold;</li> <li>(iii) The project is demand-driven with beneficiaries assuming responsibility, as organized associations, for identifying and purchasing land, choosing and carrying out on-land investments and contracting TA.</li> <li>(iv) The project finances the creation and improvement of productive assets;</li> <li>(v) Cost recovery and sustainability are design features;</li> <li>(vi) Detailed economic analysis shows the project will have strong, positive impact and robust economic/financial returns under various scenarios; and</li> <li>(vii) Systematic monitoring and evaluation is employed, combined with regular, well planned and executed supervision.</li> </ul>

<sup>25</sup> The Notice of Registration for Request for Inspection includes OD4.15 and BP17.50. Management is responding to these claims and to all others included in the Request and in a subsequent, separate letter from one Requestor, which the Panel has circulated together with the Request.

<p><b>Claim 2:</b> Beneficiaries will be unable to repay debts entered into under the Project.</p>	<p>Notionally but not substantively linked to OD4.15 in the Request</p>	<p><b>Response 2:</b> Detailed economic and financial analyses of expected project impacts in different sub-regions of the Northeast were carried out during Project preparation and appraisal, taking into account the likely low level of capitalization, formal training and management skills of Project beneficiaries. The expected ERR for the overall pilot Project is 32%, ranging from 26% in semi-arid areas to 75% in peri-urban locations. Recent case studies based on field visits to a large number of ongoing sub-projects confirm overall appraisal estimates. For most agro-climatic zones, actual financial viability greatly exceeds projections. For the semi-arid zone of Ceara, profitability is somewhat less than estimated at appraisal. As a pilot project, it was expected that some minor changes would be introduced on the basis of close supervision and ongoing evaluation, including the case studies. To leave no doubt that even in the least favorable areas the beneficiaries will be able to repay their land loans, in December 1998 the Ministry of Agrarian Reform designed an adjustment to credit terms. Financial viability is strengthened by the following: (i) project dependence on beneficiary initiative and selection of lands, which are generally high quality; (ii) beneficiaries have immediate access to matching grants for on-farm investments – an important design feature which reduces dependence on continued Government support – US\$1,300 start-up support per family, and since 11/20/98, have been eligible as land reform beneficiaries for PROCERA financing for productive activities; and (iii) funding for beneficiaries to directly contract TA. Moreover, according to the Ministry of Agrarian Reform proposal of December 1998, all beneficiaries can refinance loans to 20 years/3 years' grace/ and 4% interest with annual repayments of about R\$400. In addition, recent FAO evaluation and case studies show that prospects for financial viability are good even in semi-arid areas. Beneficiaries are well aware of their repayment obligations and some associations have started savings for this purpose. The Request conveys the misleading idea that beneficiaries of expropriation do not have to pay for land. According to existing legislation, they do, and with higher annual obligations.</p>
<p><b>Claim 3:</b> The Project is not achieving its objectives.</p>	<p>As above</p>	<p><b>Response 3:</b> The project objective is to test a market-based land reform mechanism to reduce rural poverty, targeting 15,000 families in 3 years, and increasing their incomes over time by raising the agricultural productivity of their lands.</p> <p>A. In less than 18 months: 8,000 families have received land and title; 7,000</p>





<p><b>Cluster (c): A claim concerning environmental assessment</b></p> <p><b>Claim 7:</b> The Project violates <b>OD 4.01</b> on Environmental Assessment</p>	<p><b>OD 4.01</b> on Environmental Assessment (October 1991). The OD requires screening of projects at appraisal to detect potentially adverse environmental effects.</p> <p>The Request raises but does not discuss or substantiate this claim and it is not included in the Registration.</p>	<p><b>Response 7:</b> Management has complied with OD4.01. The project was screened and given an Environmental Category “B” because no significant environmental impacts were expected from project activities.</p> <p>Given that the specific properties to be purchased and the complementary investments that would be needed, would be identified only in the course of implementation, the approach followed (typical of programmatic projects of this kind) was to make provision in the Operational Manuals for proper screening, analysis and mitigation mechanisms, including for on-land investment subprojects. Manuals state that properties must demonstrate potential for sustainable development; be properly demarcated and legal reserves registered in writing; cannot be located near indigenous peoples’ reserves; and cannot be primary forest or be subject to indigenous peoples’ claims. (Sample environmental protection plans available on request).</p>
<p><b>Cluster (d): Claims concerning consultation, disclosure of information and NGO participation</b></p> <p><b>Claim 8:</b> The Bank failed to consult and adequately inform project-affected people and their representatives</p>	<p><b>BP17.50</b> on Disclosure of Operational Information (September 1973); and <b>GP14.70</b> on Involving Non-Governmental Organizations (NGO) in Bank-Supported Activities (March 1998).</p> <p>The GP is technically ineligible under the Inspection Panel Resolution and was not included in the Registration.</p>	<p><b>Response 8:</b> Management has adopted a transparent and participatory approach to this project. This is facilitated by:</p> <p>(i) location of the Brazil CMU in the field, with a staff member devoted exclusively to liaison with civil society; (ii) State TUs early on sent Operational Manuals to most Requestor groups including the Church, MST, and CONTAG; (iii) all five states have conducted media campaigns</p>



