

The Inspection Panel
Report and Recommendation
on
Second Request for Inspection

Brazil: Land Reform and Poverty Alleviation Pilot Project
(Loan no. 4147-BR)

1. On September 14, 1999, the Inspection Panel (the “Panel”) received a second Request for Inspection (the “ new Request”) related to the implementation of the Brazil Land Reform and Poverty Alleviation Pilot Project (Annex 1). On September 28, 1999, the Panel notified the Executive Directors and Bank’s President of receipt of the Request (“Registration,” under the Panel’s Operating Procedures).¹

A. THE LOAN

2. The US\$ 90 million equivalent loan was approved on November 11, 1998. According to the Project Appraisal Document (PAD), the project was designed “to reduce rural poverty in Northeast Brazil by: (i) increasing the incomes of about 15,000 poor rural families through improved access to land and participation in complementary, demand-driven community subprojects; (ii) raising the agricultural output of lands included in the project; and (iii) pilot testing a market-based approach to land reform in which beneficiaries obtain financing for the purchase of suitable properties negotiated directly between rural communities and willing sellers and which, if successful, will enable the Government to greatly accelerate the pace and lower the cost of its programs to improve land access by the rural poor throughout the Northeast and elsewhere in Brazil.”²
3. The same document states that the project has five major components: “a) a land purchase account to finance land purchase by rural community associations; b) community subprojects -- small grants to communities for investments, technical assistance, and start-up activities; c) community development support and strengthening including technical assistance and training at the state level; d) project administration, supervision and monitoring; and e) impact evaluation and dissemination.”³

¹ See The Inspection Panel, Operating Procedures (August 1994) at paragraph 36.

² See Brazil: Land Reform and Poverty Alleviation Project, Project Appraisal Document (Apr. 3, 1997) at p. 2

³ See Brazil: Land Reform and Poverty Alleviation Project, supra note 2, at p. 2.

B. THE REQUEST

4. As stated above, this is the second Request submitted for the same project. The Panel received the first Request on December 14, 1998 and decided, after conducting site visits, consultations and interviews with locally affected people, that an investigation was not warranted. The Panel did note, however, that beneficiaries had emphasized the need for technical and managerial assistance, as well as working capital, to facilitate the sustainability of the project. The Panel also stated that its conclusion was reached “on the basis of the introduction of improved revised terms of the loans,” which, according to Bank Management, should include a “20-year repayment period with three years of grace, and a fixed interest rate of 4%.”⁴ In addition to that, the Panel was informed that a subsidized working capital line of credit would be made available to the beneficiaries.
5. The new Request is substantially based on similar claims of actual or potential harm to the beneficiaries. The new Request is supported by complementary documentation, which the Requesters claim is new evidence or circumstances that were not known to them or to the Panel at the time of the first Request.⁵ The Requesters are basically the same as those who submitted the first Request, namely a group of NGOs collectively called *Fórum Nacional para a Reforma Agrária e Justiça no Campo* (National Forum for Agrarian Reform and Rural Justice, hereinafter the “Forum” or “Requesters”), who represent rural poor in Brazil. In addition, the new Request contains many signatures from representatives of civil society organizations, the Church, professional associations and 23 Members of the Congress (13 Senators and 12 Federal Representatives).
6. Specifically, the Requesters reiterate that the project (a) failed to achieve its objective of combating poverty; (b) is not being implemented as a pilot project; (c) does not allow its beneficiaries to pay the debt contracted when joining the project; (d) is forcing up land prices in the respective regions; (e) is being implemented as an alternative rather than a supplement to land reform through expropriation; and (f) did not make provision for proper consultation and information in terms of the beneficiary groups and its representatives. Although the Requesters do not expressly list the Bank policies and procedures that they believe are being violated, the foregoing allegations, if confirmed, could constitute, *inter alia*, violations of provisions of OD 4.15 on Poverty Reduction; OD

⁴ See, the Inspection Panel, Report and Recommendation on Request for Inspection (May 27, 1999) at p.6.

⁵ As provided for in IBRD Resolution 93-10/Resolution IDA 93-9, paragraph 14 (d), the Panel shall not hear “[r]equests related to a particular matter or matters over which the Panel has already made its recommendation upon having received a prior request, unless justified by new evidence or circumstances not known at the time of the prior request.” (Emphasis added.)

13.50 on Project Supervision; and BP 17.50 on Disclosure of Operational Information.

7. To support their claims, the Requesters attached a copy of the documentation that was sent by the National Institute of Agrarian Reform (INCRA) to the Brazilian Senate in late April 1999. According to the Requesters, these documents constitute new evidence that would suggest that some beneficiaries suffer adverse impacts as a consequence of Bank's alleged failure to follow its own policies and procedures. The Requesters also claim that, when the Panel first visited Brazil, Bank Management was aware of the existence and contents of these documents and failed to disclose them to the Panel.
8. The documents attached to the new Request are mainly technical evaluation reports, known as *laudos*, that are produced by the project's regional Technical Units to evaluate the suitability of the lands available for purchase by the participant communities and to establish a price ceiling for each property.⁶ These attached *laudos* refer to some 30 farms that have already been purchased and are being developed under the project. There are also written statements from state-level officials on the general conditions of project implementation.
9. The Requesters claim that the attached *laudos* demonstrate that many farms purchased under the project were either non-productive or very large. These properties, it is argued, would qualify for expropriation by the Federal Government under the traditional land reform program at a much lower cost. The Requesters claim further that some of the farms have severe limitations, such as inadequate soil, lack of access to water, erosion and other problems that would render them unsuitable for development.⁷ It is also contended that the project has paid higher than market prices for many of the farms what, besides inflating the prices of rural property in surrounding areas, is said to be negatively affecting the borrowing communities.
10. The Requesters also allege that the terms of the loans offered to the project beneficiaries have not improved since the last Panel field visit. Under the current conditions, they contend that it would be difficult for the affected families to repay the loans. More specifically, the Requesters say that the affected people have not been granted access to PROCERA — a highly subsidized micro-credit program designed to assist poor rural communities — and that the contract provides for interest rates ranging

⁶ *Laudos*, as used in this Report, connotes the document that is used to assess the quality of the land and its environs, *sensu strictu*, and the actual value of the land in purely monetary terms.

⁷ The project's Operation Manual states that "[p]roperties eligible for purchase and sale should offer the potential for the sustainable development of its natural resources with a production infrastructure able to provide support for the families involved with low levels of additional investments."

from 4% to 6%. The Requesters believe that debt servicing may prove too costly for the beneficiary families.

11. According to the Requesters, many community associations were formed with the encouragement of local political leaders merely to fulfil the requirements of project conditions. To illustrate these allegations, the Requesters quote documents and other official statements by State-level authorities.

C. THE MANAGEMENT RESPONSE

12. On November 15, 1999, the Panel received the Management's response to the new Request ("new Response" -- Annex 2). The Response was due on October 28, 1999. Management claims that "the delay was due to misunderstandings of internal procedures" and expresses its regrets.
13. Fundamentally, the new Response reiterates the points already made in the Response to the first Request for Inspection, stressing that this project is considered well designed, "rated by the Bank's Quality Assurance Group (QAG) as one of the two best practice operations in Latin America and Caribbean Region." In particular, Management "disagrees that any adverse impacts have occurred or that any Bank policies or procedures have been violated." Management also states that the new Request contains no new evidence or circumstances not known by the Requesters at the time of the first Request. Since the reasoning underlying the new Request is basically the same as the first one, Management has elected to focus on the problems related to the properties listed by the Requesters, attaching a copy of the first Response as a basis for the analysis of the substantive arguments.
14. Management denies that project funds are being used to purchase unsuitable farmlands, although it recognizes that, because it operates in the poorest regions of Brazil, the project may include areas with "use restrictions." Management affirms further that, such restrictions notwithstanding, the project has been designed to provide adequate conditions to generate incomes sufficient to repay the contracted debt and substantially increase the income and quality of life for the beneficiaries.
15. Management does not deny that there might be cases in which "unproductive" lands were acquired under the project. Management notes, however, that, under Brazil's legal system, "unproductive" lands mean under-utilized lands, and not lands that have no productive potential.⁸ On this issue, Management Response says that "the large majority" of the farms could not be expropriated under the traditional land reform program, but notes that "[t]he original design of the project did not exclude the

⁸ Management's Response, at p.7.

possibility of purchasing lands that could be expropriated. Subsequently, however, at the beginning of this year, it was agreed that no purchasing process would be initiated for any property that could be potentially expropriated.”

16. Management also dismisses any allegations that the affected communities are paying inflated prices for the farms. According to the Response, land prices for the properties acquired under the Project have been significantly lower, in aggregate, than the present-value equivalent paid for expropriated properties.⁹ Management also notes that, “when small price differences were observed, specific conditions provide a satisfactory explanation [for such price differences].” In those cases in which the Requesters say that the prices are much higher than market prices, Management contends that such conclusion is based on erroneous information provided by the state government. Management argues that such evaluations were later rejected by the beneficiary communities precisely because of excessive pricing.
17. On the terms and conditions of the loan, Management affirms that the project beneficiaries now enjoy the same conditions offered to the beneficiaries of the *Banco da Terra* project, which provides for interest rates of 4% for loans up to R\$ 15,000.00.¹⁰ Since all loans under the project are under this threshold, the 4% rate applies to everybody. These terms and conditions are said to be an improvement if compared with the previous contracts and will apply retroactively to all beneficiaries before the first installment is due. Management also states that project beneficiaries are eligible for credit under PRONAF, the program that replaced the PROCERA.
18. Finally, on the issue of community participation in project design and implementation, Bank Management asserts that it is satisfied that this requirement has been fully met. According to the Response, “the design of the Project places beneficiaries in the driver’s seat, and its success depends entirely on their active participation.”¹¹ Management attaches a list containing some beneficiaries’ opinions on the project.
19. Management also addresses the question of Bank supervision, which is implied in the Request. The Response asserts that “some 82 staff weeks were used in Project supervision over a 27-month period with more than

⁹ By “present-value equivalent” Bank means the value paid by Government in 20-years recoverable bonds, discounted by 15% of the face value, which is consistent with the actual market value of such bonds in the Brazilian financial market.

¹⁰ Management provided the Panel with a copy of a Resolution of the Brazilian National Monetary Council establishing the rules of the *Banco da Terra* project (4% interest rate for loans up to R\$ 15,000.00). Management also submitted copy of a letter from the Minister of Land Reform in which he affirms that these same conditions will apply retroactively to all *Cédula da Terra* beneficiaries. A copy of the letter is attached to Management Response.

¹¹ Management Response, Annex B (g).

70% of supervision time provided by staff of the Bank's Brasilia and Recife Offices."

