

**Document of  
The World Bank**

**Report No: 16342-BR**

**PROJECT APPRAISAL DOCUMENT**

**ON A**

**PROPOSED LOAN**

**IN THE AMOUNT OF US\$90.0 MILLION EQUIVALENT**

**TO THE**

**FEDERATIVE REPUBLIC OF BRAZIL**

**FOR A**

**LAND REFORM AND POVERTY ALLEVIATION PILOT PROJECT**

**April 3, 1997**

Natural Resources, Environment and Rural Poverty Division  
Country Department I  
Latin America and the Caribbean Region

**CURRENCY EQUIVALENTS**  
(Exchange Rate Effective January 1997)

Currency Unit = Real (R\$)  
R\$1.04 = US\$1.00  
US\$0.96 = R\$1.00

**FISCAL YEAR**

January 1 - December 31

**ABBREVIATIONS AND ACRONYMS**

BB	- Bank of Brazil
BNB	- Bank of the Northeast of Brazil
CAS	- Country Assistance Strategy
ICB	- International Competitive Bidding
IERR	- Internal Economic Rate of Return
INCRA	- Federal Land Reform Agency
LSMS	- Living Standards Measurement Survey
MEPF	- Minister of Agrarian Reform
MIS	- Management Information System
NCB	- National Competitive Bidding
NGO	- Non-Governmental Organization
NRDP/PAPP	- Northeast Rural Development Program
PROCERA	- Credit Program for Land Reform Beneficiaries
STU	- State Technical Units
TDA	- Agrarian Reform Government Bond

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**Brazil  
Land Reform and Poverty Alleviation Pilot Project**

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

Latin America and the Caribbean Regional Office  
Country Department I

**Project Appraisal Document**

Brazil  
Land Reform and Poverty Alleviation Pilot Project

<b>Date:</b>	April 3, 1997	<input type="checkbox"/> Draft	<input checked="" type="checkbox"/> Final
<b>Task Manager:</b>	Luis O. Coirolo	<b>Country Director:</b>	Gobind T. Nankani
<b>Project ID:</b>	6475	<b>Sector:</b>	Agriculture
<b>Lending Instrument:</b>	Specific Investment Loan	<b>PTI:</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Project Financing Data	<input checked="" type="checkbox"/> Loan	<input type="checkbox"/> Credit	<input type="checkbox"/> Guarantee	<input type="checkbox"/> Other
<b>Amount (US\$M):</b>	US\$90.0 million			
<b>Proposed Terms:</b>	<input checked="" type="checkbox"/> Multicurrency Grace period: 5 years Years to maturity: 15 years Commitment fee: 0.75% on undisbursed balances, beginning 60 days after signing.	<input type="checkbox"/> Standard Variable	<input type="checkbox"/> Single currency <input type="checkbox"/> Fixed	<input type="checkbox"/> LIBOR-based
<b>Financing plan (US\$M):</b>	<u>Source</u>	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
Federal Government		45.0	0.0	45.0
State Governments		6.6	0.0	6.6
Beneficiary Communities		8.4	0.0	8.4
IBRD		69.9	20.1	90.0
<b>Total</b>		129.9	20.1	150.0
<b>Borrower:</b>	Federal Republic of Brazil			
<b>Guarantor:</b>	N/A			
<b>Responsible agencies:</b>				
• The Federal Minister for Agrarian Reform				
• State Governments of Bahia, Ceará, Maranhão, Minas Gerais, and Pernambuco				
<b>Estimated disbursements (Bank FY/US\$M):</b>	1998	1999	2000	2001
Annual	19.0	31.5	25.5	14.0
Cumulative	19.0	50.5	76.0	90.0
<b>Expected effectiveness date:</b>	July 31, 1997		<b>Closing date:</b>	June 30, 2001

**Block 1: Project Description**

**1. Project development objectives** (see Annex 1 for key performance indicators): The project seeks to reduce rural poverty in Northeast Brazil by: (i) increasing the incomes of about 15,000 poor rural families through improved access to land and participation in complementary, demand-driven community subprojects; (ii) raising the agricultural output of lands included in the project; and (iii) pilot testing a market-based approach to land reform in which beneficiaries obtain financing for the purchase of suitable properties negotiated directly between rural communities and willing sellers and which, if successful, will enable the Government to greatly accelerate the pace and lower the cost of its programs to improve land access by the rural poor throughout the Northeast and elsewhere in Brazil.