## **ANNEX B: Project Supervision and Improvements Introduced**

1. The first year of implementation of the pilot Project has been a period of learning during which important lessons have been learned through intensive supervision, international and national seminars, studies and workshops. The Project is part of the Bank's Compact for Rural Development and has received more than average supervision support. Some 65 staff weeks have been used in Project supervision over a 20-month period, well above the average for other projects in Brazil, and with more than 70% of supervision time provided by staff of the Bank's Brasilia and Recife Offices. Besides formal supervision from Bank Headquarters, project staff in the field offices have made some 18 visits to participating states since the project started. The Project has also been visited by the Brazil CMU Director and other Bank Directors including from the Africa Region. In addition, the project has been discussed in three major seminars with extensive participation from Government and the Bank, the private sector/civil society, NGOs, academia, international specialists and multilateral/bilateral organizations.<sup>26</sup> There have also been a number of workshops involving the State Technical Units with the associations in each state. Available to the Panel for its review, is a report and two audio tapes of the meeting of the presidents of all community associations involved in the Project and some of their membership, in Bahia in November 1998. The findings and recommendations were reviewed by the beneficiaries with State Government authorities and the Minister of Agrarian Reform. The result of all this activity has been a series of lessons which have been or will be incorporated as changes or adaptations in the existing project and the design of the follow-up, Adaptable Program Loan. These include:

(a) **Access to Land.** A central lesson learned and the message being received from many organizations and the beneficiaries themselves, is that the target population for land reform wants access to land in a rapid, participatory and less conflictive manner, even though they know the land must be paid for. Proof of this was the huge demand for purchase of land which exceeded 40,000 families in one year of Project implementation. The market-based approach piloted under the project expedites the settlement of landless rural families, with land acquisition from identification to purchase typically taking less than 90 days. Further, projected household incomes (five years after land acquisition) range from 3 to 10 times the pre-project household income and permit these households to service their land loans. To date, families have generally chosen good quality land at costs that represent savings relative to traditional methods of land reform and without exerting upward pressure on land prices. Targeting has been effective and efficient, the vast majority of beneficiaries having characteristics consistent with the target population.

(b) **Size of Beneficiary Groups:** It has been observed that groups should have a minimum of 10 families and a maximum of around 50 for optimal performance. Groups smaller than 10

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<sup>26</sup> Seminars were: (i) **Agrarian Reform and Sustainable Development**, Ceara 23-25 November, 1998. Organized by the State Government of Ceara and the Ministry of Land Reform with support of the Bank, the Bank of the Northeast, the National Forum of State Land Organizations and IICA. About 100 persons were invited to participate, from the Federal Government (Ministry of Land Reform, INCRA, IPEA, Ministry of the Amazon and Environment, BNDES, and Bank of the Northeast), of the State Governments (Ceara and Bahia), of NGOs (CONTAG, Pastoral da Terra), national universities and international bodies (FAO, IICA); (ii) **Land Reform Seminar: Perspectives for the 21<sup>st</sup> Century**, Brasilia, December 17-18, 1998. Organized by the Ministry of Land Reform, NEAD and FAO. Invited participants from INCRA, the states, technicians and specialists of the Ministry of Land Reform, and Ministry of Agriculture, academics, social movements and the general public. The seminar focussed on a group of studies and surveys done by specialists from top Brazilian academic bodies (UNICAMP, IPEA, UFRRJ, and others). Presentations were made by these bodies and comments followed from representatives which included FAO, CPT, ITESP, CONCRAB, CONTAG, CEPAL and the Bank; and (iii) **International Seminar on Asset Distribution, Poverty and Economic Growth**, Brasilia, July 14-17, 1998. Organized by the Ministry for Land Reform, the Bank and supported by IICA. Participating were Brazilian authorities from Land Reform Ministry, Labor, External Relations, Education, and the Treasury. Also involved were the Bank (Stiglitz and Nankani), IDB, MIT, University of Maryland, DELTA, USC, UC, London School of Economics, and academics from Mexico, South Africa and Colombia.