D. ELIGIBILITY

20. The Panel proceeded to determine whether the Request meets the eligibility criteria set out in paragraphs 12 to 14 of the Resolution. To this end, the Lead Inspector of the Panel for this project, Edward S. Ayensu,¹² on behalf of the Panel, visited Brazil. The Inspector held a series of consultations in Brasilia¹³ and visited an affected area chosen from a list submitted by the Requesters. Beneficiaries interviewed at this particular site as well as those interviewed during the Panel's visit earlier this year expressed the opinion that their livelihood security has increased significantly under the project. The Panel also interviewed Bank officials in Washington and consulted with the Executive Director representing Brazil.
21. The Inspector was asked by the Requesters to interview some specialists at University of Campinas (UNICAMP), who carried out an independent midterm evaluation of the project commissioned by the Bank and the Government. The evaluation covered 52 percent of the 223 farms purchased during the initial stage of project execution. The independent researchers discussed their main findings with the Panel. In substance, they assert that it is too soon to make any definitive evaluation of the results of the project, especially in view of the drought of the last few years, one of the worst of the century, which has seriously affected the project areas. In any event, they expressed some concerns about the degree of participation of the beneficiaries in the negotiation of the price for land and about their awareness of the terms and conditions of the loans received under the project. They also stressed the importance of the *laudos* and of the technical assistance received by the communities at this stage because of the general absence of market reference prices for rural land in the project areas. Finally, the researchers noted that simulations prepared as part of their evaluation show that in all cases the income generated by farming activities is projected to be sufficient to cover the beneficiary families' subsistence needs and to allow for repayment of all debts contracted under the project. Afterwards the Panel received separate summaries of the midterm evaluation prepared both by the Federal Government and the Requesters. These summaries by and large confirm the information received in Campinas by the Panel.

¹² Edward S. Ayensu, Panel Member, was assisted by Cláudio Vasconcelos, consultant to the Panel.

¹³ The Panel wishes to thank the Country Director and staff for arranging their meetings and for providing logistical support during the field visit. The Panel also wishes to thank the Executive Director for Brazil, for facilitating the Panel's work and for his comments and guidance. Finally, the Panel wishes to thank the Requesters, especially the Executive Secretary of the Forum, members of the Congress with whom it met in Brasilia, the Brazilian Minister of Agrarian Reform and researchers at UNICAMP for their comments.

22. Paragraph 9 of the 1999 Clarifications¹⁴ mentions certain “technical eligibility criteria”. Regarding item (c) of the referred paragraph, the Panel notes that there is no assertion in the request that the new subject matter has been brought to Management’s attention by the Requesters and that, in the Requesters’ view, Management has failed to respond adequately to it, thus demonstrating that it has followed or is taking steps to follow the Bank’s policies and procedures.
23. On this eligibility question, the Panel notes that the Requesters have specified the actions taken to bring the issue to the attention of Management¹⁵ as follows:
- (i) The Requesters have sent to the Panel the transcripts of a public hearing held in the Brazilian Congress on June 23, 1999, to discuss certain aspects of the project.¹⁶ According to the transcripts, the Bank Country Director for Brazil was invited to attend the congressional hearing. In a letter that was read during the session, the country director declined the invitation, explaining that the Bank’s Articles of Agreement expressly prevent any of its officers from participating in political meetings.
 - (ii) The transcripts of the session show that some congresspersons that signed the Request were present at the congressional hearing, as were some of the Forum’s member organizations.
 - (iii) The invitation to the congressional hearings was made by the Brazilian Congress, and not by the Requesters, who participated in the session.
 - (iv) The Panel is not satisfied, therefore, that the invitation for the congressional hearing constitutes sufficient evidence that the Requesters brought the subject matter to Management’s attention.
 - (v) The Requesters did not provide the Panel with any other evidence that they had sought to discuss their concerns with Management between the first and the second Requests.¹⁷

¹⁴ The 1999 Clarifications to the Resolution are contained in the “Conclusions of the Board’s Second Review of the Inspection Panel” dated April 20, 1999.

¹⁵ See, Resolution, paragraph 16.

¹⁶ See, Décima Quinta Reunião da Comissão de Assuntos Sociais e Vigésima Segunda Reunião da Comissão de Assuntos Econômicos, da 1ª Sessão Legislativa Ordinária da 51ª Legislatura, transcripts in the Panel files (in Portuguese).

¹⁷ The Requesters provided the Panel with the notes of a meeting held with the Bank’s Country Director in October 14, 1998, in Brasília. Although the Panel noted the contents of the document, it is unable to consider it in the framework of the new Request for Inspection, for it refers to an endeavor that has been already considered in the framework of first Request.

(vi) Management has provided the Panel with evidence to indicate that, after repeated written and telephone invitations, the Requesters chose not to meet with Management to discuss the project.

(vii) The Requesters stated that such invitations were declined because they were not involved in the design phase of the project and were not provided sufficient information to make a meeting meaningful. In the Panel's opinion these claims to support a refusal to discuss these matters with Management in advance of the Request do not constitute circumstances that would exempt the Requesters from the consultation requirements set forth in the Resolution and the 1999 Clarifications.

E. CONCLUSIONS

24. The Panel is therefore not satisfied that the Requesters meet all the technical eligibility criteria set forth in the Resolution.¹⁸

F. RECOMMENDATION

25. In light of the foregoing, the Panel concludes that the Request is not eligible for inspection.

Attachments

¹⁸ Resolution No. 93-10/Resolution IDA 93-6, Paragraph 13: "The Panel shall satisfy itself before a request for inspection is heard that the subject matter of the request has been dealt with by the Management of the Bank and Management has failed to demonstrate that it has followed, or is taking adequate steps to follow the Bank's policies and procedures." See full text at the Inspection Panel homepage (<http://www.worldbank.org/inspection>). 1999 Clarifications, Paragraph 9: "If the Panel so recommends, the Board will authorize an investigation without making a judgement on the merits of the claimants' request, and without discussion except with respect to the following technical eligibility criteria: [. . .] (c) The request does assert that its subject matter has been brought to Management's attention and that, in the requester's view, Management has failed to respond adequately demonstrating that it has followed or is taking steps to follow the Bank's policies and procedures (Resolution para. 13)." See, 1999 Clarifications, available at the Inspection Panel homepage (<http://www.worldbank.org/inspection>).

Annex 1

Request for Inspection

NATIONAL FORUM FOR LAND REFORM AND RURAL JUSTICE

Inspection Panel Request

Land Reform and Poverty Alleviation Pilot Project
(No 4147 BR)

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

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

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

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

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

the World Bank and the Brazilian Government on the implementation of the Program.

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

1. Comments on the procedures of the Inspection Panel

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

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

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

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

2. Purchase of areas open for expropriation

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

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

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

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

The lack of any INCRA inspections does not allow an analysis of the data and criteria established by the ‘outsourced’ Technical Reports which form the basis for the prices assigned to the ‘bare land’ and the ‘improvements’. In most cases, these prove to be clearly fraudulent, such as Reports that are so similar that they resemble copies; Reports issued with a complete lack of technical elements to back them; Reports with no identification or the signature of the technical staff responsible; and other irregularities shown later.

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

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

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

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

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

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

2.3 – Land payment conditions

The Inspection Panel Report stresses that the Minister for Land Reform improved the land payment rules, establishing a period of twenty years with three years grace-period and interest at 4% a year (item 22 – page 6). This statement is groundless as the Brazilian Government has made no alterations whatsoever in the loan payment conditions so far. The document issued by the Minister Extraordinary for Land-Ownership Policy in response to the Requests for Information mentioned above assumes a stance that is somewhat different from that promised to the members of the Panel. The Minister stated, “Since year-end 1998, negotiations have been underway to review the *Cédula da Terra* Financing Conditions, adapting them to the conditions of the *Banco da Terra* (the Land Bank) ...” (page 10 – item 5.5).

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

limits: a) 50% (fifty percent) in the poorer regions; b) 30% (thirty percent) in the intermediate regions; c) 10% (ten percent) in other regions; VII – remuneration of the financial agents: 1% (one percent) on the total value of the loan, chargeable on the date of issue thereof, and 1% (one percent) on the value of each installment receivable.

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

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

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

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

The Loan Agreement signed between the Brazilian Government and the World Bank established certain clauses which allowed the Bank to cancel the loans. These conditions included “(c) at any time, the Bank may determine with regard to any contract to be financed with the outcome of the Loan that representatives of the borrower or a beneficiary of the Loan have been involved in corrupt or fraudulent practices during the period of the acquisition or during the implementation of the above-mentioned contract...” (Article 1, Section 1.01, Line d, Item c, page 4)

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

according to the financing contract.

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

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

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

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

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

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

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

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

Listed below is information taken from documentation forwarded by Minister Raul Jungmann in response to the Request for Information forwarded by Senator Heloísa Helena and Federal Congressman Valdir Ganzer, regarding the implementation of the *Cédula da Terra* Program in the States of Bahia, Minas

Gerais, Maranhão, Pernambuco and Ceará. These data offer proof of distortions in the implementation of the Program and constitute the grounds for this Request submitted to the Inspection Panel.

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

A – BAHIA STATE

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

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

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

Phantom Reports

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

Preferential Option for non-productive Land

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

Non-Productive Land: *Cédula da Terra* Program

- Great Deals for Banks and Industries

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

Conde and Esplanada municipal districts (Annexes 4, 6, 7, 8, 9 and 10);

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

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

Over-Valuation of Bare Land and Improvements

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

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

B. MINAS GERAIS STATE

Many Appraisal Reports dated after Land Purchases

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

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

3. There are also cases where the technician who prepared the Report mentions the number of families already involved in the project, under the item covering the support capacity. The Technical Report on the Fazenda Formosa ranch (formerly the Fazenda Gado Bravo ranch) states in item 9 (Determination of support capacity – number of families – in compliance with item 6, 7 and 8),

“The families already found under the Project will be able to subsist under these conditions and produce surpluses on the property” (page 3) ([Annex 2](#)).

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

Conflicting Reports

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

Non-Productive Land – Excellent Financial Asset

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

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

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

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

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

11. The Fazendas Califórnia I and II ranches (area of 1,373 hectares each) were split off from the former Fazenda Ramalhudo Mártires ranch (total area of 4,840 hectares) and acquired by two separate associations. These two

ranches each consist of three glebes of non-contiguous areas. The Fazenda Califórnia II ranch had 200 hectares of natural grazing land (14.56% of the total area) and 371 hectares of unused arable land (27.02% of the total area). We did not have access to one of the Reports on the Fazenda Califórnia I ranch, but as the Reports are identical, we can assume that these lands also showed extremely low productivity levels.

Cédula da Terra Program Finances and Purchases Non-Productive

Tracts of Land where Production is “Impossible”

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

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

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

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

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

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

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

C. MARANHÃO STATE

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

Cédula da Terra Program Boosts Land Prices

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

No Loans or Technical Assistance for Farming Activities

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

Lack of Participation by Civil Society

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

Associations set up for the Occasion

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

Areas Open for Expropriation

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

Over-Priced Land

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

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

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

Monopoly on Issue and other Irregularities in the Appraisal Report

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

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

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

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

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

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

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

D. PERNAMBUCO STATE

The *Cédula da Terra* Program acquired 28 properties up to March 1999 in Pernambuco State. According to the Reports, twenty-one of them are medium-sized properties and seven are large areas, with one being a non-productive

property (page 2). Many of these areas were acquired during the second half of 1998 and the first six months of 1999 (Annex 1).

