

Brazil's World Bank-assisted State Land Reform Programs

Back to Office Report

Field Trip (July 7-16, 2002) to the States of Ceara and Pernambuco, Brazil

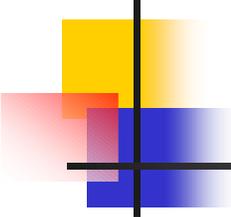
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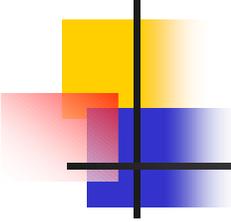
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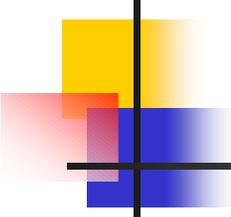
Preface

- n Study tour to Brazil organized for the Minister of Lands of Malawi by the World Bank.
- n Glen Thomas and Rogier van den Brink participated with intention to organize similar trip for South African delegation.
- n Glen Thomas' trip expenses were funded by UNDP, South Africa—contribution gratefully acknowledged.
- n Many thanks to the Government of Brazil, the Minister of Lands of Malawi and his delegation, the officials of the States of Ceara and Pernambuco, the communities visited, Jorge Munoz and Joao Barbosa-De Lucena of the World Bank—for a well-organized and extremely interesting trip.
- n Following notes capture impressions obtained during study tour—comments welcome.



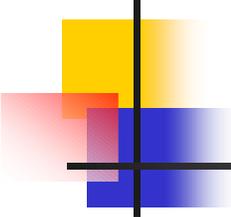
Introduction

- n Malawi's interest:
 - n Malawi preparing land reform project along the lines of the demand-driven approach piloted in Brazil and South Africa.
 - n Malawian project is important for the Bank's land reform strategy, because it has obtained an exception to the Bank's previous practice of not funding land acquisition.
- n South Africa's interest in Brazil's experience:
 - n Both countries are among the most unequal in the world.
 - n Both countries suffer from a violent history associated with the "land question".
 - n Both countries are determined to find a peaceful solution to this land question as a matter of political, social and economic priority.
 - n Both countries started "negotiated, market-assisted" land reform programs in the mid 1990s.
 - n Both countries have reviewed these programs around the same time (1999-2000) and have now put successor programs in place.



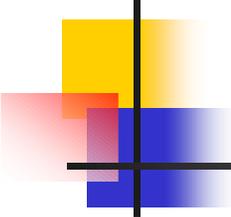
Brazil's land problem

- n High inequality
 - n 44,000 large farms, 155 m ha, 50% of arable land
 - n 384,000 farms, 32,1%
 - n 2.75 m farms, 18,9%
- n 21% of population is rural
 - n Rural incidence of poverty is double that of urban areas—52% of rural population is poor
 - n 48% of the poor live in rural areas (16.5 m people)
- n But 60% of farm land under-used, while 4.5 million rural households with little or no land
 - n It is estimated that about 1.5 to 2.3 m families have the desire and ability to become family farmers
- n History of (sometimes violent) land invasions and confrontation between land owners and landless people
 - n Since 1985, 1,100 labor leaders and peasant activists killed



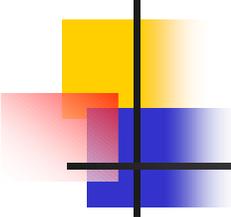
Rationale for land reform

- n Social stability and equity
- n Efficiency:
 - n Agricultural census 1996 shows that family farms in the Northeast are more efficient and labor-intensive than large farms
 - n Investment cost of industrial job is much higher than family farm job
- n Macroeconomic conditions improving during 1990s—supply of land up, price down:
 - n Agricultural credit subsidies reduced
 - n Inflation low, but real interest rates high—reduced price of land
- n Land reform integral part of National Poverty Reduction Strategy



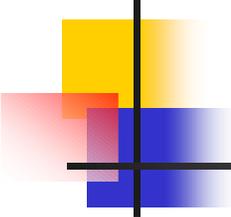
Political background

- n Cardoso Government (center-left/right coalition) came to power in 1995
- n And social movement of landless people (MST) put pressure on Government to deliver land
- n Cardoso put land reform high on the agenda:
 - n Created Ministry for Land Reform (now transformed into Agrarian Development)
 - n Obtained increase in land reform budget (from US\$0.4 b in 1994 to US\$2.6 b in 1997)
 - n Improved legal and administrative framework for federal expropriation program
 - n E.g. made President of Federal Land Reform Institute (INCRA—the implementing agency) a professional appointment, instead of a political appointee
 - n Supported the extension of a World Bank-supported negotiated land reform program in State of Ceara to other States



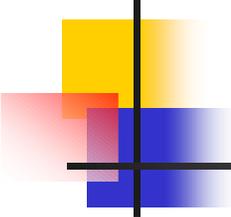
Two social movements...