families are likely to have difficulty forming an association board, which is a condition of eligibility for land; and, the resources available to a very small group are likely to be insufficient to make certain investments, either due to cost as in the case of rural electrification, or to under-utilization of purchased equipment, in the case of a tractor. For groups of over 50 families, experience has shown that management of a rural property by a large group can be difficult and that the tendency, demonstrated in traditional, i.e. expropriation-based land reform settlements, where 100, 200 or more families are settled, is for such groups to ultimately be sub-divided into smaller groups of around 50 families which then create their own associations.

c) **Community Investments:** Experience of land reform over many decades has shown that to avoid out-migration and keep families on their land, conditions must be created for them to establish themselves in the area immediately after land is acquired. In the case of the market-based pilot, a mechanism was introduced by which, immediately after land acquisition, the Technical Unit calculates the amount of community investment to which each beneficiary association is entitled, plus aid in the amount of US\$1,300.00 for the cost of establishing each family. The TU authorizes the *Banco do Brasil* to draft a single contract with the association, with investment subproject resources being blocked in each association's account until subproject proposals are approved by the Technical Unit, at which point the resources are rapidly unblocked and disbursed. This streamlined mechanism has brought many advantages to beneficiary families, permitting them to immediately use the aid money to move in and get established. The certainty of being able to use resources for investments in the land acquired, without the need to work as paid laborers to support their families, is an incentive for beneficiaries to establish the property rapidly and start farming.

d) **Organizations of Associations:** Although many beneficiary associations were formed several years ago and are well-organized, others were formed only very recently. Experience has shown that these more recent associations can tend to lack a set of ethical values and principles to guide interpersonal relationships between the groups formed, and an understanding of public policies and basic notions of planning, which are needed to make settlements sustainable. These issues have been discussed at length with participating states and the Nucleus of Agricultural Studies and Development (NEAD), and recommendations have been adopted for the proper training of settlers to efficiently implement and start settlement activities, creating the foundations for the settlement's sustainability. This model for building human and social capital will also be a feature of the proposed follow-up Project, should the Bank go ahead with its financing.

e) **Technical Assistance:** Studies/observations during the first year of project implementation indicated that official technical assistance (TA) has fallen short of expectations in both quality and timeliness. The Project calls for TA funding for the preparation and implementation of community investment subprojects. However, communities need more effective and efficient TA in planning family farming activities, i.e., the production of crops and their processing, storage and marketing. During implementation of the pilot, alternatives have been discussed with the States to improve TA for beneficiary families, especially in the first three years of settlement. The amount allocated for the community to purchase TA has been increased during the land purchase process and subsequent production planning over the first three years after installation to help ensure increases in productivity and incomes.

f) **Financial Charges:** When the Project was prepared, the Long-Term Interest Rate – TJLP – was selected by the Government to apply to the credits obtained by associations to purchase lands and to define the financial charges for each loan. The payment period as defined was up to 10 years, with up to 3 years' grace. Studies done by the Nucleus of Agricultural Studies and Development (NEAD) indicated that, in some regions such as the

northern *litoral* (coastal region) of Bahia and Ceara, lands acquired by associations could be paid for in the period stipulated. In other regions, however, principally the semi-arid, which is subject to frequent droughts, families could find it hard to fulfil their repayment obligations in years of drought. In addition, with the rising interest rates, the TJLP rose significantly, becoming burdensome for small farmers benefiting from the Project. In discussions during the preparation of the new Project, it was agreed that the TJLP would no longer be used to define financial charges stemming from the loan and would be replaced by a fixed interest rate of 4% p.a. similar to the one to be charged by the Land Bank (*Banco da Terra*). Moreover, the payment period would be increased to 20 years. These new charges and terms will also be valid for the current pilot Project, and be applied retroactively as a refinancing of current land loans. There will be no loss to Project beneficiaries, since no portion of the loans contracted has yet expired.