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

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

Prices of Land and Improvements

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

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

3. A comparison of the improvements of other areas acquired shows that these figures are high. A house measuring 208.37 m², (larger and more luxurious) on the Fazenda Casa de Pedra, for instance, was purchased for R\$ 5,216.00.

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

Acquisition of Land Open for Expropriation

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

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

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

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

E. CEARÁ STATE

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

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

1. When commenting on the question covering the inspections, the public agent made the following statement: "In view of the fact that the program provides the communities with the means required for the sustainable development of the properties, it is concluded that the settlers must have the capacity to pay for the land and to substantially improve their social and economic status, particularly in terms of the quality of life." (page 2 of the Response document) (Annex 1)

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

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

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

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

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

Acquisition of Areas Open for Expropriation

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

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

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

10. Finally, an analysis of some Reports shows strong indications that property open for expropriation was acquired despite non-compliance with social functions. The Fazenda Esperança II ranch in the Parambú municipal district, for

instance, covers a total area of 1,421 hectares, of which 70% are Classes III soils, meaning with good exploitation potential. However, the Report states that the distribution of the areas of the property has 200 hectares of natural grazing lands (14% of the total area) and 932 hectares of unused arable land. Some 65.58% of the total area of this ranch is completely non-productive, characterizing a situation open for expropriation for the purposes of land reform. (Annex 4)

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

Participation and Organization of the Beneficiary Families

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

Brasília, August 27, 1999

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Annex 2

Management Response

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

Management has reviewed the Second Request for Inspection of the Brazil Land Reform and Poverty Alleviation Pilot Project registered on September 28, 1999. The following response has been prepared by Management.

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2. ABBREVIATIONS USED IN THIS DOCUMENT

BdaT	-	BANCO DA TERRA (Land Fund for Agrarian Reform)
BP	-	Best Practice
CdaT	-	<i>Cédula da Terra</i> (Land Reform and Poverty Alleviation Pilot Project)
CMU	-	Country Management Unit
CONTAG	-	National Confederations of Rural Workers
CSO	-	Civil Society Organization
FETAG	-	Federation of Rural Workers
INCRA	-	Federal Land Reform Agency
LAC	-	Latin America and Caribbean
NEAD	-	Nucleus of Agricultural Studies and Development
NGO	-	Non-Governmental Organization
OD	-	Operational Directive
POA	-	Annual Operating Plan
PROCERA	-	Credit Program for Land Reform Beneficiaries
PRONAF	-	National Program to Strengthen Family Agriculture
QAG	-	Quality Assurance Group
R\$	-	Brazilian Real (unit of currency)
TJLP	-	Long Term Interest Rate
TA	-	Technical Assistance
TU	-	Technical Unit

3. CHAPTER I: INTRODUCTION

1.1 This document is Management's Response to the Second Request dated August 27, 1999 for Inspection of the Brazil Land Reform and Poverty Alleviation Pilot Project¹⁹ -- known as *Cedula da Terra* (CdaT) -- presented by the National Forum for Agrarian Reform and Justice in Rural Areas (known as the "Forum" and referred to in this Response as the "Requesters"). The Second Request was submitted after the Inspection Panel, responding to the First Request, communicated to the Board on May 27, 1999 that "the Panel does not recommend an investigation of the matters alleged in the Request."

1.2 As the Panel indicates in its Notice of Registration, the Second Request contains substantially the same allegations as the original Request. On the basis of what the Requesters describe as new information from a sub-set of 39 properties²⁰ (already acquired and occupied prior to the first Request), the Requesters reiterate claims relating to credit (for the purchase of land, and other lines of credit for on-farm investments and other purposes) and issues relating to the price of purchased land and its quality, when compared to the expropriation alternative practiced by the Government. Due to the similarity of the claims between the two Requests, Management is attaching the original Management Response for reference about project background and detailed responses regarding Bank compliance with Bank Policies and Procedures, and has concentrated this Response on the analysis of the claims relating to the properties listed in the Second Request.

¹⁹ The Land Reform and Poverty Alleviation Pilot Project is financed in part by Loan 4147-BR for US\$90 million. It was approved by the Bank's Board on April 22, 1997 and became effective on September 12, 1997. 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 the Caribbean Region in 1997, in terms of quality at entry.

²⁰ The Requesters also point to two other properties where they claim beneficiaries have organizational issues. These project aspects were covered in the first Response.

4. CHAPTER II: RESPONSE TO THE CLAIMS OF ADVERSE IMPACTS OF THE PROJECT

2.1 The Request does not refer to violations of specific Bank policies and procedures, but makes a number of general claims of adverse impacts of the project. The Requesters also claim that what they define as new information was not presented by Government to the Panel and was not considered in the first Management Response. The Notice of Registration points to four substantive claims, and to OD 4.15 on Poverty Reduction, OD 13.05 on Project Supervision and BP 17.50, on Disclosure of Operational Information, that could have been violated if the Requesters' allegations were correct. We wish to make clear at the outset, (as we did in our original Response) that we disagree that any adverse impacts have occurred or that any Bank policies or procedures have been violated. The information presented is substantially the same used for the preparation of the First Management Response and does not represent new evidence in light of the previous Request. The information was examined in detail by Bank staff in the field, and does not change the conclusions reached in the First Management Response. Management continues to believe that the claims are not substantiated.

2.2 The claims registered by the Panel include:

1. The terms of the loans for land purchases have not been improved;
2. There is a lack of adequate lines of credit to support project beneficiaries;
3. The project pays inflated prices for land that could be expropriated at a lower cost; and
4. The quality of the land purchased is poor.

Management is responding to the four principal claims listed above, and to two additional claims: the first related to land evaluation processing (paras. 2.12 and 2.13 below), which according to the Requesters may have affected the price and quality of lands acquired under the Project; and the second, that CdaT has in the past financed the purchase of properties eligible for expropriation and that this fact was withheld from the Inspection Panel (para. 2.16). As a pilot, the Project has been closely supervised, and lessons have been learned and incorporated (para.2.17 and Annex B).

2.3 **Claim No 1: The terms of the loans for land purchases have not been improved.** The Requesters claim that the conditions of the loans for land purchases have not been improved²¹ as indicated by the Panel (INSP/R 99-4, para. 22) and that, as a consequence, the beneficiaries would not be able to repay their loans. The Brazilian Government through the Minister of Agrarian Reform, indicated to the Panel and to the Bank, and this was in turn reflected in the first Management Response (paragraphs 4.9 and 4.10), that the loan conditions for the *Banco da Terra* (BdaT) would be extended to the beneficiaries of the CdaT project, and that the retroactive adjustments to loan terms would be made before the first repayments of any Project beneficiaries fall due in 2001. The Minister has also conveyed this decision to the participant states and these in turn have informed the beneficiaries.

2.4 In a recent correspondence from the Minister of Agrarian Reform to the Bank's Country Director for Brazil (Annex D), informing the Bank about the release of funds for land purchases and for productive investments (to complete the project and to benefit some 10,000 additional families with the CdaT), the Minister indicates that all these land loans are provided with BdaT funds under the terms approved for this program (para. 2.5 below). In addition, the Minister reiterates that land loans made previously under the CdaT project would be retroactively adjusted to the BdaT conditions.

2.5 As indicated by the Requesters, the loan conditions approved for the BdaT project are variable according to loan size. Since all loans of CdaT beneficiaries are less than R\$15,000 per family, the applicable loan conditions include a 20-year repayment period with three years of grace, and an interest rate of 4% (as stated in the first Management Response para. 4.10, and explained to the Inspection Panel).

²¹ From the original CdaT terms with loans for 10 years, including a three-year grace period and an interest rate based on the average cost of long-term borrowing (TJLP), to the more favorable terms of a new program (Complementary Law 93) known as Banco da Terra with loan terms including a 20 year repayment period, three years of grace and a fixed real interest rate of 4%.

In addition, the rules of BdaT determine that, in the poorest areas, beneficiaries would receive a discount of 50% of the nominal interest rate and are thus in an even better position than assumed in the first Management Response.

2.6 In analyzing project beneficiary ability to repay their land purchase loans, the Requesters presented financial projections with assumptions which lead to results substantially different from projections presented by the Bank. In particular, the projections presented by the Requesters assume a loan amount of R\$15,000, even though the average actual loan amount of the Project has been R\$4,847, the figure which underlies Bank projections. Under the revised loan conditions, annual per family installments for the average loan will range from R\$200-570 in real terms. Previous studies (see Box 1 of previous Management Response) and more recent field visits confirm that beneficiaries will be able to make repayments and substantially increase their family incomes. As a reference, cultivation of one hectare with beans is typically sufficient to generate the income for the loan installments. The average family plot acquired under the project is about 27 hectares, and many beneficiaries cultivate at least some area with higher value crops. While the failure of an individual subproject as a result of the culmination of unfavorable circumstances cannot be categorically excluded in a project of this scale, ongoing evaluations and frequent field visits have not revealed any such case.

2.7 Claim No 2: There is a lack of adequate lines of credit to support project beneficiaries. The Requesters claim that the lack of adequate lines of credit for project beneficiaries will not allow them to cultivate the land and repay their loans. In the original Request, the Requesters claimed that Project beneficiaries would 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 *Portaria* 567 of November 20, 1998. In the interim between the two Requests, the Government has substituted PROCERA with another credit line, the National Program to Strengthen Family Agriculture (PRONAF). This change equally affects beneficiaries of the Project and beneficiaries of the traditional land reform program. The beneficiaries of CdaT have been specifically included as beneficiaries of this special credit line and are in the process of receiving this credit in the same manner as beneficiaries of Government expropriation programs. In the Minister's letter referred to in Annex D, he states that, as established in the Operational Manual of PRONAF, CdaT beneficiaries qualify to receive credit for working capital and investments from this program under the same conditions as other land reform beneficiaries.²²

2.8 Project beneficiaries do receive community investments and start-up grants, and therefore have support during the installation period.²³ While access to credit beyond this initial period is important, and the Project financial projections do indeed

²² It should be noted that there is an overall scarcity of credit in Brazil. As a result, there is a high demand for credit by land reform beneficiaries, and not all of this demand, whether from beneficiaries of CdaT or INCRA expropriation, can be satisfied.

²³ This year's fiscal control measures caused delays in the release of funds for community investments and start-up grants. The problem is now resolved (see Annex D).

assume some credit access, the PRONAF program provides such credit. The heavily subsidized terms of the now extinct PROCERA were not essential for financial viability.

