

**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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## 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

## **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 Project<sup>1</sup> -- 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 properties<sup>2</sup> (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.

## **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.

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<sup>1</sup> 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.

<sup>2</sup> The Requesters also point to two other properties where they claim beneficiaries have organizational issues. These project aspects were covered in the first Response.

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 improved<sup>3</sup> 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). 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.

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<sup>3</sup> 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%.

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.<sup>4</sup>

2.8 Project beneficiaries do receive community investments and start-up grants, and therefore have support during the installation period.<sup>5</sup> While access to credit beyond this initial period is important, and the Project financial projections do indeed 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.

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<sup>4</sup> 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.

<sup>5</sup> 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).

**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.<sup>6</sup> 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.<sup>7</sup> 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.<sup>8</sup>

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.

2.11 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

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<sup>6</sup> 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.

<sup>7</sup> 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.

<sup>8</sup> 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.

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.<sup>9</sup>

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 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.

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<sup>9</sup> 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.

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, Gravata, 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 Acaará, 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 hectares 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 Introduced<sup>10</sup>**

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 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

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<sup>10</sup> An update from a similar annex in the original Management Response.

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, 1<sup>st</sup> 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, 1<sup>st</sup> Floor  
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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, 1<sup>st</sup> 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](http://www.dataterra.org.br) and [www.nead.gov.br](http://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 invites 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 18<sup>th</sup> Floor, Room 1818.

We look forward to communication regarding your participation.

Sincerely,

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Raul Belens Jungmann Pinto  
Extraordinary Minister for  
Land Policy

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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

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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**