- n MST—the Landless Rural Workers’ Movement
 - n Movimento dos Trabalhadores Rurais Sem Terra
- n CONTAG—labor union confederation
 - n Confederacao Nacional dos Trabalhadores na Agricultura
- n These two movements:
 - n have quite distinct constituencies
 - n formally or informally associate themselves with different land reform programs
 - n have different views about the appropriate strategy to implement land reform



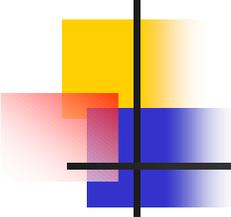
1. MST

- n Claims that 250,000 families have won land titles to over 15 million ha after MST land takeovers, since 1985
- n Stresses the violent past of land reform and the conflict with landowners:
 - n In the past 10 years, more than 1000 people have been killed as a result of land conflicts in Brasil.
 - n But prior to August 1999, only 53 of the suspected murderers have been brought to trial.
- n Currently, about 70,000 families are waiting to be regularized on invaded land, according to MST
- n MST favors invasions and expropriation as the appropriate land reform strategy



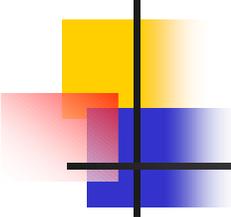
2. CONTAG

- n National Confederation of Agricultural Workers, state-level federations, and local unions—represents movement of farm workers, small tenants and sharecroppers, squatters and small land owners
 - n In the State of Pernambuco, the union seems to draw its members from previously retrenched, unionized sugar-cane workers
- n Claims to represent 20 million members
- n A significant proportion of its members are currently already on the land as sharecroppers, but majority are farm workers
- n CONTAG favors a less confrontational strategy of land reform, including negotiated land reform



...and two land reform programs

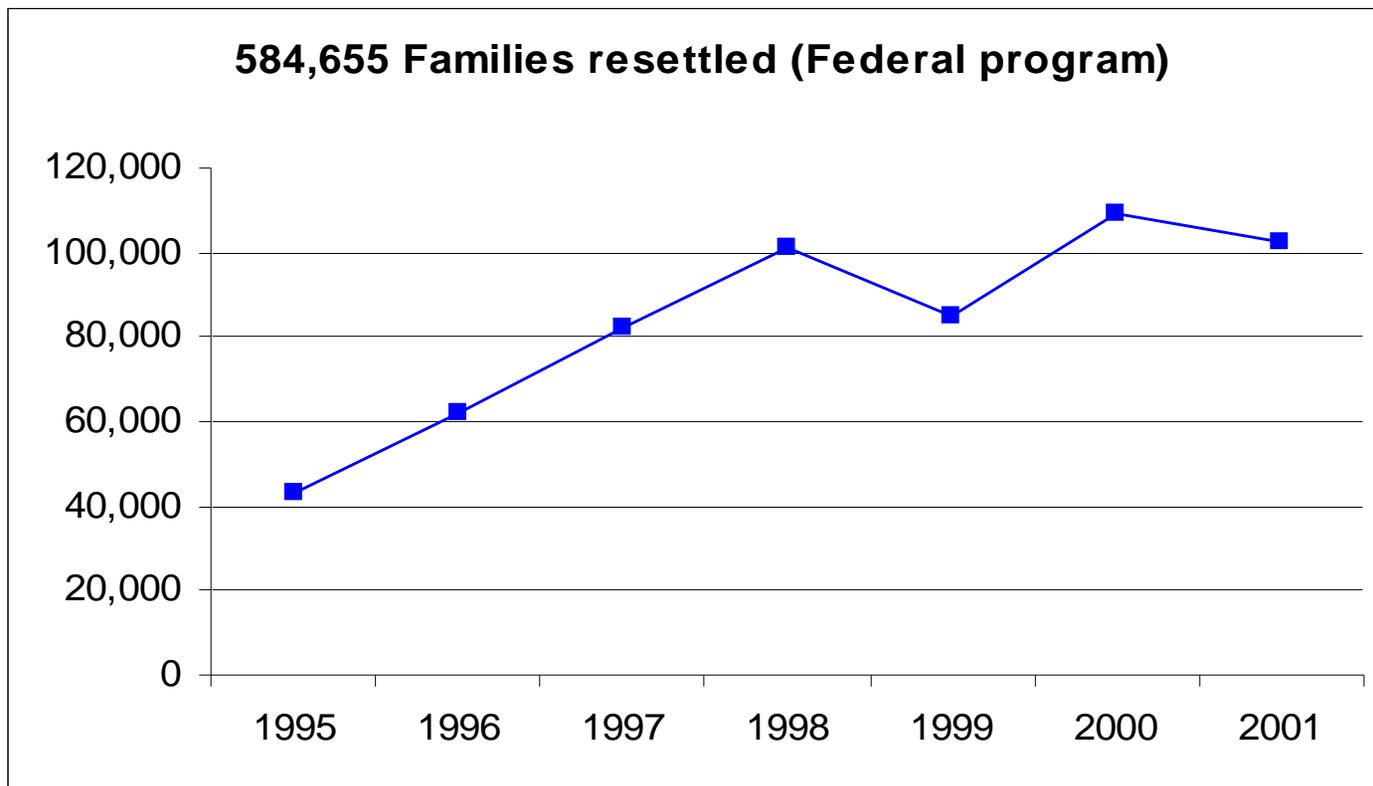
- n Federal Program:
 - n Administered by Federal Land Reform and Colonization Institute (INCRA)
 - n Federal Minister approves listing of a farm for expropriation
 - n Compensation method:
 - n Government bonds for compensation for land
 - n Cash for improvements
 - n Has an informal relation with MST, but also CONTAG and other groups:
 - n To help identify farms and beneficiaries
 - n Note: but once a farm has been invaded, INCRA cannot expropriate it for 2 years to discourage land invasions
- n State programs, assisted by World Bank:
 - n Administered by participating states
 - n Compensation method:
 - n voluntary agreement between owners and beneficiary associations
 - n But price agreed is evaluated by Government and civil society (including CONTAG)
 - n Has a formal partnership with CONTAG to screen farms and beneficiaries