2.9 Claim No 3: The project pays inflated prices for land that could be expropriated at a lower cost. The Requesters refer to specific properties purchased under the project as examples of the high prices paid by project beneficiaries as a result of the project. The information on land purchase prices submitted with the Second Request is based on the same data base and is consistent with the analysis in the first Management Response, which shows that, in aggregate, land prices for the properties acquired under the Project have been significantly lower than the present-value equivalent paid for expropriated properties.²⁴ As stated in para. 4.33 of the first Management Response, land prices paid by the Project are about 27% lower than the present value of initial INCRA expropriation prices in the Northeast.²⁵ This difference is greatly multiplied when the costs of judicial rulings in expropriation cases are added. According to a recent Ministry of Agrarian Reform official document: “The cost of the land obtained for agrarian reform is basically determined by the judicial system that adjudicates approximately 50% of all expropriations.” According to this same document, in a wide sample of analyzed cases, multiplication factors resulting from judicial rulings ranged from 1.20 in the South to 14.64 in the Southeast with 4.93 for the Northeast and 5.01 for Brazil as a whole.²⁶

2.10 Within the aggregate finding of lower land prices under the Project, there are notable differences from state to state, with respect to both the level of land prices and the difference between land prices obtained under the project and compensation paid by INCRA for expropriation. Specifically, land prices obtained in Pernambuco are the highest among the five project states due to more favorable climatic conditions in the Zona da Mata and Agreste Regions of the state. While land prices are higher in Pernambuco, the relative cost advantage of the Project compared to expropriation is also higher (59% lower prices per hectare compared to 27% for all states). In the case of Maranhão, the information presented by the Requesters was based on erroneous information provided by the State which included data on properties whose purchase was subsequently rejected, precisely because of excessive prices. The comparative information on INCRA expropriation excluded the compensation paid for land improvements and therefore underestimated the actual price INCRA paid.

²⁴ Since the data for the first Management Response were prepared at a slightly different time than the data presented in the Second Request (Annex II, Table 2.2), there are marginal differences in individual figures with respect to the properties included. With respect to average land costs per family, the information presented in the Second Request shows slightly lower costs of land under the Project than the data shown in the first Response.

²⁵ A more recent study (Raydon and Plata 1999) compared land prices at the state, micro-region and municipal level and shows that prices obtained under the Project have also been consistently lower than the prices of market transactions, as recorded by Bank of the Northeast and Fundacao Getulio Vargas.

²⁶ For a subsample of 46 properties cited in the same report published at end-September 1999, and for which data on landholding in hectares was available, the average price per hectare before judicial action was about R\$424 (current value) compared to a post-judicial action price of R\$5,573 per hectare, more than a ten-fold increase. A majority of landowners contesting INCRA prices achieve significant price increases through judicial rulings.

Within states, agro-climatic and market conditions differ considerably between micro-regions, municipalities and areas within municipalities, thus affecting land prices. Price differences within an area do not necessarily constitute irregularities and can often be explained by differences in location, soil, access to water and other factors. Thirty three of the 39 properties mentioned by the Requesters, and all the properties where the Second Request suggests anomalies in the purchase price, have been visited by Bank staff. In most of the project sites visited, prices were not only lower than the average of observed market prices, but also lower than those prices suggested by INCRA as indicative for those specific municipalities. In the few cases where small price differences were observed, specific conditions provide a satisfactory explanation for the price differences observed in land purchase documentation (see Annex A). In most properties visited, Project beneficiaries had considered alternative properties before deciding to purchase the one they now own. In addition, most of them declare now that they would not be prepared to sell their land at all, and most certainly not for the price they originally paid.

2.12 A related point raised by the Requesters refers to the land purchase price evaluation forms (*laudos*). The Requesters claim that the *laudos* related to the properties listed indicate problems with the evaluation system on prices and quality of the land and that furthermore, many of them were not signed. The *laudos* are prepared by the state Project Technical Unit to assist the communities in the negotiation process for purchase of the property – providing information on location, natural resources and improvements – and to support state review of the negotiated purchase price. Even though the *laudo* is described in the Operational Manual, it has no formal legal role in the land acquisition process, which is based on the negotiation of that land between the buyer and the seller. In practice, only rarely does the evaluation of the *laudo* coincide with the actual purchase price which, in the majority of cases, is lower than the price stated in the *laudo*. It should be clarified that the *laudo* is only mandatory in the case of expropriation for public use, or for social interests for purposes of agrarian reform, since it deals with a unilateral action by the Government, and is usually challenged in the judicial system. In the case of CdaT, the negotiation is open and a deal is only consummated when the two parties come to an agreement on price.

2.13 Unfortunately, in some of the documentation transmitted to the Requesters, the original signed *laudo* was not included, but Bank staff verified in the field that all the documentation for completed land purchases (with the Bank of the Northeast) includes the signed *laudos*. In the case of Minas Gerais, where the Requesters imply irregularities due to the existence of two *laudos* per property, the State has, in fact, adopted an additional processing step. The first *laudo* (*laudo de avaliacao*) is produced to guide beneficiaries in the purchase of the land, and the second, a technical *laudo* (*laudo tecnico*), is produced after the beneficiaries are on their land, for the purposes of orienting productive activities.

2.14 **Claim No. 4: The quality of the land purchased is poor.** The Requesters repeat a claim from the original Request, that most land purchased by rural workers and subsistence farmers under the Project is of poor quality. In fact, the evidence strongly suggests that lands acquired under the Project are generally of good

quality. In specific cases of properties listed as new evidence by the Requesters and visited by Bank staff, this is also the case, and examples of the productive capacity of these properties are included in Annex A. The Requesters claim that the Project is purchasing “unproductive” land. As a point of clarification, the concept of “unproductive” implies under-utilized lands (as defined in Brazil for properties that could be subject to expropriation), not lands that have no productive potential.

2.15 Many community associations have acquired lands in the most favorable areas of the project states and show excellent economic prospects. It needs to be recognized, however, that this Project operates in the poorest region of Brazil, which includes many areas of unfavorable agro-climatic conditions and restrictions in terms of sustainable land use. The Project is targeted at the poorest families. It therefore also operates in unfavorable areas affected by periodic drought and water scarcity. The predominant production systems in the semi-arid areas are adjusted to the restrictions of this zone and include large areas for the grazing of livestock plus smaller areas of subsistence and some higher value market crops. Under these conditions, it is expected that many properties would include areas with use restrictions. The Project was designed such that all economic activities of a community taken together, including livestock, subsistence and market crops, provide sufficient conditions for generating the income necessary to repay contracted debt and substantially increase the income and quality of life of the beneficiaries. All analysis and evaluation to date suggest that the Project is succeeding in this respect, often creating the prospect of multiplying pre-project income, already accounting for land loan repayment.

2.16 A related issue raised in the Second Request is that CdaT has in the past financed the purchase of properties eligible for expropriation. It is alleged that this fact was withheld from the Inspection Panel. This allegation is not correct. The Management Response (as well as the material from the Federal Government submitted with the Second Request) states that the large majority of the properties acquired under the Project could not have been legally expropriated because they do not reach the minimum size required for expropriation (see first Management Response, para. 4.31) or were productive properties. The original design of the project did not exclude the possibility of purchasing lands that could be expropriated. Subsequently however, at the beginning of this year, it was agreed that no purchasing process would be initiated for any property that could be potentially expropriated. This has been complied with. In addition, the Annual Operating Plans (POA) for the remainder of 1999 (that would benefit some 10,000 additional families), specifically exclude any expropriable property from the Program.²⁷

2.17 The 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, and incorporated in the Project. This approach is an integral part of the Project design. The Project is part of the Bank’s Compact for Rural Development and has received more than the

²⁷ Specific exceptions could be considered only after review and approval by both the State Councils, on which civil society organizations are represented, and the Office of the Minister of Agrarian Reform.

average supervision support. Some 82 staffweeks were used in Project supervision over a 27-month period with more than 70% of supervision time provided by staff of the Bank's Brasilia and Recife Offices. (For more details on supervision coverage and improvements introduced in the Project, see Annex B).

2.18 Finally, as is often the case, it is the voices of the beneficiaries themselves which best express how they feel about the prices paid and quality of the land they bought as well as their sense of the benefits of the Project and its impact on their lives. Examples of those voices follow in Box 1.

Box 1: Voices of the Project Beneficiaries from Properties Cited by the Requesters

"Whoever says that this land is poor has never visited the property! It is good for everything: basic grains, fruits, livestock. For us, this purchase was a godsend. If we wanted to sell right now, I'm certain we could get a higher price than what we paid. But, we don't think about selling."

- Sr. Guilherme Ferreira Plácido, Fazenda Tanque, São José dos Basílios, Maranhão

"If we had to start paying back now, we have the means to do it. Here, everybody is working day and night. Nobody rests. If we always had the courage to work on other people's land, imagine now, that we have our own land!! Here, everyone now has something to eat and a little money to begin repayment. Everyone here has their bananas -- already producing -- their manioc. They have corn, beans and rice; many are also planting watermelon. Everything that we produce, we need only travel about 6km and we can sell it."

- Sr. Manoel Xavier Filho, Fazenda Belmonte, Bacabel, Maranhão

"Everything got better. Before, we lived in tents on invaded lands or in lean-tos paying rent. We only worked one or two days each week. The children were always ill. We lived in true hunger. Today, it's been almost two years since we bought our land and everything is better. It's like leaving hell for heaven! Now, look, we have this beautiful house; there's work for the whole family. We've got a school, here in front. And we have food every day. Here, everyone is working. At night, we have a school that operates with battery light, from a tractor. In the morning we have to push the tractor since the battery is weak, but it's our tractor! The school was built by the community. The municipality is paying for the teacher. Our lives have improved a lot."

-Sra. Josinete de Jesus, Fazenda Itariri, Conde, Bahia

"What's important for us is now we have land to pass on to our children. Now, besides the land, we also have cattle, we have milk for the children; we have pork to eat and sell. Before, we had nothing. To repay the loan, some members already have a little money set aside for the first payment. Since our primary activity will be livestock, we're going to pay the loan with livestock production. As we say around here, "The calves belong to the bank."

-Edilson, community of Maria Izabel, Gravatá, Pernambuco

"We've fought for this land more than 50 years. Many gave their lives. More than 100 families were thrown off and today many of them are suffering in the big cities. Those of us who stayed to fight and work, we are very satisfied because now we can buy the land where we were born and raised, where my parents and grandparents were born and lived until they died. Now, we are going to work and live in peace."

-Leaders from nine community associations, Fazenda Gaiolinha, Maranhão

"The land was expensive because it was already producing. It has 390 ha of pasture and another 100 ha are cleared for cultivation. Lots of water, fencing and roads. Ready to produce. Imagine if we had purchased land without improvements -- as poor as we are -- how would we work it? Never. We'd have to sell everything, including the land, to pay off the Bank. We and the representatives of the local Rural Worker's Union checked out every inch of this land before we bought it. Our association dreamed about buying this land. We already calculated the value of the improvements to the land and we believe that, if we had needed to invest in them ourselves, we'd have needed double or triple what we paid for land."

- Sr. José Mario Miranda, Boa Vista do Acaraí, Balsas, Maranhão

"We know that we still have to work hard to grow and have a better life. We're going to need credit to improve our production. Nevertheless, even without the credit, we already feel more secure. We have a place to work, live and raise our children. Before, we lived like dogs without a master: moving from place to place, like gypsies...those of us that had land, it was nothing but a small bit, not even enough to support the family. Now, it's all different: with this land, we feel like people, everyone respects us, because we are producers and owners."

- Sr. Ciriaco Santos, Fazenda Sitio Campinas, São Luis, Maranhão

Chapter III: Conclusions

3.1 Management considers that the Brazil Land Reform and Poverty Alleviation Pilot 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 helping to achieve a redistribution of land assets. It has not and would not replace alternative approaches to land reform such as expropriation, and specific rules have been introduced in the 1999 Annual Operating Plans to ensure that properties that could be expropriated are not part of the Project. New loan conditions for land purchases have been introduced to ensure that even farmers located in the more difficult agro-climatic conditions of the semi-arid zones could repay their loans.