**2. Project components** (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown): To achieve these objectives, the project would finance the purchase of land by rural community associations; civil works, goods and materials for complementary community subprojects for the same beneficiary group; consulting services and training for the community associations, and public dissemination of information about the project; project administration, supervision and monitoring by the States; and project impact evaluation at the Federal level.

Component	Category	Indicative Costs (US\$M)	% of Total
a) Land Purchase Account (land purchases for 15,000 poor farm families)	Physical (Land)	45.0	30.0%
b) Community Subprojects (small grants to communities for investments, technical assistance and start-up)	Physical (Civil Works, Goods and Materials)	84.3	56.2%
c) Community development support and strengthening (technical assistance and training at the State level)	Institution-building	3.9	2.6%
d) Project administration, supervision and monitoring (State level)	Project Management	10.1	6.7%
e) Impact evaluation and dissemination by Federal Government	Other	6.7	4.5%
	<b>Total</b>	<b>150.0</b>	<b>100.0%</b>

**3. Benefits:**

- The main project benefit will be the sustainable increase in the incomes and quality of life of about 15,000 poor farmer families previously without land or with insufficient land for subsistence.
- In addition to the poverty alleviation effect, the project will generate economic benefits in the form of increased agricultural output on the lands that are being acquired by beneficiaries.
- The project will pilot a new approach to land reform which, if successful, will allow the Government to accelerate plans to serve about 100,000 families per year in a cost-effective and sustainable manner.

**Target population:**

- The pilot project is targeted at poor farmers without land, or with land insufficient for subsistence, in five States of Northeastern Brazil. While there is no detailed and reliable study available on the total number of potential candidates for land reform projects in Brazil, a recent FAO publication cites 2.5 million families as a rough estimate of the total target population for land reform projects in Brazil.

**4. Institutional and implementation arrangements:**

**Implementation Period:** Four years

**Executing Entities:**

- Community associations (consisting of rural workers who do not own land or own land insufficient for subsistence) themselves would select suitable lands and negotiate the purchase of those lands with willing sellers.
- Communities present the owners' declaration of willingness to sell at a specified price to the State Land Institute and request confirmation that: (a) the title to the land is clean, and no other condition threatens the effectiveness of the land purchase; and (b) the negotiated purchase price is consistent with market conditions.
- Communities present their land purchase proposal to the State Technical Unit (STU) of the respective State's Northeast Rural Development Project (NRDP/PAPP), which would verify the eligibility of the beneficiaries.

- With the clearance by the State Technical Unit, communities are eligible for credit from the land account which is created from Federal Government budget resources and administered by the Banco do Nordeste do Brasil (BNB).
- Communities internally decide on land allocation to their individual members and the corresponding payment obligations.
- Communities that participate in the land purchase component would be eligible to present to the State Technical Unit proposals for the financing of complementary community subprojects and technical assistance to establish the settlement and improve the productivity of the acquired land (physical and social infrastructure, as well as productive community investments).
- Community labor and land would constitute the counterpart contribution by the community.
- Within the agreed Annual Operating Plan, States would be able to directly transfer funds from the State sub-account of the Bank loan special account at the Banco do Brasil (BB) to the respective communities' accounts.

**Project Coordination:** State Technical Units will: (a) carry out the appraisal of community subprojects in compliance with the project guidelines and eligibility criteria contained in the Project Operational Manual; (b) assess community participation in the identification, preparation and execution of subprojects and quality of technical assistance; (c) supervise the quality of overall project implementation through field supervision and through the Management Information System (MIS); (d) implement public information campaigns to disseminate information about the project; (e) be responsible for meeting and reporting on the project performance indicators; and (f) be responsible for annual implementation and physical performance reviews, and the preparation of the project Annual Operating Plans.