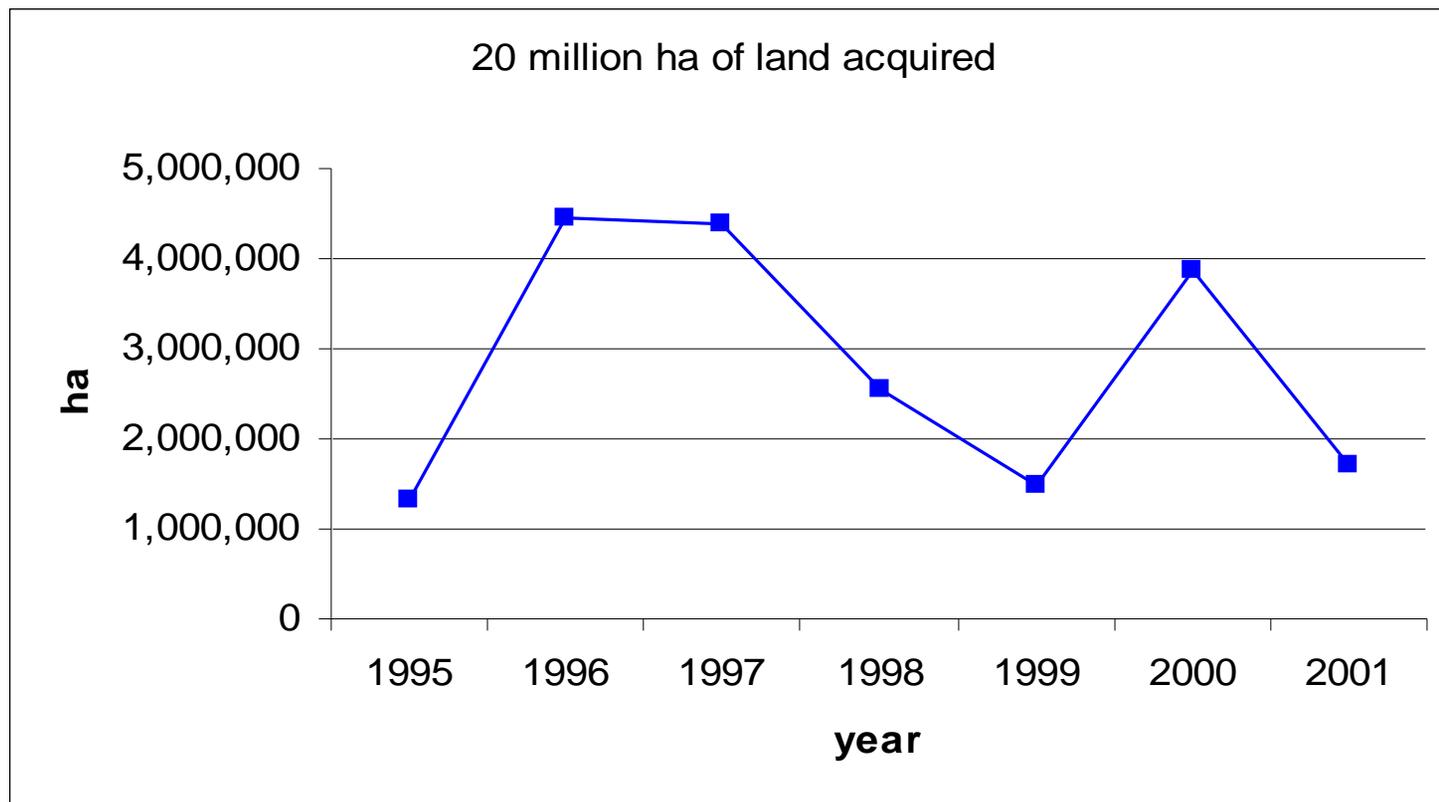
Federal Program: key facts and figures

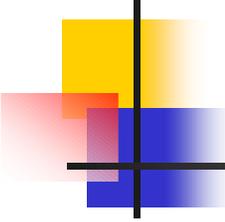
- n Substantial progress in the seven years since 1995:
 - n over 580,000 families resettled;
 - n on nearly 20 million ha
 - n At a cost of R\$13.2 billion (US\$4.8 b), or US\$22,577 per family
- n Compared to lackluster performance in the 30 years before 1995:
 - n Only 218,033 families resettled
 - n On about 10 million ha
 - n And survey in 1995 found that only 60% of land reform beneficiaries were actually found tilling the land
- n But MST says that the current national numbers are inflated
- n Owners cannot contest listing per se, but:
 - n 50% of owners go to court and contest valuation
 - n This can raise land expropriation costs significantly

