

Management Response to First Request for Inspection

**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.

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ANNEX A: Matrix of the Request for Inspection and Management Response

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Abbreviations Used in this Document

ABRA	Brazilian Agrarian Reform Association
BNB	Bank of the Northeast of Brazil
BNDES	National Development Bank
BP	Best Practice
CAS	Country Assistance Strategy
CdaT	<i>Cedula da Terra</i> (the Project)
CMU	Country Management Unit (of the World Bank)
CONTAG	National Confederation of Agricultural Workers
ERR	Economic Rate of Return
FAO	Food and Agriculture Organization
GP	Good Practice
INCRA	National Institute for Colonization and Agrarian Reform
InfoShop	World Bank Public Information Center
MST	Movement of the Landless
NGO	Non-Governmental Organization
OD	Operational Directive
OP	Operational Policy
PROCERA	Credit Program for Land Reform Beneficiaries
QAG	Quality Assurance Group
R\$	Brazilian Real (Currency)
STU	State Technical Units
TDA	Government Agrarian Reform Compensation Bond
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.¹

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"² 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 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.

² See quotes in paragraph 3.1.

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 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,³ 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

³ 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.

available to the Panel, the Request would not have qualified for registration and is not eligible for inspection.

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 Manual⁴ in each State.

⁴ 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 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.
- 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.⁵

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 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

⁵ 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.

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>Cluster (b): Claims about the Pilot Nature of the Project, about the</p> <p>Constitutionality of Pursuing a Market-based Approach to Land</p> <p>Reform in Brazil and Whether It Is Crowding out Expropriation</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\$)

Northeast	Admin.	Land (including improvements)	Start-up Money	Infrastructure	Total
NPV Costs					
Traditional	\$1,930	\$6,578*	\$2,331	\$2,407	\$13,246
Market-based	441	3,521	1,300	3,258	8,519
Savings	77%	46%	44%	-35%	36%
Initial Costs					
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 R\$311/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.

**Cluster (d): Claims Concerning Consultation, Disclosure of Information
and NGO Participation**

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 Response⁶

Request for Inspection		Management Response
Claims of Actual or Potential Harm	Bank Policy or Procedures Cited	
<p>Cluster (a) Claims concerning the Project’s contribution to poverty alleviation and its impact – current or potential – on participant’s incomes and welfare:</p> <p>Claim 1: The Project violates OD4.15 on Poverty Reduction</p>	<p>OD4.15 on Poverty Reduction (December 1991) This OD makes broad recommendations for sound design and implementation of poverty alleviation projects.</p>	<p>Response 1: 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: (i) It builds on economic and sector work, reflects the CAS, makes strategic choices among options, and adopts an innovative approach to poverty reduction; (ii) It effectively targets beneficiaries, concentrating on areas where the poor live and assets which the poor hold; (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. (iv) The project finances the creation and improvement of productive assets; (v) Cost recovery and sustainability are design features; (vi) Detailed economic analysis shows the project will have strong, positive impact and robust economic/financial returns under various scenarios; and</p> <p>(vii) Systematic monitoring and evaluation is employed, combined with regular, well planned and executed supervision.</p> <p>Response 2: 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</p>
<p>Claim 2: 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>	