3.2 The Requesters do not demonstrate actual or potential harm to Project beneficiaries. They do not demonstrate violations of the Bank's policies and procedures. The new information presented does not represent new evidence in light of the previous Request and does not change the conclusions reached in the First Management Response in relation to the claims registered for the Second Request by the Inspection Panel. As a pilot project, several improvements have already been introduced on the basis of close and regular supervision and ongoing evaluations. Bank Management has an open policy with NGOs and would have liked to have the opportunity to review with the Requesters the improvements already introduced, as well as to have been able to review with them the claims presented in the Second Request before their appeal to the Inspection Panel. Differences in the interpretation or analysis of the same basic information could have been clarified had those discussions taken place. However, the Requesters have not accepted any of the Bank's many invitations to have a discussion on these issues (see Annex C).

3.3 Management and staff continue to make use of all opportunities to discuss the Project with local farmers' organizations, beneficiary communities and with individuals related to organizations that are part of the Requesters (see Annex C). Therefore, Management and staff continue to be optimistic that a fruitful dialogue with the national organizations that are part of the Requesters' Forum, can be developed in the near future. We remain open for dialogue, open-minded on the substance and ready to take valid suggestions and concerns on board. Management believes that the participation of the national organizations represented in the Requesters' Forum will enhance the transparency and the already important benefits brought about by the participation of community organizations and local entities in the Project.

Annex A: Information on Properties listed by the Second Request

This annex presents information about properties that the Requesters have cited in support of specific allegations made regarding purchase price and economic/financial viability of subprojects. Repayment installments and estimated returns are all expressed in constant prices of 1999.

BAHIA

Several community associations in Bahia purchased properties from a small number of timber and cellulose companies in the northern coastal zone of the State. These properties possess excellent conditions of access and excellent prospects for cultivation of coconut, fruits and livestock (see Box 1 in the First Management Response). Land purchase prices were very low, given the productive potential of these properties. According to detailed economic projections, beneficiaries on these properties are likely to achieve among the highest income levels of all project beneficiaries.

Fazenda Alívio, Município de Bonito

- 45 families, 1,037 ha, purchase price: R\$103,440 (R\$2,299 per family, R\$100/ha)
- The beneficiaries have already planted 69 ha of coffee. 10 ha of these will be maintained as collective area exclusively to serve the debt contracted for the land purchase. With expected revenues of R\$45,000 for 10 ha of coffee, no problem is foreseen in covering the annual installments. All other cultivation will contribute to improved income of the beneficiaries, including an additional five ha of coffee per family that are planned.
- The Requesters questioned the values used in the *laudos* for kilometers of fencing. Interviews with local farmers have confirmed that R\$1,900/km is an appropriate estimate for the replacement cost of a fence of the given characteristics (4 wires). However, the estimation of the market value of the property does not use this replacement cost estimate, as suggested in the Request. Instead, a depreciated value of R\$646/km (or R\$12,920 for 20km) was used and included in the estimation of the property value.

Fazenda Porteiras de Baixo, Município de Piatá

- 75 families, 1,382 ha, purchase price: R\$52,029, (R\$694 per family, R\$38/ha)
- This property is located in the *Cerrado* and has significantly less favorable conditions than Fazenda Marajoara (see below), explaining the large difference in per ha land prices, but is also suitable for coffee plantation. Annual revenues of R\$2,400 per ha are expected on this property. Water is available from a nearby perennial river.

- The association plans to set aside 10 ha of coffee exclusively for the repayment of the land loan. An additional 138 ha of coffee are planned for individual cultivation, which will contribute to personal income. The beneficiaries already own 100 heads of cattle and small parcels of land for subsistence crops nearby, which they continue to cultivate.
- *Banco do Nordeste* (Bank of the Northeast) is offering credit for the coffee plantation.

Fazendas Marajoara/Rio do Meio/Renovação, Município Poções

- 55 families, 514 ha, purchase price: R\$225,450 (R\$4,099 per family, R\$438/ha)
- The property is suitable for the cultivation of coffee and includes good soils and good water supply (three creeks and one river crossing the property). The land price of R\$438 per hectare is appropriate for land with existing installations and infrastructure and the productive potential present in this case. The price is consistent with market prices for similar properties.
- Currently, the property has 40 ha planted with beans, which will yield revenues of R\$624/ha or R\$25,000 total. In addition, the property has 70 ha of pasture. 40 ha of coffee have already been planted. It will start producing in 2 years and will yield annual revenues of R\$4,200/ha or R\$168,000 total. Twenty ha of bananas are being planted and will yield about 400 tons with revenues of R\$60,000. These activities alone will provide revenues of R\$4,600 per family starting in two years. In addition, the property includes a registered coffee nursery with 300,000 plants that serves as an additional income source. Beneficiaries already have a tractor, 50 houses, and domestic water supply.
- Future plans include the cultivation of subsistence crops as well as an additional collective 38 ha of coffee and additional individual 2.5 ha of coffee per family. Credit for the plantation is being offered by Bank of the Northeast. This would further improve the already favorable situation of the beneficiaries. In fact, the association will likely generate employment for another 100 individuals contracted outside the association.
- Pre-project per-family income was of the order of R\$1,000 per year.

Minas Gerais

Here, as in the other States, a review of each property and its purchase price has taken place before land acquisition. This is reflected in the *Laudo de Avaliação*. In Minas Gerais, the State has adopted an additional processing step in which the extension agency produces another *Laudo Técnico*, often after land purchase, in order to provide more detailed assistance to the beneficiaries in the planning of their productive activities. When the *Laudo Técnico* is issued after purchase, it obviously contains the actual number of beneficiaries and other information relating to the actual transaction (the Requesters refer to this fact as a serious irregularity).

Fazenda São Vicente da Direita, Município de Buritis

- 44 families, 1,364 ha, purchase price: R\$259,160 (R\$5,890 per family, R\$190/ha)
- The *Laudo de Avaliação* and the *Laudo Técnico* differ in the assessment of unusable land within the property. A review was conducted based on this difference and concluded that the unusable area is 333 ha or about one quarter of the property. This correction was documented in a letter of EMATER, dated February 5, 1999. At the time of the evaluation, the property included 458 ha under production and 300 hectare of potentially productive but under-utilized land.
- The property is considered valuable due to its location close to Vila Rosa, its soils are suitable for irrigation and abundant water is available both for irrigation and for domestic purposes. An area of 132 hectares has been identified for irrigation. Funds for the investment are available under the Project.
- Previous to the Project, most beneficiaries were sharecroppers, who typically cultivated 2-3 ha of corn, yielding products worth about R\$600 per year, one half of which had to be delivered to the land owner. Now, beneficiaries will have ownership of 31 ha each, with 3 ha per family under irrigation. Their repayment obligation will be in the order of \$600 per year almost guaranteeing an immediate significant improvement in their living conditions.
- Activities undertaken in the year since acquisition of the property include construction of 44 houses, purchase of a tractor, installation of a well, pump and water distribution system, clearing of 40 ha of land. In the first year, beneficiaries planted subsistence crops. They own 180 heads of cattle.

Fazenda Marabá II, Município de Janaúba

- 77 families, 1,939 ha, purchase price: R\$387,662 (R\$5,035 per family, R\$200/ha)
- Water resources on this property were limited to one tubewell. However a second tubewell was constructed under the Project. Both wells together produce at least 20,000 l/h, which provides water for human and animal use.
- The absence of abundant water is characteristic of many farms in the semi-arid zone and requires a production system adjusted to these conditions, typically concentrated on livestock. Obviously, such properties are seriously affected by the periodic drought conditions. The main economic activity in this subproject is livestock. A herd of 231 cattle was acquired with Project resources. Plans include cultivation of red beans, castor beans and cotton, based on the low water requirements of the latter two.
- The association has been able to receive a loan to plant 250 ha of castor beans. The net income from the cultivation of castor beans is estimated at R\$1,700-1,900 per family per year.

Fazenda Acary and Fazenda Vargem das Canoas, Município de Pintópolis

- 30 families, 763 ha, purchase price: R\$123,655 (R\$4,122 per family, R\$162/ha)
- The community association purchased two properties, each of which individually could not have been subject to expropriation.
- As common for most properties, this farm includes some areas that are not, or only under restrictions, suitable for cultivation. At the same time, however, the property also includes areas with good soils for permanent cultivation. In particular, it has full access to a perennial river, and soils suitable for irrigation. An irrigation project for 30 ha (one hectare per beneficiary) has already been implemented and is currently being tested. The association is negotiating with an export firm for a contract which would allow the cultivation of vegetable pepper on the irrigated land. With two annual harvests, annual net income would be R\$6,000 per family, which alone would ensure viability of this project. In addition, 60 ha are being cleared for the production of subsistence crops. Additional areas can be irrigated in the future.
- Improvements in the quality of life of the beneficiaries are clearly noticeable. Now, all beneficiaries have their own houses with water and electricity and declare that they are now able to send their children to school. Eight beneficiaries already own a refrigerator, and eight own televisions.

CEARÁ

The Second Request relates the two communities below as examples of land purchase price variations in the same state and with similar soils, as described in the *laudos*. We focus here on the ability to pay of these two properties/associations. It also questions the prospects for success/viability of repayment due to the apparent lack of community organizational experience in two other associations. The aspects relating to community organization were discussed at length in the first Management Response.

Fazenda São Felipe, Município de Acaraú

- 25 families, 330 ha, purchase price: R\$200,625 (R\$8,025 per family, R\$608/ha)
- The price of the land has been higher than that of other properties with the same land use class due to the location of this particular property at only 1km distance from the coastal city of Aracaú. The Request compares this property to another property (Santa Rosa in Bela Cruz), which is located in the transition area from the coastal to the much more difficult semi-arid zone with much lower market prices of land.
- The property is suitable for cultivation of coconut, cashew and food crops. Thirty-five ha are already planted with coconut. In addition, the community intends to plant further 20 ha with irrigated coconut and 29 ha with cashew. The combined revenue is expected to be around R\$184,000 per year (or

R\$7,400 per family). Compared to repayment obligations of about R\$800 per year, viability looks assured.

- The association receives visits from the state extension agency EMATERCE twice a month. The association has already received PRONAF credit for fertilizer.

Associação Comunitária Santa Rosa, Município Bela Cruz

- 30 families, 1,430 ha, purchase price: R\$144,450 (R\$4,815 per family, R\$101/ha)
- The price of the land has been lower than that of other properties with the same land use class due to the location of this property in the less valued transition area from the coastal to the semi-arid zone.
- At the time of purchase, the property had 50 ha of cashew. Another 100 ha of cashew and two ha of bananas have been planted by the beneficiaries in addition to cassava, beans, and corn.
- The association is currently constructing houses for each family and receives monthly visits from the State extension agency.
- The association plans to have 500 ha (or about one third of the property) planted with cashew in five years with expected revenues of R\$105,000 or R\$3,600 per family. In addition, the beneficiaries will grow food crops. Repayment installments will be on the order of R\$500 per family.