Federal program: number of families resettled



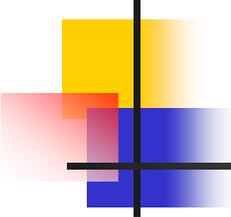
Federal program: Ha's of land acquired





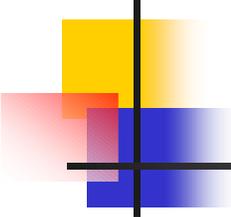
Federal program: expropriation method

- n Farm size above maximum:
 - n Each district has a reference farm size calculated as “15 modules”:
 - n 1 module is defined as the “viable” family farm
 - n Sub-division below half a module is not permitted
 - n Farms up to 15 modules cannot be expropriated
 - n Example: if 1 module is 50 ha, then the reference farm size is 750 ha
 - n If a farm is above that reference farm size and declared “unproductive”, the Government could expropriate it
 - n And farm “unproductive”:
 - n Deduct area that cannot be cultivated (e.g. rocky land), e.g. 30%
 - n 80% of the remaining 70% has to be cultivated at the average yield for that district
- n Threat of expropriation provides incentive to land owner to cultivate intensively, but not through sharecroppers, who may push for expropriation



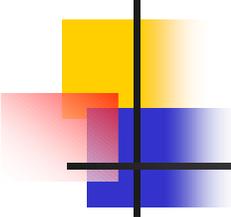
Federal program: example of costs involved per family

n	Land	R\$10,000
n	Start-up grant	R\$1,400
n	Housing	R\$2,500
n	Infrastructure	R\$2,000
n	Topography	R\$400
n	<u>Development plan</u>	<u>R\$100</u>
n	Sub-total	R\$16,400
n	Loan terms: 20 years, 3% interest, 50% discount if on-time repayment	
n	Loan (PRONAF dev.)	R\$13,000
n	Loan terms: 10 years, 3 years grace, 4% interest, 40% discount if on-time repayment	
n	Total	R\$29,400
n	<u>Note</u> : 1 US\$ was about 2.7 R\$ (real)—now 3.1	



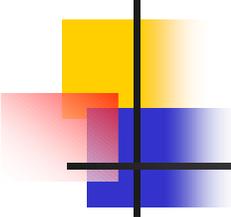
State programs: key facts and figures

- n Negotiated, market-assisted program first piloted in State of Ceara (US\$10m) as component of Ceara Rural Poverty Alleviation Project
 - n 700 families; 23,377 ha; R\$11,657 per family
- n Then extended as self-standing Land Reform and Poverty Alleviation Project to four other states in Northeast Brazil (US\$150 m)
 - n 17,000 families
 - n 442,000 ha
 - n Cost per family: R\$11,200
- n Now to be extended to 14 states
 - n At a cost of US\$436m of which US\$200 m is World Bank (IBRD terms) loan
 - n Goal: 50,000 families in 3 years
 - n Self-targeting approach to rural poor: empirical surveys show that the approach typically reaches a household which is at 72% of the minimum wage, and obtains half its income from farming
- n Note: Coordination of the State programs is done by a Technical Unit at the Federal level—more information on its role needed.



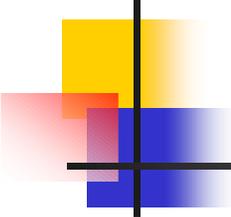
State programs: success factors

- n According to State officials:
 - n Group organizational capacity
 - n History important—groups specifically created to benefit from the project are less successful
 - n Farming experience
 - n Experience as sharecroppers
 - n Negative: non-farm jobs
 - n Technical assistance quality



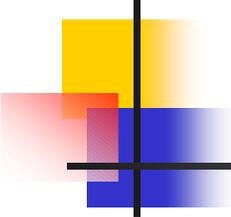
State of Ceara

- n Land reform programs:
 - n Federal (INCRA) expropriation—700,000 ha for 20,000 families in seven years
 - n State negotiated (World Bank-assisted)
 - n Ceara was where the initial Bank project was piloted
- n Rich history of community associations
- n Labor unions (members of District Councils) provide the “social capital” for land reform beneficiary associations
- n Typical beneficiary group:
 - n Association of 10-20 families



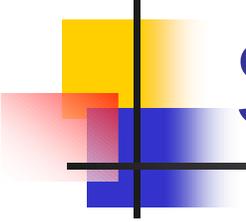
State of Pernambuco

- n Pilot project (1997-2000)
 - n 93 farms, 2,107 families
- n Difficulties encountered:
 - n Limited participation of labor unions initially—created mistrust
 - n Artificially created associations—increases rate of failure
 - n “associative” behavior very important
 - n High price of land
- n Complementarity with federal program deemed important
- n Conducted evaluation with participation of labor unions