⁶ 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>Claim 3: The Project is not achieving its objectives.</p>	<p>As above</p>	<p>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.</p> <p>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>Response 3: 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 families have purchases negotiated and are awaiting loans; and a waiting list of 28,000 families have purchase proposals pending approval. The Brazilian Government is attempting to negotiate with the Bank an expanded program including the financing of the 28,000 waiting families.</p> <p>B. Recent studies project: (i) in Bahia, a three-fold increase in household income over 10 years net of land repayments; (ii) in Ceara, the semi-arid region means income is more volatile but net household income is sufficient to service debt over 10 years and provide safety net for drought years. Other studies broadly support these results. The project provides land and title, as well as the financial and technical support for beneficiaries to initiate farming activities, the outcome of which in terms of income and wellbeing will obviously develop over time.</p>
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<p>Claim 6: The Project is a substitute, not a complement to Brazil's Constitutionally-mandated land reform, i.e., expropriation.</p> <p>Cluster (c): A claim concerning environmental assessment</p> <p>Claim 7: The Project violates OD 4.01 on Environmental Assessment</p>	<p>OD 4.01 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>BP17.50 on Disclosure of Operational Information (September 1973); and GP14.70 on</p>	<p>Government (see Annex B for lessons learned) .</p> <p>Response 6: Management understands that expropriation is only one of the land reform instruments Constitutionally and legally available in Brazil -- Article 184 of the Constitution does not preclude other methods including the private purchase and sale of land, and the Land Statute of 1964 (Title II), specifies alternative measures.</p> <p>Management believes the market-based approach does not and should not supplant all other methods but testing alternatives which can achieve swift/cost-effective re-distribution of land assets, is a prudent step for Brazil. The pilot Project absorbed only 3.5% of the land reform budget in 1998, and in 1999 this will drop to 2.1%.</p> <p>The reasons for testing alternatives include the high cost and limited sustainability of the traditional approach. The argument that expropriation is needed to "punish" large landowners is indeed, fallacious. In practice, expropriation results in compensation well above market value of the land due to legal actions, and thus has compensated, not punished, landowners. Finally, the substitution argument is invalid because the project typically targets smaller and productive properties, not subject to expropriation.</p> <p>Response 7: 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>
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<p>Cluster (d): Claims concerning consultation, disclosure of information and NGO participation</p> <p>Claim 8: The Bank failed to consult and adequately inform project-affected people and their representatives</p> <p>Claim 9: The Project violates BP17.50 on Disclosure of Operational Information</p>	<p>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>BP 17.50 (incorrectly referred to as OP17.50 in the Request), establishes a mechanism to promote transparency in Bank operations by releasing relevant information to the public at key stages of the project cycle.</p> <p>GP14.70 encourages collaborative relationships with NGOs: to enhance better understanding of Bank</p>	<p>Response 8: 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 (materials available on request). Beneficiaries confirm first hearing of the project through radio and TV, local unions, the Church and MST; (iv) huge demand for land under the project contradicts the claim that information dissemination has not occurred, and beneficiaries understand their repayment obligations; and (v) project success depends on full beneficiary participation at all stages, through their associations, most of which pre-date the project. Associations discuss merits of taking the loan in open, recorded meetings. The very limited cases where landowners/agents have attempted to use associations have failed and the fact that prices for land have averaged less than the prices paid for expropriated lands in the same region testify to this.</p> <p>Response 9: Management has disclosed all standard information on the project, as required under the BP: Project Information Document (PID), Environmental Data Sheets, and Project Appraisal Document (PAD), through its Public Information Center (InfoShop).</p>
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<p>Claim 10: The Project violates GP14.70 on Involving Non-Governmental Organizations in Bank-Supported Activities</p>	<p>activities; and to capture the experience and grassroots contacts of NGOs for better poverty alleviation projects.</p>	<p>Response 10: Management strongly refutes this claim.</p> <p>The national leadership of Requestor organizations is opposed to the project and has refused publicly and privately, to participate. However, local chapters of several of these same bodies take a different view and have been involved in the project: disseminating information; organizing new associations; transporting potential purchasers to properties; and helping them with paperwork. Beneficiaries testify to this involvement (materials available).</p> <p>See also Annex B for outline of national/international seminars and workshops organized with Bank and Government support/sponsorship, where the broad spectrum of entities involved in land reform, including several of those signing the Request, participated/were involved.</p>
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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.⁷ 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.

⁷ 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 21st 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.

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 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"> • 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. • Validate economic and financial parameters used for the economic analysis of the Project
2. Farm Models and Financial Analysis	Completed 1/97	<ul style="list-style-type: none"> • Evaluate the economic benefits, the financial viability and the family income effect of market-assisted land reform in different regions of the country
3. Impact of Market-Based Land Reform Pilot in Ceará	ongoing	<ul style="list-style-type: none"> • Analyze the implementation and the impact of market based land reform for the 43 subprojects included in the first phase pilot in Ceara.
4. Social Sustainability	Completed 8/98	<ul style="list-style-type: none"> • Provide orientation for the positioning of market-based land reform within the political conflict surrounding land reform in Brazil.
5. Financial Options Study	Completed 11/98	<ul style="list-style-type: none"> • Analyze and propose alternatives to current financial arrangements in respect to: • Commercial risk associated with land loans (see how bad disincentive for collection) • Participation of private Banks in the administration of land loans • Participation of private capital in land loans or agriculture credit • Link with PROCERA and agriculture credit
6. Cost of Traditional Land Reform Programs	Completed 12/98	<ul style="list-style-type: none"> • An update of the cost of traditional land reform in different regions and agro-zones of the country
7. Long-term Financing for Land Reform	Draft completed 12/98	<ul style="list-style-type: none"> • Identify sources of financing for market-assisted land reform and policies to mobilize these resources
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"> • Analyze the impact of large-scale market-based land reform on land prices in different regions of the country • Assess the quantity of land available for sale in different regions at different prices

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

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.