PERNAMBUCO

Land prices found in Pernambuco are the highest among the Project states, mainly due to more favorable climatic conditions in the Zona da Mata and Agreste regions of the state. The high land prices of Pernambuco are reflected in all relevant statistics, either on expropriations by INCRA or on market transactions. While land prices are higher in Pernambuco, the relative cost advantage of the Project compared to expropriation is the highest among the five states (59% lower prices per hectare compared to 27% for all states).

Fazenda Vale de Boa Esperança, Município de Gravatá

- 71 families, 1,134 ha, purchase price: R\$700,470 (R\$9,866 per family, R\$618/ha)
- The property is located in a municipality with generally relatively high property values due to economic (tourism and horse breeding) and climatic factors (moderate temperatures throughout the year).
- The actual purchase price was R\$618/ha which compares favorably to typical market transaction values of R\$1,000 in this area. The property price includes R\$330,000 for buildings and other constructions, most of which are of high value to the beneficiaries, including 11 residential houses, 7 warehouses, 4 water reservoirs, 9 small dams, and two wells with pump.

- The property is already productive, including large areas under fodder crops and pineapple that are already producing and generating revenues. The beneficiaries currently own 143 heads of cattle.
- The main economic activity is likely to be livestock. However, beneficiaries are also planning to plant 1 ha of pineapple per family, which alone would generate net income above R\$7,000 per family, thus ensuring viability and substantial income increases despite the relatively high per capita land cost, which would result in annual installments of about R\$1,000.
- The beneficiaries plan to use the main building of the property as a meeting place, training center, health post and school. Its estimated value constitutes less than three percent of the value of the property.

MARANHÃO

The State of Maranhão covers different agro-climatic regions and is characterized by particularly large differences in land prices between microregions of the state. The comparison between prices paid under the Project and INCRA expropriation presented in the report, was based on erroneous information provided by the State of Maranhão. Mistakenly, calculation of the land price under the Project included two properties whose acquisition was rejected by the State precisely because of excessive prices. The actual average per hectare cost of land acquired under the Project in Maranhão was R\$117, which compares favorably to market prices and prices found in the other Project states. The Requesters selected properties included in the upper boundary in terms of per hectare costs and compared them with the average INCRA price for the State, not with the INCRA price for that microregion. Additionally, they assume that only price and not the productive capacity of the property is the determinant of the capacity to repay on the part of the Project beneficiaries.

Fazenda Belmonte, Município de Bacabal

- 14 families, 316 ha, purchase price: R\$94,800 (R\$6,771 per family, R\$300/ha)
- This property has excellent soil conditions and good infrastructure. Of the property's 316 ha, 290 ha can be cultivated and have medium to high fertility. In addition to good rainfall conditions, the property has access to a perennial river. The purchase price compares favorably in a local comparison of purchase prices provided by Banco do Brasil, the extension service, the rural labor union, and the land registry.
- Current production includes 60 ha of corn, cassava and rice, 10 ha of bananas, and 4 ha of horticulture. Beneficiaries own 12 heads of cattle. Cultivation might generate income on the order of R\$100,000 per year (about R\$7,000 per family) leaving no doubt about repayment capacity and income increase for the beneficiaries. Beneficiaries estimate that their income has already at least tripled as the result of the Project.

Fazenda Boa Vista do Acaraí, Município de Balsas

- 25 families, 1,023 ha, purchase price: R\$180,000 (R\$7,200 per family, R\$176/ha)
- This property was negotiated with an area of 800ha for R\$180,000. Subsequent measurements have confirmed an actual property size of 1,023ha, resulting in an effective purchase price of R\$176/ha. Discounting for previous investments (20km of fences, 20km of internal roads, bridges, etc.), the property price is R\$108/ha, less than local references for unimproved land, including the reference price of R\$130 provided by the local rural labor union.
- 300 ha are suitable for irrigation with ample water available. Electrification and installation of irrigation are underway. 100 ha (equivalent to 4 ha per family) are being cultivated this year already. Given the production already underway and the high level of organization of the community, there is no doubt about the viability of this project.

Fazenda Alegria, Município de Gonçalves Dias

- 22 families, 600 ha, purchase price: R\$150,325 (R\$6,833 per family, R\$250/ha)
- The price of land discounted for the value of previous investments (*terra nua*) is estimated at R\$139/ha, which is equal to the average of local reference values. Given good access to the market town (20km), availability of electricity and good water resources as well as fences, the price is considered appropriate.
- About 400ha of the 600ha of the property are soils of good quality. Beneficiaries are already cultivating about 2.5 ha per family in subsistence crops. Beneficiaries are preparing the land for planting 150 ha with rice, corn and cassava and are undertaking an irrigation project for 30 ha. Depending on the crops planted in the irrigated area, revenues may be about R\$140,000, or more than R\$6,000 per family. This would leave ample returns for repaying the loan (about R\$700 per family per year).

Fazenda Gaiolinha, Município de Presidente Vargas

- 145 families in 9 associations, 3,627 ha, purchase price: R\$253,890 (R\$1,750 per family, R\$70/ha)
- Nine associations purchased parts of one larger property. The beneficiaries have lived on this land for 40 years and have been subject to attempts of expulsion by previous owners. Several casualties have occurred in the past in the conflicts surrounding this property.
- The overall property has relatively homogenous characteristics, thus resulting in identical *laudos*. The division into 9 associations was requested by the beneficiaries in line with their current location and organization in several communities.

- The negotiated prices of R\$70/ha is somewhat above a market reference value of R\$58/ha provided by a local bank and union but within the range of reference values used by INCRA for this municipality (R\$38-124 for the land without improvements). The purchase price is justified by excellent soils, good infrastructure (including power, roads, schools and churches) and good access to water (a perennial river crosses the property).

Fazenda Sitio Campinas, Município de São Luis

- 69 families, 383 ha, purchase price: R\$288,949 (R\$4,188 per family, R\$754/ha)
- This property is located in a peri-urban setting, only 20km from the capital city of the State of Maranhão, São Luis, and 5km from a paved road. Urban and industrial growth in the region is leading to rapid property appreciation. INCRA's reference prices for this area range between R\$800 and R\$3,600/ha. Neighboring properties have been sold at a multiple of the R\$754/ha paid by the beneficiaries. The land price is low, considering the excellent market access and the suitability of the land for high value horticulture production as well as the good rainfall conditions of this region.
- The investment grant of the Project is being used for housing, drinking water supply, electrification, and a well and irrigation system for 20ha of fruit and horticulture products. With about one third of a hectare of horticulture, each family can expect gross annual revenues of R\$5,000, which leaves ample funds for covering production costs, loan repayment (about R\$500) and increase in family income from a pre-project level of typically R\$1,000.
- Future plans (to be financed from internal savings or external credit) include permanent cultivation of oranges and mango.

Fazenda Maracassumé/São Rafael, Município de Viana

- 31 families, 503 ha, purchase price: R\$25,100 (R\$810 per family, R\$50/ha)
- The owner offered a property of supposedly 1,089 ha. Since the documents provided by the owner were not consistent with the property register, a survey of the property was recommended during the technical evaluation of the proposal. This survey determined that the actual size of the property was 503ha. As provided in the Project manuals for such cases, the resurvey of the property determines the actual amount paid for the land. In this case, the owner had to return the excess payment he received. This repayment by the owner was made. As a result of this resurvey, it became apparent that beneficiaries had received smaller land than expected, at a proportionally lower price. Beneficiaries are now considering purchase of additional adjacent land.

Fazenda Tanque, Município de São José dos Basílios

- 20 families, 554 ha, purchase price: R\$100,876 (R\$5,044 per family, R\$191/ha)

- Demarcation of this property resulted in a correction of its actual size to 554 ha with a price of R\$191/ha. This price is somewhat higher than most (but not all) reference values for this municipality, which range from R\$80-300. Given its favorable location (8km to the nearest market town), its good soils, and access to a perennial river, the price appears justified.
- The property has 460ha suitable for cultivation. Currently, 45 ha are planted with rice. Another 120ha are temporarily rented out. The community is currently constructing a well and installing irrigation for 60ha of rice and bananas. This cultivation might produce annual income of R\$120,000 or R\$6,000 per family, leaving no doubt about financial viability.

ANNEX B: Project Supervision and Improvements Introduced²⁸

1. The 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 82 staff weeks have been used in Project supervision over a 27-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 30 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 -- and by the Regional Vice President for Latin America and the Caribbean. 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. There have also been a number of workshops involving the State Technical Units with the associations in each state, the latest one with all 50 associations of the State of Pernambuco. In addition, the Project has been evaluated by private consultants and universities. 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 by the end of the first year of Project implementation. The market-based approach piloted under the project expedites the settlement of landless rural families, with land acquisition from identification to purchase typically taking less than 90 days. Further, projected household incomes (five years after land acquisition) range from 3 to 10 times the pre-project household income and permit these households to service their land loans. To date, families have generally chosen fair to good quality land across the diverse agroclimatic conditions prevailing in the Project area 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 30 to 35 for optimal performance. Groups smaller than 10 families are likely to have difficulty

²⁸ An update from a similar annex in the original Management Response.

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 agreed 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. The TJLP is no longer used to define financial charges stemming from the loan and has been replaced by the loan conditions of the Banco de Terra, which include a fixed real interest rate of 4% p.a. and a payment period of 20 years. These new charges and terms will also 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 Government is reviewing the functions, composition and procedures of the Councils to identify ways to increase their effectiveness. The formal philosophical position of some of the Requester organizations, against market-based land reform, is a complicating factor, but the Government is in the process of renewing efforts to obtain participation by these groups.

Annex C: Efforts to Communicate with the Requesters

Bank management and staff have consistently demonstrated openness and desire for frank and serious direct communications with all groups of society. In this spirit, management and staff have continued to work closely with the beneficiary community organizations and with grass-root branches of the national organizations involved in the Request; have welcomed opportunities to meet with individuals related with some of the national organizations that comprise the Forum of the Requesters, in an effort to establish bridges with them (see paras.1–5 below). Management and staff have so far not been successful in their efforts to communicate directly with the Requesters (paras. 6-8 below).