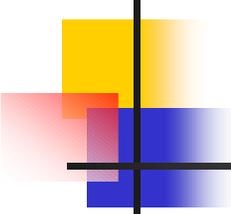
Lessons learned and now applied

- n Associations first screened by District Screening committees:
 - n Labor Unions and civil society
- n Then technical evaluation
- n State Committee for Sustainable Rural Development now approves projects:
 - n broader partnership/ownership—includes civil society
- n Target for 2002: 100 farms, 1,680 families



Project Cycle: State of Pernambuco

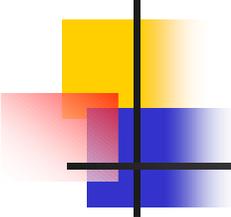
- n Total subsidy per beneficiary family:
 - n R\$15,000; or about US\$6,000
- n Two parts:
 1. Land acquisition:
 - n on credit: 20 years, 3 years grace, 6% interest—commercial rate 8.5%, inflation 4%
 - n Bonus for on-time repayment: interest rate halved
 2. Sub-projects:
 - n complementary investments in social infrastructure
 - n Grant, but with 10% own contribution
 - n Start-up grant in first year of R\$1,500
 - n Technical Assistance (TA) to prepare sub-projects and do follow-up: not to exceed 8% of total project cost



1. Land Acquisition—summary

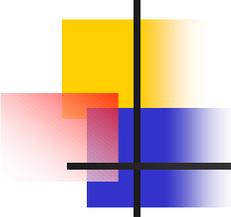
- n Beneficiaries:
 - n initial proposal
- n District Committee:
 - n screens proposal
- n State Technical Unit:
 - n prioritization and field visit
 - n Approval of association
- n State Land Institute:
 - n farm valuation
- n State Technical Unit:
 - n Oversees negotiations with owner
 - n financing proposal

- n State Committee on Sustainable Rural Development:
 - n Approval of financing proposal
- n State Attorney:
 - n Legal opinion
- n Banco de Nordeste:
 - n Final list of beneficiaries
 - n Transfer of mortgaged title deed



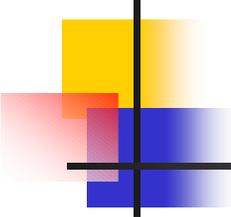
Beneficiaries: Initial proposal

- n Group (self-selected) presents initial proposal for:
 - n Association (existing or to be formed):
 - n List of members, unionized, collective statement
 - n History of group
 - n Farm:
 - n Farm identified
 - n Owner willing to sell
 - n General farm plan



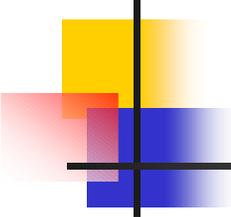
District Committee: Screening of proposal

- n Beneficiaries present proposal to District Screening Committee
 - n composition: 75% labor union and civil society; 25% Government
- n which checks within 20 days:
 - n Association:
 - n List of members, unionized, collective statement
 - n History of group
 - n Farm:
 - n Owner, location, cadastral number, description of infrastructure
 - n Area: below reference farm size (15 modules)
 - n Owner's declaration of willingness to sell
 - n Farm asking price
 - n General farm plan
- n Outputs:
 - n District committee writes an opinion to State Technical Unit
 - n Two labor unions each issue a report



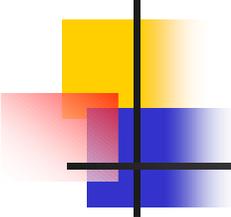
State Technical Unit: prioritization and field visit

- n Prioritization:
 - n receives District Committee's opinion, identifies any existing impediments, calls in other organizations if necessary
 - n establishes degree of priority
- n First field visit to:
 - n evaluate:
 - n Group cohesion
 - n Farm
 - n Asking price
 - n Initial proposal for use of farm
 - n Inform association of the rules of the program
 - n Draw up list of members to be sent to Banco de Nordeste (which will facilitate the land transfer later) for screening (history of credit repayment)



State Technical Unit: Approval of association

- n STU makes final decision based on its evaluation of:
- n Association
 - n Eligibility of members
 - n Understanding of financial arrangements
 - n Type of assistance needed to design the “sub-projects” (complementary investments)
 - n Legal steps necessary
- n Farm:
 - n Assistance needed for further price negotiations
 - n Initial proposal of farm and business use:
 - n Technical and economic viability
- n Output: approval or disapproval (within x days of receipt of proposal)



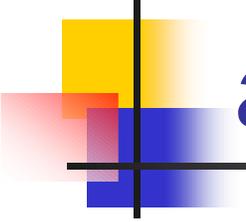
State Land Institute: Valuation of farm

- n If STU approves, State Land Institute:
 - n Does field visit to evaluate the price of the property (land and improvements)
 - n Land valuation is done by averaging open market transactions
 - n This sets an upper limit to the subsequent price negotiations, because mortgage cannot exceed the official valuation
- n Output: valuation report