**g) Beneficiary Participation and Consultative Councils:** The design of the Project places beneficiaries in the driver's seat, and its success depends entirely on their active participation, through community associations, in all stages of the Project cycle. Experience to date has been very positive at the community level, with the associations (many of them pre-dating the Project) showing strong interest, initiative and active participation. At the same time, the Project also envisaged the creation of a Consultative Council in each State, comprising representatives of Government and organized civil society, including churches, unions (of owners and workers) and other non-governmental organization (NGOs). In contrast to the active grassroots level community associations, the Councils' performance in the first year of implementation has been below expectations. The Bank and the Government are reviewing the functions, composition and procedures of the Councils to identify ways to increase their effectiveness. The formal position of some of the Requestor organizations, against market-based land reform in principle, is a complicating factor, but the Bank and the Government are in the process of renewing efforts to obtain participation by these groups.

■ ANNEX C: List of Studies Undertaken

Study	Status	Objectives
1. Case Studies on Implementation and Impact of Land Reform Pilot in Ceara and <i>Cedula da Terra(CdaT)Project</i>	Completed 9/98 and 2/99	<ul style="list-style-type: none"> <li>• Detect implementation problems or particular successes in <i>CdaT</i> in order to adjust it during implementation and improve the design of any proposed follow-up project.</li> <li>• Validate economic and financial parameters used for the economic analysis of the Project</li> </ul>
2. Farm Models and Financial Analysis	Completed 1/97	<ul style="list-style-type: none"> <li>• Evaluate the economic benefits, the financial viability and the family income effect of market-assisted land reform in different regions of the country</li> </ul>
3. Impact of Market-Based Land Reform Pilot in Ceará	ongoing	<ul style="list-style-type: none"> <li>• Analyze the implementation and the impact of market based land reform for the 43 subprojects included in the first phase pilot in Ceara.</li> </ul>
4. Social Sustainability	Completed 8/98	<ul style="list-style-type: none"> <li>• Provide orientation for the positioning of market-based land reform within the political</li> </ul>

			conflict surrounding land reform in Brazil.
5. Financial Options Study	Completed 11/98		<ul style="list-style-type: none"> <li>Analyze and propose alternatives to current financial arrangements in respect to:</li> <li>Commercial risk associated with land loans (see how bad disincentive for collection)</li> <li>Participation of private Banks in the administration of land loans</li> <li>Participation of private capital in land loans or agriculture credit</li> <li>Link with PROCERA and agriculture credit</li> </ul>
6. Cost of Traditional Land Reform Programs	Completed 12/98		<ul style="list-style-type: none"> <li>An update of the cost of traditional land reform in different regions and agro-zones of the country</li> </ul>
7. Long-term Financing for Land Reform	Draft completed 12/98		<ul style="list-style-type: none"> <li>Identify sources of financing for market-assisted land reform and policies to mobilize these resources</li> </ul>
8. Impact of Large-Scale Market-Assisted Land Reform ( <i>Banco da Terra</i> ) on Land Markets	Draft completed 12/98		<ul style="list-style-type: none"> <li>Analyze the impact of large-scale market-based land reform on land prices in different regions of the country</li> <li>Assess the quantity of land available for sale in different regions at different prices</li> </ul>

9. Social Demand for Land Reform	Draft completed 11/98	<ul style="list-style-type: none"> <li>• Determine the number and social situation of potential program beneficiaries</li> <li>• Estimate the number of likely beneficiaries of land reform in Brazil by region, current occupation and income</li> <li>• Determine expected impact of program on rural poverty and relative size of per-family benefits compared to other social programs.</li> </ul>
10. Small Farm Viability	Ongoing	<ul style="list-style-type: none"> <li>• Evaluate the economic benefits and the financial viability of different scales of agriculture production in different regions for different products</li> </ul>
11. Impact of Large-Scale Market-Assisted Land Reform on Product Markets	Ongoing	<ul style="list-style-type: none"> <li>• Analyze the impact of large-scale market based land reform on product markets in different regions of the country</li> <li>• Identify likely constraints in product markets</li> </ul>
12. Institutional Support, Technical Assistance and Environmental Sustainability	Ongoing	<ul style="list-style-type: none"> <li>• Assess institutional and other aspects of Market-Based Land Reform in the Southern part of Brazil</li> </ul>

## **ANNEX D: Beneficiary and Official Support for the Project**

The following list catalogues the numerous statements of support for the Project received from actual and potential project beneficiaries, local churches of various denominations, local mayors and municipal assemblies, local syndicates, and state and national officials, among others. These supporting statements represent more than 6,000 signatures, and are complemented by personal narratives from actual and potential beneficiaries and community associations on six video tapes and three audio tapes, concerning all aspects of the Project. Among the signatures supporting the position of the beneficiaries themselves are those of local representatives of churches of various denominations, local mayors, municipal assemblies, syndicates and associations of rural workers.