**Project Oversight:** The Office of the Minister of Agrarian Reform will delegate project implementation to the participating States, but will retain the power to approve the Annual Operating Plans for the Project and the respective resource allocations per State. The Office of the Minister will also be responsible for overall project impact evaluation and dissemination of the experiences gathered.

**Accounting, financial reporting and auditing arrangements:** The Special Account and the project accounts will be established, maintained and audited annually in accordance with appropriate auditing principles, by independent auditors acceptable to the Bank. Certified copies of the audited accounts and of the auditors' reports would be provided to the Bank within six months of the end of each financial year. The audit reports would convey the auditor's opinion and comment as necessary on the methodology employed in the compilation of the statements of expenditure, their accuracy, the relevance of supporting documents, eligibility for financing in terms of the project's legal agreements and standards of record keeping and internal controls related to the foregoing. With respect to withdrawals on the basis of SOEs, such audits would contain a separate opinion as to whether the SOEs, together with the procedures involved in their preparation, support the related withdrawals.

**Monitoring and evaluation arrangements:** The project monitoring will be based on a Management Information System (MIS) operated and maintained by the STUs. The project MIS is a data base organized in three general levels: (a) a subproject information module, which contains pertinent physical and financial information for each subproject; (b) a financial management module, from which Statements of Expenditure (SOEs) are generated; and (c) a project management module, from which all project reports are generated. Using the information from the MIS, combined with field visits and inputs from project supervision reports, project contracted studies and audits, STUs would monitor project characteristics and trends, identify implementation problems and accomplishments and undertake or promote appropriate actions to improve project implementation. Impact evaluation studies will be done on a comparable basis for the pilot market-based land reform program financed by the Bank, for the regular Government administrative agrarian reform and settlement programs. Impact evaluation would be based on panel data sets, including a baseline in year 0 and periodic resurveys in 1, 2, 5, 10 and 20.

## Block 2: Project Rationale

<p><b>5. CAS objective(s) supported by the project:</b> The project is consistent with the Bank's Country Assistance Strategy (CAS) for Brazil, which identifies poverty reduction as the central objective of the Bank's assistance efforts. The Northeast region, where the project will be located, holds the largest concentration of rural poor in both Brazil and Latin America generally. The CAS recommends specific anti-poverty policies and emphasizes the importance of decentralization and shifting of expenditure and implementation responsibilities from the Federal Government to the States, municipalities and local communities.</p>	<p><b>Document number and date of latest CAS discussion:</b> 14569-BR, June 29, 1995; Progress Report, June 20, 1996</p>
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## 6. Main sector issues and Government strategy:

### a) Rural Poverty:

- Poverty in Brazil has a strong rural and regional dimension. About 50 percent of the Brazilian poor live in rural areas, and the incidence of poverty among the rural population is more than double that in large cities and urban areas. The Northeast Region, covering nine states and part of a tenth, accounts for 19% of Brazil's total land area and almost 30% of its 148 million population (1993). More than half of all Brazilian poor, and almost two-thirds of the country's rural poor, live in the Northeast where, according to the World Bank's "Brazil: Poverty Assessment," annual per capita incomes of rural inhabitants reach only US\$230 (less than one-tenth of the national average).
- Among the underlying causes of rural poverty in the Northeast is the relatively poor resource base in large parts of the region and variable agro-climatic conditions, which make the region vulnerable to drought. Skewed land distribution and the virtual absence of a functioning rural financial system for the poor are additional constraints. Northeast agriculture is characterized by limited input use and slow rates of technology adoption. Productivity is low, with output per farm worker less than half that of other regions. Overall Northeast agricultural GDP growth was negligible during 1991-1994.
- The Government's poverty alleviation strategy for the Northeast is linked to an overall strategy for overcoming the constraints to investment and productivity growth in the agricultural sector, and for expanding off-farm employment opportunities. The Bank-assisted Northeast Rural Development Program (NRDP/PAPP) is the cornerstone of this poverty alleviation strategy. Rural communities are participating in the identification, financing and implementation of subprojects that meet their most pressing needs. This participation increases communities' sense of project ownership and sharpens the subprojects' focus on poverty alleviation. The projects are based on a "matching grant" mechanism linked to beneficiary contributions towards subproject cost. The State Governments are fully responsible for counterpart funding.