State Technical Unit: negotiations

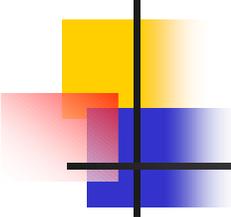
- n If valuation report equal or below asking price, STU:
 - n Oversees final negotiations with owner, knowing that beneficiaries “entitlement” is R\$15,000 per family
 - n And trying to keep land cost to 50% or less of total cost to increase credit repayment success





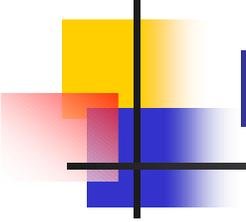
State Technical Unit: agreement on farm price

- n STU:
 - n Oversees final negotiations between owner and association
- n Output: financing proposal



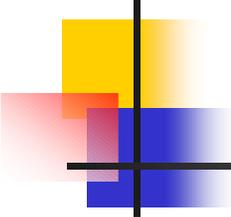
State Committee: approval

- n Financing proposal goes first to “Operations Committee” for approval
 - n Seems not necessary (legacy issue)
- n State Committee on Sustainable Rural Development:
 - n Composition: State Land Institute, Federal Land Institute (INCRA), Federation of Trade Unions, civil society (NGO rep.), Churches), State Technical Support Team.
 - n Asks State Technical Support Team to prepare decision
- n Output: approved financing proposal



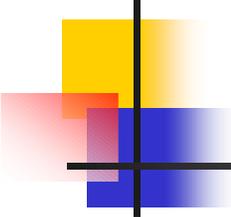
State Attorney: legal opinion

- n STU:
 - n prepares documentation for land transfer
 - n Asks legal opinion from State Attorney
- n Output: State Attorney issues legal opinion
- n STU sends final proposal to Banco de Nordeste



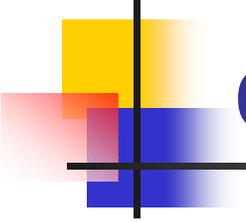
Banco de Nordeste: concludes transfer of ownership

- n Bank (for a ½% banking fee):
 - n Checks credit record of each member of the association
 - n if bad, member needs to be replaced
 - n Pays the owner the agreed price
 - n Facilitates transfer of ownership between owner and association
 - n Mortgages the land:
 - n 20 year credit
 - n in the name of the association
- n Outputs:
 - n Final list of beneficiaries, and registration of association as a legal entity
 - n transfer of mortgaged title deed to association (transfer fees paid by STU)



2. Sub-projects

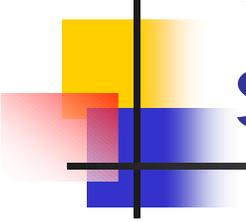
- n STU disburses funds to Association in blocked account
- n Association submits sub-project proposals
- n STU appraises and unblocks account
- n Association implements and accounts for use of funds
- n Association becomes eligible for production loans



State Technical Unit: disburses funds to Association

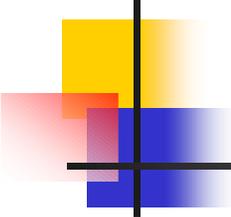
- n STU:

- n Authorizes release of remainder of funds to Association for:
 - n Start-up grant (R\$1,500 per family)
 - n Sub-projects, but in a blocked account with Banco do Brasil



Association: submits sub-project proposals

- n Association:
 - n Engages consultant to prepare a sub-project :
 - n Accredited list with STU
 - n Design fees equal or less than 4% of a particular sub-project's value
 - n Follow-up fees equal or less than 4%
 - n Obtains three bids
- n Output: sub-project proposal with three bids



State Technical Unit: unblocks account to finance a sub-project

- n STU:

- n Appraises sub-project proposal

- n Evaluates bids

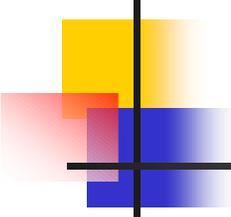
- n Approves it, unblocks account:

- n Sometimes in tranches:

- n 50% up-front

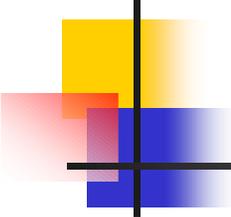
- n 50% after field visit (“physical audit”)

- n After deducting 10% own contribution



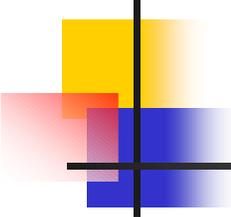
Association: implements sub-projects

- n Association:
 - n Implements sub-projects
 - n Accounts for use of funds
- n STU:
 - n Field visit: physical audit
 - n Evaluates accounts: financial audit
- n Output: Association becomes eligible for production loans (PRONAF):
 - n Maximum of R\$13,000 per family
 - n Terms:
 - n 10 years, 3 years grace, 1.14% interest
 - n On-time repayment triggers 50% discount