1. A meeting between Bank staff working with the Project, Bank NGO liaison staff and a representative of the Brazil Network (Rede Brasil), one of the organizations of the Forum, took place in Washington on June 3, 1999. This was an informal meeting geared to a basic exchange of information. The discussion centered on the Forum's opposition to the Bank-funded Land Reform Pilot Project and the efforts that both the Bank and the Government were willing to make in order to actively engage national civil society organizations (CSOs) in project implementation.
2. On August 5, 1999, headquarters and Bank country staff working with the Project and Bank NGO staff met in Natal, Rio Grande do Norte, with representatives of state-level federations of rural workers (FETAGS) of 8 Northeastern states and a representative from the National Confederations of Rural Workers (CONTAG) part of the Requesters' Forum (and of which FETAG are the state branches). The discussion was an informal exchange of views between FETAG and the Bank on the pilot project.
3. During a meeting on August 24 , 1999 with leading CSOs in Salvador, State of Bahia, Bank staff, including the Regional Vice President for LAC, Brazil CMU Director, and Bank NGO liaison staff, dialogued with the President of the Bahia Federation of Rural Workers (FETAG). At that time, the President stated, "The Federation is not against the Bank funding agrarian reform in Brazil, and local landless farmers have welcomed the program." He further stated that now that the movement had lost the battle to have the *Cédula da Terra* blocked (they were not aware that the Second Request was presented to the Bank), he hoped that they could try to influence it in order to allay their concerns regarding farmer indebtedness, and to improve its implementation.
4. On September 29, 1999, during the Bank's Annual Meetings, the Director for the Brazil Department, a representative of the LAC Vice President's office, the regional and Brazil department NGO liaison officers, regional and Brazil department external communications staff, a Bank-wide lead specialist on Agrarian Reform issues and Bank Director, representative of the Legal Department and all staff working with the CdaT project (both from headquarters and in the field) met with a member of the Brazil Landless Movement (MST), accompanied by representatives of three NGOs from the

Washington area. During the meeting, Bank staff reiterated their open door policy with NGOs and Bank staff willingness and open mind to discuss/review all aspects of the CdaT project and its proposed follow-up, the *Banco da Terra*. The importance that the Bank attributes to the participation of national organizations in the Project was also reiterated. Bank management requested the intermediation of the MST member for the organization of a meeting with the Requesters' Forum. No response has been obtained to date.

5. During the recent annual Latin American meeting of regional NGOs with Bank regional management last October, Bank staff working with the Project met with a member of one of the organizations represented in the Forum (Rede Brasil) to discuss and review the Bank position expressed on all previous occasions.
6. An invitation was made in early-June 1999 to the Requesters to meet in Brasília with the Brazil Country Director and Bank country staff working on the Project, to discuss results of Project monitoring and evaluation studies, improvements already incorporated in the Project, review any concerns that the Forum had with the Project and explore different possibilities for involvement of the national organizations of the Forum in Project implementation. The Forum decided not to meet with the Bank at that time (see attached copies of letters dated June 4, 1999 and June 10, 1999 from the Bank and Forum respectively).
7. The Brazil Country Director and country and headquarters staff working with the Project extended a second invitation to the Requesters to meet in early August 1999 to discuss, again, ways to include their organizations in project implementation. After careful negotiation of a date for the meeting, the Requesters cancelled just hours before the meeting (see attached copy of letter dated July 30, 1999).
8. On September 14, 1999, a joint invitation was extended to the Requesters by the Minister of Agrarian Reform and the Bank's Brazil Country Director to review evaluations of the CdaT project, all aspects of its implementation and improvements already introduced. This invitation was turned down by the Requesters. In the invitation, both institutions referred to the multiple invitations that independently had been made to the Requesters and to the interest and beneficial effect that the participation/contribution of the national organizations included in the Requesters Forum would have for the CdaT project and its proposed follow-up, the *Banco da Terra*. In their response letter, the Requesters indicated that they have presented a Second Request for the installation of the Inspection Panel for the CdaT, were awaiting an official position from the Bank regarding the request and this would make it unnecessary to discuss the topic at that time. In addition, they referred to a Bank report pointing to the impact of neoliberal policies in deepening poverty and misery, especially in Third World countries, and that they considered contradictory the Bank's efforts in Brazil to have a meeting to push forward

the CdaT, a program absolutely based on neoliberal assumptions (see attached copies of letters dated, respectively, September 14, 1999 and September 21, 1999).

Bank management and staff will continue their open-door policy and their efforts to engage the national organizations in Project implementation.

Letter from Mr. Nankani to the Executive Secretary of the Forum, dated June 4, 1999

(copy of original letter and Unofficial Translation included)

UNOFFICIAL TRANSLATION

Tel (061) 329-1000

Brasília, June 4, 1999

Mr. Isidro Revers
Executive Secretary, CPT
National Forum for Agrarian Reform and Rural Justice
Rua 19, No. 35, 1st Floor
Goiânia, GO

Fax: (062) 212-0421

Dear Mr. Revers:

Recently, the National Forum for Agrarian Reform and Rural Justice has voiced its concern with regard to the assistance of the World Bank in the Government's Agrarian Reform Program through the Land Reform and Poverty Alleviation Pilot Project (*Cédula da Terra*), and its potential follow-up, the *Banco da Terra* (Land Fund) Project.

We would like to inform you these concerns are being taken into consideration in the preparation of the Bank's future assistance to the Government of Brazil in the area of Agrarian Reform. As such, I would like to invite the National Forum for Agrarian Reform and Rural Justice to participate in a meeting on Thursday, June 17, at 3:00pm, at the Bank's offices in Brasília, during which we can continue our dialogue.

We are open to any suggestions concerning the agenda for this meeting. Based on our concerns, I suggest that the agenda include discussions on the following points:

- Economic and financial viability of the agrarian reform projects financed by the World Bank;
- Participation of civil society in the context of agrarian reform projects financed by the World Bank;
- Preparation of projects financed by the World Bank and its complementarity to the tradition model of expropriation.

I await your response so that we can continue our dialogue.

Sincerely,

Gobind T. Nankani, Director
Country Management Unit, Brazil

Response from the Forum to Mr. Nankani, dated June 10, 1999

(copy of original letter and Unofficial Translation included)

UNOFFICIAL TRANSLATION

National Forum for Agrarian Reform and Rural Justice

Secretariat: Pastoral Land Commission
Rua 19, No. 35, 1st Floor
Tel (062) 212-6466
Fax (062) 212-0421
email: cptnac@cultura.com.br

Goiânia, June 10, 1999

Mr. Gobind Nankani
Director, World Bank/ Brazil
Fax (061) 329-1010

Dear Mr. Nankani:

On behalf of the National Forum for Agrarian Reform and Rural Justice, I appreciate your letter of June 4, in which you invite the Forum for discussions on the future support of the World Bank to the Government of Brazil in the area of Agrarian Reform.

After consulting the members of the Forum regarding your invitation, I would like to confirm our desire and interest to accept the World Bank's invitation to take part in this debate. However, due to other previously arranged meetings, a majority of the members find it impossible to meet on the date that you have proposed. Upon consulting with the members as to an alternative date, we see that the remainder of the month of June already has a number of meetings scheduled. As such, we would propose a meeting with you in July, at a date to be later specified. We are presently looking at possible dates, and will shortly communicate with you again to propose alternative dates.

Sincerely,

Isidoro Revers
c/o Executive Secretary,
National Forum for Agrarian Reform and Rural Justice

Letter from Mr. Nankani to the Forum, dated July 30, 1999

(copy of original letter and Unofficial Translation included)

UNOFFICIAL TRANSLATION

The World Bank
SCN – Qd. Z – Lot A
Corporate Financial Center Building
Suites 303/304
70710.500 – Brasília - DF

Tel (061) 329-1000

July 30, 1999

Mr. Isidoro Revers
Representative
National Forum for Agrarian Reform and Rural Justice
Rua 19, No. 35, 1st Floor
74001-970
Goiânia, GO

Dear Sir,

World Bank Support to the Agrarian Reform Program of the Government of Brazil

In accordance with the decision taken by the National Forum for Agrarian Reform and Rural Justice and communicated to us today by you, it was not possible for the Forum to have the meeting previously scheduled between the Forum and the World Bank to discuss World Bank support to the Agrarian Reform Program of the Government of Brazil. We regret that it was not possible to have this meeting, given that since May of this year we have been trying to schedule a meeting with the Forum to discuss this issue.

The objective of today's scheduled meeting was precisely to discuss, in a frank and open manner, the criticisms and doubts that the Forum has about the programs financed by the Bank, including apparent questions related to data from INCRA regarding the results of the *Cédula da Terra* (Land Reform and Poverty Alleviation Pilot) Project. We understand that the Forum is preparing a document which analyzes these data, and as such we await receipt of this document in order to better understand your concerns. I believe it is useful to inform you that evaluation reports funded by the Bank of the Pilot Project, such as a listing of all properties purchases by community associations can be found on the Internet (www.dataterra.org.br and www.nead.gov.br) and as such these reports are widely available to the Forum and other entities of civil society. A first independent evaluation of the *Cédula da Terra* Project, conducted by UNICAMP

(University of Campinas, São Paulo, Brazil), is now being concluded and this report will also be available shortly.

I should reiterate that the World Bank considers the participation of civil society in the *Cédula da Terra* Project to be important, since this can play a strategic role to organize associations of settlers, provide technical assistance and monitor the results of the Project. The active participation of beneficiaries and local social movements (unions, churches, NGOs) is already occurring, but it will be important that national organizations also participate in the Project, offering in a complementary manner their analytical capacity and technical assistance.

In this vein, the Government of Brazil, with the help of the World Bank, recently took various initiatives and measures to improve the performance of the *Cédula da Terra* Project and encourage the participation of civil society. Some of these measures were taken in response to suggestions from entities represented by the Forum. These include:

1. A decision that, from now on, no land that is potentially expropriable will be financed by the *Cédula da Terra* Project, except with the approval of the State Council with the participation of civil society;
2. Extension of the terms of the loans and reduction of the interest rates for repayment of land purchases equal to the conditions recently approved for the Land Fund (*Banco da Terra*);
3. The participation of civil society and social movements in State Councils for the monitoring of Project implementation. We understand also that the Government has invited members of the Forum to participate in the National Council of the Land Fund, in which various State Ministers participate.
4. Availability of resources for groups linked to the Forum to conduct technical studies seeking ways to improve the traditional program of agrarian reform.

In closing, we inform you that we are continuing the process of negotiating with the Government a new loan for the Land Fund (*Banco da Terra*) Project with the same characteristics mentioned above. We hope that these negotiations will be concluded in the near future. At the same time, we remain open to discuss pending doubts and ways to include the active participation of the entities of the Forum in the Project.

Sincerely,

Gobind T. Nankani, Director
Brazil Country Management Unit

Joint Letter from the Minister of Agrarian Reform and Mr. Nankani to the Forum, dated September 14, 1999

(copy of original letter and Unofficial Translation included)

UNOFFICIAL TRANSLATION

Brasilia, September 14, 1999

Mr. D. Tomas Balduino
Executive Secretary
National forum for Agrarian Reform and
Justice in the Countryside

Dear Sir,

The Extraordinary Ministry for Land Policy and the World Bank have been attempting, independently, over several months, to discuss with representatives of your organization your doubts and concerns about the Brazil Land Reform and Poverty Alleviation Pilot Project (*Cédula da Terra*). On this occasion, and in a joint manner, we would like to renew our invitation for the National Forum for Agrarian Reform and Justice in the Countryside to participate in a dialogue concerning this project and pertinent questions, as well as about aspects relevant to the Land Fund (*Banco da Terra*). As we have reiterated on various occasions, we are open to the constructive involvement of civil society organizations, as we consider this involvement extremely important to ensure the effectiveness of the projects.

In this regard, we propose a meeting of the civil society organizations interested in agrarian issues, the Extraordinary Ministry for Land Policy and the World Bank to discuss the results of the latest evaluations of the Brazil Land Reform and Poverty Alleviation Pilot Project (*Cédula da Terra*), as well as implementation details, modifications already made in the program and other pertinent information.