1. Letters and documents of support for the Project, from 136 beneficiary Community Associations, undersigned by members of these associations. These documents testify to: the participants' belief in the *Cedula da Terra*; their understanding of what it involves in terms of financial and other commitments; the benefits already achieved and those they believe they will achieve through the Project; the harm which stopping the Project would cause; their preference for obtaining land through non-conflictive means rather than through invasion as has been encouraged by some of the Requestors; and the fact that these beneficiary associations have not asked anybody to represent them in a Request to the Bank, nor have they been consulted about such a Request.
2. Letters from 64 Community Associations on the waiting list to participate in the Project, undersigned by members of these associations. These documents express the concerns of potential beneficiaries (who have already presented their proposals for purchases of land under the program) about the possibility of the Bank stopping its support for the Project. They call for the continuation and expansion of the Project, rejecting accusations against it which they state are not in accordance with what they have observed to be the benefits which other communities have gained from participation in the project. They also lament the potential effects on other landless families, of a cessation of the Project.
3. Names and signatures of the participants in the first meeting of Presidents (and other members) of all the community associations participating in the Project in the State of Bahia. This meeting -- which was a successful example of a forum enabling beneficiaries to bring their concerns directly to authorities -- took place in November 1998. Participants reviewed experiences and shared lessons learned with all the beneficiaries and representatives, to determine the nature of problems and find solutions. Representatives of the State Government participated in this meeting and at its conclusion, there was a discussion with the Minister for Land Reform.
4. Samples of preliminary plans for the accreditation of associations with INCRA for the purpose of PROCERA.
5. As a sample, a group of 34 documents demonstrating projects under *Cedula da Terra* as having been declared eligible by INCRA for PROCERA land reform credit.
6. Examples of the minutes of 31 different Community Association assemblies to discuss land loan conditions and recording their decision to authorize the contract of such loans. These minutes are signed by Community Association members and provide evidence of how these Minutes are recorded in local registries.

7. Examples of eligibility certification reports prepared by the Project Technical Unit after field visits to review the eligibility of a sample of 27 potential community associations to participate in the Project.
8. More than 60 examples of official letters sent at the beginning of the Project to local representatives of most of the Requestor organizations/entities and to public/private institutions in the countryside, attaching, for information, copies of the Project's Operational Manual and a manual of information on the Project to be disseminated locally. Some of these letters invited local representatives of the Requestors to participate in the State Project Council.
9. Document of support for the Project with 29 signatures including 5 directors of rural syndicates (associated with CONTAG); 3 representatives of the Church (Catholic, Baptist, Assembly of God); mayors and vice-mayors; 5 members of the local Municipal Assembly and representatives of rural associations.
10. 27 signatures of local NGOs and local technicians; one letter expressing surprise at the request for cancellation of the project and in favor of its continuity; one letter from a syndicate of rural workers indicating how they are helping beneficiary families with the program and requesting its continuance.
11. 25 signatures of elected directors of five rural associations repudiating the request to stop the Program particularly because they are representative of beneficiaries and they were never consulted concerning this "unfortunate" Request.
12. Letter from a federation of rural associations with the signatures of representatives of seven of the member associations and 61 signatures supporting the Program and expressing surprise at the Request.
13. 14 signatures of presidents and directors of rural syndicates, representatives of the Church and local mayors, indicating their opposition to the stopping of *Cedula da Terra*.
14. Document with 86 signatures of NGOs (including the Catholic Church, other churches, masonic temples, the Rotary Club, the Lions' Club, *Pastorale dela Terra Juventude*, rural associations and federations of associations, rural radio stations, cooperatives and agricultural technicians) and local officials (mayors, representatives of Municipal Chambers and other municipal officials).
15. 18 letters with representatives of different types of rural associations, associations of small farmers, micro-producers, rural workers and residents of rural areas, explaining why they support the Project, giving examples of the benefits of the Project and requesting that the Bank continue its support for the Project.
16. 8 letters from pastors, priests and leaders of local congregations of evangelical churches in support of the Project, giving examples of the benefits of the Project and requesting the Bank to continue its support.
17. 9 letters from mayors and presidents of local municipal assemblies recognizing the benefits that the Project is bringing to local communities and repudiating the accusations directed at the World Bank.