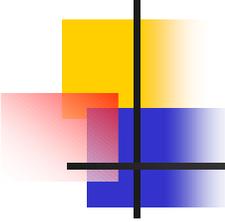
Project Cycle—some notes

- n Fiduciary responsibility of public funds:
 - n Involves nine decision points
 - n Includes physical and financial audit
- n Association is responsible for the repayment of the mortgage
 - n Prohibits sub-division until mortgage is fully paid
 - n Puts premium on association's capacity to coordinate repayment of collective loan
 - n Most associations visited had set aside some form of collective production activity to repay the loan
 - n Makes it difficult to exit, and accommodate new members and children
- n Land is on credit, infrastructure is grant
- n Initial emphasis is generally on social infrastructure (housing), production comes later



Summary

- n Federal and State Programs complement each other in terms of:
 - n farms targeted
 - n beneficiaries targeted
 - n Partnering with the two social movements
 - n production model targeted
- n Need: comparative economic and fiscal impact evaluation (currently under way)



Additional support captured?

- n Example 1: project visited
 - n 24 families (brothers, cousins)
 - n Settlement was started under Federal program, then continued under State program
 - n Project grant: $24 \times R\$15,000 = R\$360,000$
 - n Land: R\$174,000
 - n Other support (various sources):
 - n R\$134,400 in grants, or R\$5,600 per family
 - n R\$197,000 in loans, or R\$8208 per family
- n Example 2: project visited
 - n 35 families
 - n R\$450,000 in additional grants; or R\$12,857 per family
 - n R\$245,000 in additional loans R\$7000 per family
- n Are these additional costs incorporated when comparing the fiscal costs between the Federal and State Programs?