### b) Land Distribution:

- Brazil has one of the most unequal distributions of land ownership in the world. Limited access to land and extreme inequality in land ownership are central factors contributing to rural poverty in Brazil. Moreover, studies undertaken in Brazil have shown that family farms are more productive and more labor-intensive than large farms, thus demonstrating that the skewed land distribution limits agricultural productivity and employment. This finding is consistent with studies in other rural labor surplus economies that show significant efficiency gains in small family farms compared to large estates.
- The high land ownership concentration has been the result of several economic distortions (subsidized agricultural credit, high inflation and tax provisions that made land attractive as financial investment) which have driven land prices well above the present value of agricultural returns and made land inaccessible to small farmers. Smallholders' access to credit is often limited by the absence of undisputed titles, creating a further bias in favor of large farms. Rental arrangements contribute little to more efficient farm sizes since tenancy regulations have made tenancy and sharecropping relatively unattractive to owners.
- Past approaches for addressing problems of land distribution in Brazil have focused on Government-administered land reform through expropriation and redistribution. These approaches had limited success. The state-driven approach to land reform has been associated with long delays, high costs, the possibility for abuse, and political conflict. Therefore, the Government is willing to experiment with faster, less costly, and less conflictive approaches to land reform.

## 7. Sector issues to be addressed by the project and strategic choices:

Today there are a series of new conditions, both in Brazil and at the Bank, that create a unique opportunity for tackling this issue with much greater prospect of success:

- Many of the economic distortions affecting the land market have recently been alleviated. Agricultural credit subsidies have been cut drastically, and inflation is at a historic low. These changes have reduced the financial attractiveness of land holdings for non-productive purposes and therefore increased the supply of land and reduced its price. Currently, large tracts of land are available for sale at low prices by owners and banks who hold land as collateral for defaulted farm debt.
- Land conflicts have built up pressure on the Government to decisively address the problems related to skewed land distribution, and have convinced the Federal Government that it needs to act quickly and constructively.
- The Government is eager to experiment with alternative approaches to land reform.
- The success of the new generation NRDP/PAPP projects has established a model for very effective decentralized implementation of rural development projects in the Northeast that can serve as a model and can be used as an institutional framework for a decentralized, market-assisted approach to land reform.

Finally, Bank policies allow for the inclusion of land purchases as counterpart financed project costs.

The proposed project would support pilot testing of a new approach to land reform in five states that have been selected for participation based on the severity of the problem of landless rural workers and prospects for rapid and successful implementation of the pilot project, including the immediate availability of land in the market and the demonstrated implementation capacity of the State Governments under the NRD/PAPP projects.

If the costs estimated for this pilot were representative for the country, and if the actual 1996 budget of the Federal land reform agency (INCRA) was fully spent on the market-based approach, 160,000 families could be settled in one year alone compared to 60,000 families that were settled in 1996.

The proposed project would establish financially fully viable and sustainable family farms. Its cost would constitute only 2.8% of the three-year budget of the Federal Land Reform Agency/INCRA (on fiscal impact see also section 13).

The project would be consistent with the overall development strategy for the Northeast by raising the income of rural poor and raising productivity of small farms, which would be able to generate savings that, if reinvested, would address the current under-investment problem and further increase agricultural productivity in the area.