18. Letter from the Rotary Club of Fortaleza with 47 signatures; and letters from two cooperatives and a Manager of the Bank of Brazil testifying about the importance of the Project, repudiating criticism of the Project and asking the Bank to continue supporting it.
19. Letter with 19 signatures of local elected officials, presidents of rural associations and other local public sector officials, stating the importance of the Project for rural communities.
20. Letter from an NGO (*Gestao Publica e Cidadania*) formed by the Ford Foundation and the Getulio Vargas Foundation informing the President of the Land Institute of one of the participating states that the CdaT Project, known in that state as *Reforma Agraria Solidaria*, has been selected one of 20 finalists among 600 government initiatives, i.e., one of the 20 best. Attached to the letter is the certificate awarded to the Project.
21. 2 letters from the Governor of the State of Ceara and from a Federal Senator indicating the importance of the Project, full support for it, and noting the harm which would result from its cessation.
22. 2 letters from the Secretariat of Rural Development of the State of Ceara, and a letter signed by 7 State Secretaries of Agriculture in the name of the National Forum of Secretaries of Agriculture – Northeast Region, indicating the importance of the Project and their support for democratization in the use of, and access to, land. The Secretaries request that the Project be extended to other states of the Northeast and they indicate that the Requestors are asking the Panel to participate from the standpoint of an ideological position with doctrines which do not accept the principles of the market economy.
23. Letter from 22 Federal Congressmen indicating that they know the Project very well as an important instrument in fighting rural poverty; that they know of the satisfaction of the rural communities which have gained access to land; and expressing support for the Project because it is one of the most successful Government interventions in terms of bringing immediate benefits to small farmers. They state that the organizations requesting installation of the Panel and suspension of World Bank support for the Project are doing so for purely ideological reasons.
24. Letters from the Secretary of Planning of the State of Bahia indicating the progress made by the Project in his State and the innovative characteristics of the Project in which rural workers themselves directly and freely select land to be purchased and make investments on that land; and a letter undersigned by the Bishop of Sobral and the Mayor, President of the Municipal Assembly and Secretary of Agriculture of Sobral, requesting that the World Bank maintain the *CdaT* Project given the great benefits which it has brought to low income families and through strengthening their organizations.
25. Copies of examples of environmental protection plans, completed as a requirement for land purchase and on-farm investments.
26. Samples of surveys of community associations to obtain data about who took the initiative to participate in the project; availability of information to project beneficiaries; the repayment obligation; who suggested the formation of an association; and age of the association; data on access to credit and participation in organized movements (federations, rural workers' unions, the MST and others); data on the information dissemination campaign; quality of the properties acquired; and demand for subprojects.

27. 6 videotapes containing statements by the beneficiaries on different aspects of community organization-formation; participation in the process by local church, rural syndicates, and the MST; information available to them at the beginning of the Project, particularly as relates to the purchase of the land and terms and conditions of the loan; beneficiaries' statements on the quality of the land that they have purchased and production which is taking place on those lands; expressions of their rejection of the Request for Inspection; statements expressing their preference for obtaining land through non-conflictive means rather than through armed invasion; and expressions about the fact that these beneficiaries' associations have not asked anyone to represent them in a request to the Bank, nor have they been consulted by any institutions about such a request. The tapes also contain statements by representatives of the Church, presidents of federations of rural associations, and local officials. Also included are examples of the Project dissemination campaign through television.

28. 3 audiotapes: Two of them including the recording of a three-day meeting that took place in November 1998 in the State of Bahia (number 3 above) with the participation of all the presidents and some members of all community associations participating in the Project, to review among them all aspects of Project implementation, lessons learned, and recommended improvement. The results of the meeting were shared with the government officials and the Ministry of Agrarian Reform. One tape presenting an example of a radio publicity campaign in one of the participating States.

29. Examples of brochures, pamphlets and posters used in the Project information campaign in three of the participating States.

30. Other documents.

All documents will be available to the Panel.