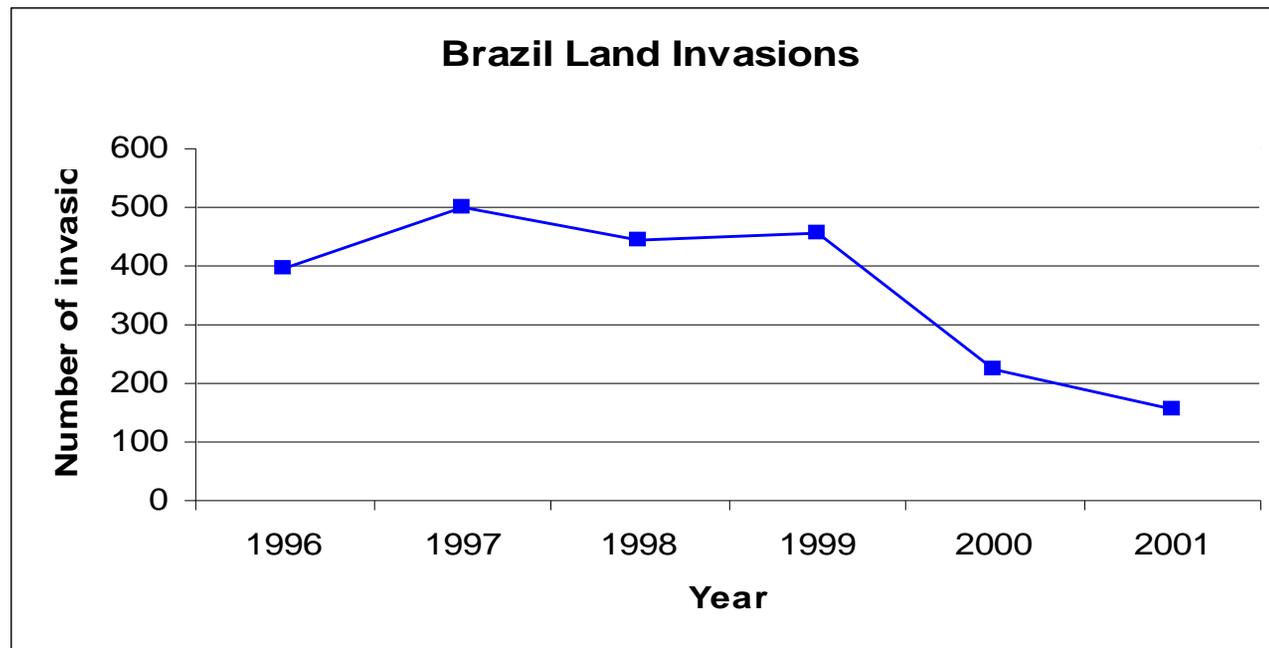
Two Programs Compared

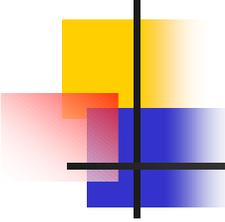
Pernambuco

Pernambuco	State program	Federal program
<i>Executing agency</i>	State	INCRA
<i>Land acquisition</i>	Voluntary sales	Expropriation--compensation: soil, on bond at below market interest rates; improvements, cash
<i>Main target group</i>	Tenants, landless laborers, small land owners	Landless laborers
<i>Annual target (families)</i>	1,200	2,000
<i>Main selection criteria</i>	History of association; farm	
<i>Civil society partners</i>	Unions (tenants, farm workers)	Brazilian Landless Workers Movement (MST)
<i>Application method</i>	Self-selected associations	Individual application through Post
<i>Identification of farm</i>	Beneficiaries (with help from Labor Unions)	INCRA (with help from MST)
<i>Valuation of farm</i>	Private negotiation, evaluated by Unions and INCRA valuers	INCRA valuers
<i>Farm characteristics</i>	below maximum farm size productive	above maximum farm size unproductive
<i>Transfer of ownership</i>	direct between seller and buyers	becomes INCRA property until "maturity" (then transfer of title)
<i>Sub-division</i>	prohibited under credit	is immediately sub-divided
<i>Credit (farm and infrastructure)</i>	farm: 20 year group credit (20 years, 3 years grace, 6% interest) infrastructure: free, but with 10% own contribution	farm and infrastructure on credit to individual 20 years, 3% interest, 50% discount if on-time repayment; but on-time repayment triggers 50%
<i>Total costs</i>	estimates it is 40% cheaper	estimates it is about the same

Impact

- n The two land reform programs together seem to have made a positive impact on the reduction of invasions and violence on the farms

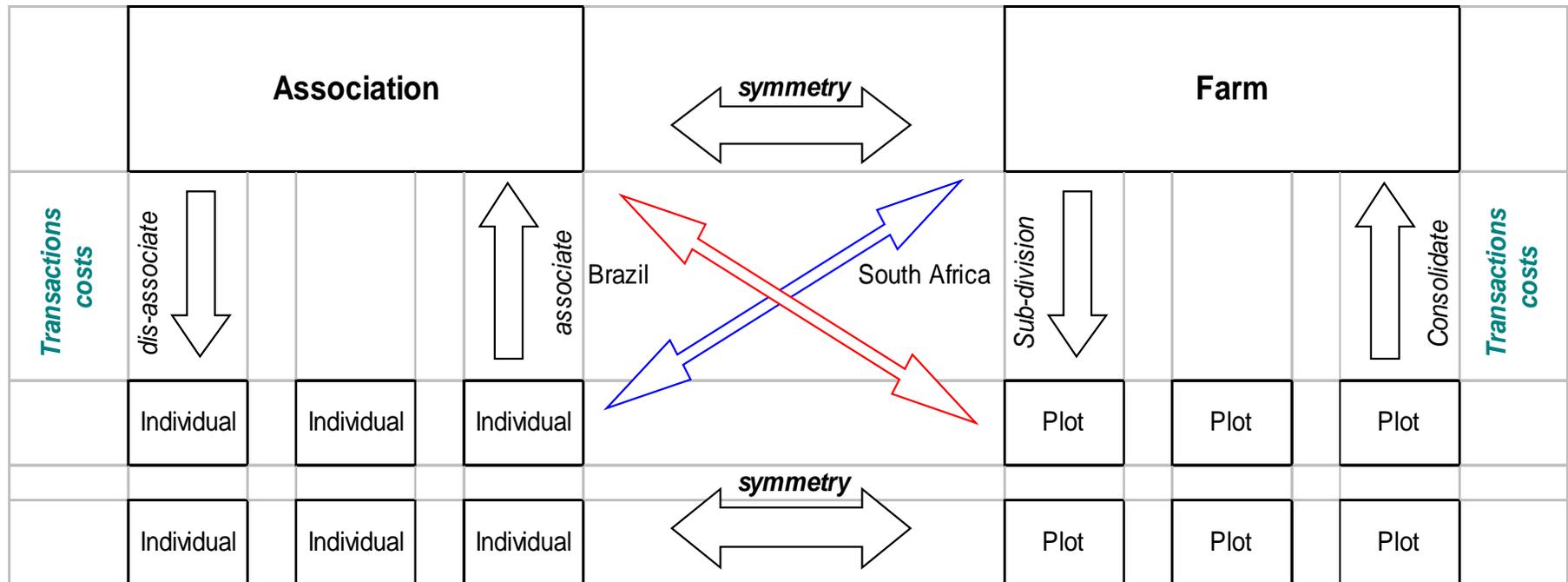


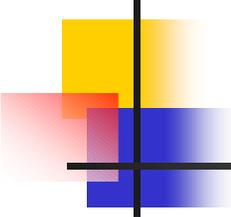


Transactions Costs

- n Each program imposes different transactions costs on the beneficiaries
 - n In terms of the grant/loan structure
 - n Federal: individual responsibility
 - n State: group responsibility
 - n In terms of the farm models
 - n Federal: individual
 - n State: individual and group/collective
- n This imposes different transactions costs and “asymmetries” on beneficiaries when they want to “exit” one group and farm model and “enter” another
- n Note: South Africa presents another form of asymmetry between grants (individual) and farms (usually not sub-divided)

Transactions Costs of Asymmetry Between Financial and Property Rights





Points for discussion

- n Complementarity/convergence of the two approaches?
- n Costs assessment
 - n Is there scope for even cheaper options?
- n Loan repayment performance and its impact on incentives, governance structures, and costs
- n Role of communities and local governments in training and broader capacity building
- n Scope for a more integrated approach?
- n Evaluation exercise results: lessons for other countries very important
- n Lessons for South Africa?