We suggest a meeting in the Extraordinary Ministry for Land Policy, on September 24, at 11:30 am, on the 18th Floor, Room 1818.

We look forward to communication regarding your participation.

Sincerely,

Raul Belens Jungmann Pinto
Extraordinary Minister for
Land Policy

Gobind T. Nankani
Director
Brazil - World Bank

Letter from the Forum to Mr. Nankani, dated September 21, 1999

(copy of original letter and Unofficial Translation included)

UNOFFICIAL TRANSLATION

NATIONAL FORUM FOR AGRARIAN REFORM AND JUSTICE IN THE COUNTRYSIDE

Letter w/o number - 1999

Brasilia, September 21, 1999

Mr. Director,

Regarding the communication signed jointly by yourself and the Extraordinary Minister for Land Policy inviting the entities of this Forum to participate in a meeting to discuss aspects related to the operationalization of the program *Cédula da Terra*, we consider:

1. We remind you that the Forum recently presented to the IBRD a second request for installation of the Inspection Panel for the referred program, based on documentation substantiating and attesting to numerous irregularities in its execution. This means that the entities of the Forum are awaiting an official position from the Bank regarding the request, which makes unnecessary any discussion on the topic at this time in parallel with the formal process;

2. A few days ago, the World Bank disseminated a Report pointing to a deepening of poverty and misery, especially in third world countries, as a result of the effects of neoliberal policies imposed by the rich countries. In this regard, we consider contradictory the Bank's effort in Brazil to have a meeting to push forward the *Cédula da Terra*, a program absolutely based on neoliberal assumptions and therefore incompatible with effective development strategies for poor countries according to the Bank itself;

In view of the above, and manifesting the alignment of the Forum with the sectors of the Bank which have concluded about the inequity of the neoliberal project, we emphasize to you our full interest in discussing collaborative actions with your institution to eradicate underdevelopment in Brazil for which, in the case of the agrarian sector, we do not envision any other alternative but the promotion of an effective and massive agrarian reform policy.

[signed]
D. TOMAZ BALDUINO
Executive Secretary for
The Forum entities

To: Mr. Gobind Nankani
World Bank Director for Brazil
Brasilia - DF

ENTITIES WHICH COMPOSE THE FORUM

CPT; CONTAG; MST; MLTS; CNASI; ASSERA; INESC; Agricultural Secretariat of the PT; ABRA; MNDH; IBRADES; IBASE; DESER; ASPTA; IFAS; FASE; CAPOIB; MAB; CNS; CNIC; CUT; CONDSEF; REDE BRASIL; CARITAS; CESE; ANMTR; FASER

Annex D: Letter from Minister of Agrarian Reform on Land Purchase and Other Credit

**(copy of original letter to Mr. Nankani, dated November 10, 1999,
and Unofficial Translation included)**

Unofficial Translation

Cabinet of the Extraordinary State Minister for Land Policy

Brasilia, November 10 1999

Mr. Director:

I would like to take this opportunity to inform you that we have been authorized to disburse an additional R\$55.55 million, part of the remaining balance of the loan agreement between the World Bank (IBRD) and the Brazilian government, in order to finance basic infrastructure investments for families in the States of Maranhão, Ceará, Pernambuco, Bahia and Northern Minas Gerais, to be assisted under the Cédula da Terra Program (*as the Brazil Land Reform and Poverty Alleviation Pilot Project is known in Brazil*).

This authorization is being given at the same time that we have committed approximately another R\$40 million from the Banco da Terra (*Land Fund*) in order to ensure needed Brazilian government counterpart funds for the financing of land acquisitions, in accordance with the above referenced loan agreement with the World Bank.

These two amounts will guarantee assistance to more than 10 thousand families who, when added to the 8 thousand already assisted, will bring the total, already this year, to 18 thousand families (*assisted by the program*), exceeding, therefore, the total goal of 15 thousand families, projected for the Cédula da Terra Program.

As mentioned in the past, I would like to reiterate that the same financing rules approved for the Banco da Terra Program, will be applied in the consolidation of the Cédula da Terra Program, thus assuring the same sustainability conditions earned for the current (*Banco da Terra*) program. Said conditions are being extended, retroactively, for the financing of land acquisitions already realized under Cédula da Terra Program.

At this time, I would also like to inform you that the credit for investment and crop finance which are available for the beneficiaries of agrarian reform through the National Program to Strengthen Family Agriculture - PRONAF, are also available, under the same conditions, to the beneficiaries of the Cédula da Terra Program, as established in the Operational Manual of the aforementioned project.

Certain of the full success of the Cédula da Terra Program, I ratified my enthusiasm on the importance of the project to thousands of families, without which, they would not have the opportunity to produce, take their sustenance from the land, and generate income and jobs in the communities where they live.

Attentively,

signed
Raul Belens Jungmann Pinto
Extraordinary State Minister
for Land Policy

To: Mr. Gobind Nankani
World Bank Director - Brazil

ANNEX E: 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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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.²⁹

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"³⁰ is the only legitimate means for achieving land reform in Brazil. For that reason, they do not seek improvements in the design or execution of the Project; they wish to stop the pilot and any contemplated expansion. The Request does not refer to violations of specific Bank policies or procedures, but makes a number of general claims which are cited in the Notice of Registration: (a) the Project is not achieving its objectives; (b) the Project is not being implemented as a pilot; (c) beneficiaries will be unable to repay debts entered into under the Project; (d) the Project will lead to increased prices of agricultural land available to rural workers; (e) the Project is an alternative/substitute instead of a complement to Brazil's Constitutionally-mandated land reform program; and (f) the Bank failed to consult and adequately inform project-affected people and their representatives.

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

²⁹ 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.

³⁰ See quotes in paragraph 3.1.

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

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

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

5. 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 Parnaiba Valley Development Project in the State of Piaui (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,³¹ the Request does not demonstrate actual or potential harm to Project beneficiaries. The sum and substance of the Requestors' complaint goes to a policy choice of the Brazilian Government in the area of land reform, rather than to the proper application by the Bank of its own policies and procedures. Moreover, it is Management's view that the Requestors themselves do not meet the eligibility criteria to file a Request for Inspection.

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

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

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

³¹ Inspection Panel Resolution: IBRD Resolution 93-10 and IDA Resolution 93-6 of September 22, 1993. Operating Procedures, adopted by the Panel on August 19, 1994.

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

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

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

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

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

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

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

Cluster (c): a claim concerning environmental assessments:

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

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

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

CLUSTER (A): CLAIMS ABOUT THE PROJECT'S CONTRIBUTION TO POVERTY ALLEVIATION

and Its Impact on Participants' Incomes and Welfare

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

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

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

- The pilot Project builds on previous Economic and Sector Work, is reflected in the CAS, is the result of strategic choices among options, and provides an opening to pursue poverty reduction through an innovative approach (Chapter 2 provides further information on the context and evolution of Bank work on land issues in Brazil, which preceded the development of the Project).
- The Project concentrates on geographical areas where the rural poor live and on assets which the poor hold, effectively targeting beneficiaries.
- The Project is demand-driven, with beneficiaries organizing into associations, identifying and negotiating the purchase of properties, assuming responsibility for purchase of the land, identifying and implementing complementary sub-projects, and contracting technical assistance to improve their capacity to manage and develop the lands they acquire, in accordance with a Project Operational Manual³² in each State.
- The Project finances the creation and improvement of productive assets, and cost recovery and sustainability are features of the Project design.

³² 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.

- 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.³³

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.

³³ 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.

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

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

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

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

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

<p>Cluster (b): Claims about the Pilot Nature of the Project, about the Constitutionality of Pursuing a Market-based Approach to Land Reform in Brazil and Whether It Is Crowding out Expropriation</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		\$6,578*	\$2,331	\$2,407	\$13,246
Market-based	\$1,930	3,521	1,300	3,258	8,519
Savings	441 77%	46%	44%	-35%	36%
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 Response³⁴

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:</p> <ul style="list-style-type: none"> (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

³⁴ 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 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>	<p>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 (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 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</p>
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<p>Claim 3: The Project is not achieving its objectives.</p>	<p>As above</p>	<p>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>
<p>Claim 4: The Project will lead to increases in the prices of agricultural land.</p>	<p>As above</p>	<p>Response 4: Management believes there is no evidence to support this claim.</p>

<p>Cluster (b): Claims concerning the Constitutionality of pursuing a market-based approach to land reform in Brazil, and whether this approach is crowding out or supplanting expropriation as a means to redistribute land assets:</p> <p>Claim 5: The Project is not being implemented as a pilot (and is being expanded without proper evaluation).</p>	<p>No Bank policy or procedure is cited in the Request, for claims in Cluster (b)</p>	<p>All available data indicate land prices in Brazil are falling due to economic stabilization and removal of agricultural subsidies; the current economic crisis might change this. However, the pilot project is too small to exert significant influence on the market: in 1998, the project accounted for 0.3% of agricultural lands transacted in the five pilot states. Moreover, banks and landowners confirm that large stocks of land are held as collateral for defaulted farm debt, and for absentee owners interested in selling. It seems unlikely, comparing the size of the land market and the scale of the Project, that either the ongoing project or any contemplated expansion would significantly affect the price of agricultural land. Management, however, will be monitoring the situation to be able to take appropriate action if there are any indications that this is happening (para. 4.22).</p> <p>Response 5: Management believes that even if true, this would not be grounds <i>per se</i> for alleging harm to individuals or participants. In fact, this project exemplifies a successful approach to piloting.</p> <p>It is designed to test a new methodology, with a limited number of beneficiaries in five states and, despite rapid execution and high demand, it still accounts for < 10% of all land reform beneficiaries in 1998.</p> <p>Since it is a pilot, intensive supervision, national and</p>
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<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>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>
<p>Cluster (d): Claims concerning consultation, disclosure of information and NGO participation</p>	<p>BP17.50 on Disclosure of Operational Information (September 1973); and GP14.70 on Involving Non-Governmental Organizations (NGO) in Bank-Supported Activities (March 1998).</p>	

<p>Claim 8: The Bank failed to consult and adequately inform project-affected people and their representatives</p>	<p>The GP is technically ineligible under the Inspection Panel Resolution and was not included in the Registration.</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>Claim 9: The Project violates BP17.50 on Disclosure of Operational Information</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</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>

<p>Claim 10: The Project violates GP14.70 on Involving Non-Governmental Organizations in Bank-Supported Activities</p>	<p>stages of the project cycle.</p> <p>GP14.70 encourages collaborative relationships with NGOs: to enhance better understanding of Bank 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.³⁵ There have also been a number of workshops involving the State Technical Units with the associations in each state. Available to the Panel for its review, is a report and two audio tapes of the meeting of the presidents of all community associations involved in the Project and some of their membership, in Bahia in November 1998. The findings and recommendations were reviewed by the beneficiaries with State Government authorities and the Minister of Agrarian Reform. The result of all this activity has been a series of lessons which have been or will be incorporated as changes or adaptations in the existing project and the design of the follow-up, Adaptable Program Loan. These include:

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

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

³⁵ 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.

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.

(i) **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:

		<ul style="list-style-type: none"> • 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.