**8. Project alternatives considered and reasons for rejection:**

- a) Support for an expanded conventional administrative approach to land reform based on Government land appropriations or purchases and subsequent redistribution was rejected, based on the following considerations:
  - net fiscal costs per family almost twice as high
  - Long administrative delays
  - Politically contentious expropriations
  - Frequent selection of unsuitable beneficiaries
- b) Reductions in the inefficiency of large farms through measures to develop the land rental market, for example, through the removal of regulations granting renters extensive tenancy rights is not likely to yield the same benefits because:
  - rental arrangements are less effective in increasing incomes of the beneficiaries in a sustainable form;
  - renters suffer from lack of access to credit that would be available to landowners;
  - experience in other countries suggest that the removal of legal impediments to land rental is insufficient to bring about efficient land rental markets and farm operations of efficient size.
- c) Direct grants to the beneficiaries, not linked to land purchases.
  - This approach would forego the larger benefits that beneficiaries can obtain through the proposed approach, since land is expected to have higher value in the hands of the (family farm) beneficiaries than in the hands of current (large farm) owners. Thus support for land purchases lets beneficiaries accrue the additional efficiency gains of land redistribution and complimentary investments.
  - Brazil's rural financial sector on its own is unlikely to provide long-term financing for land purchases by communities of rural poor.
  - The link with land purchases leads to the self-selection of those poor rural families communities where a one-time financial assistance can be expected to lead to a significant and sustainable increase in income.

**9. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).**

<u>Sector Issue</u>	<u>Project</u>	<u>Latest Form 590 Ratings</u>	
		<u>IP</u>	<u>DO</u>
Local community-based rural development	Northeast Rural Development Project - Pernambuco (2718-BR) (completed, ICR rating)	S	S
	Northeast Rural Development Project - Minas Gerais (2861-BR) (completed, ICR rating)	S	S
	Northeast Rural Development Project - Maranhão (2862-BR) (completed, ICR rating)	S	S

	Rural Poverty Alleviation Project - Bahia (3917-BR) (under implementation)	S	S
	Rural Poverty Alleviation Project - Ceará (3918-BR) (under implementation)	S	S
Land tenure regularization	Northeast Region Land Tenure Improvement Project (2593-BR) (completed, ICR rating)	3	2

**10. Lessons learned and reflected in proposed project design:**

- a) The concept of market-based land reform underlying the proposed project builds upon the extensive lessons of often unsuccessful land redistribution programs in many countries:
  - Avoid excessive subsidies, tax breaks and blanket debt relief for farmers since these benefits are captured by those who own most land; they subsidize inefficient farms which otherwise would (and should) fail; they increase the price of land beyond the reach of the poor; and they create an unsustainable fiscal drain. On the other hand, the removal of agricultural subsidies increases the supply of land.
  - Avoid expropriation and land acquisition by Governments since they create legal disputes and delays, and high administrative costs. Compared to beneficiaries, Governments have a poor record in identifying the most suitable lands. Instead, base land reform on voluntary deals between willing buyers and sellers supported by partial subsidies targeted to poor buyers.
  - Avoid administrative selection of beneficiaries since bureaucrats are not well equipped to identify farmers with the most suitable skills. Instead, local communities should participate in the selection of beneficiaries.
  - Complementary investments in infrastructure are essential for the success of land reform programs.
- b) In Brazil, the specific lessons from the Northeast Region Land Tenure Improvement Project and land titling components of the Northeast Rural Development Projects suggest that:
  - Land redistribution, by itself, is not a solution to rural poverty. Without complementary services and investments to induce technological change, production and income levels will remain relatively low.
  - It is essential to correctly assess the Government's political will to implement ambitious programs to extend the benefits of secure land ownership to a large number of small farmers, improve land policies and administration, and challenge vested interests.
- c) In terms of the delivery mechanism for the project, the lessons learned from the 20 years of project experience with rural development in the Northeast include the following:
  - Decentralization of fiscal and investment decision-making from Federal to state and local governments ensures more efficient project administration. Decentralization of resource allocation and investment decisions to communities should be accompanied by a clearly defined and well-disseminated system of incentives and penalties to discourage the misuse of funds.
  - Poverty targeting mechanisms should be simple, explicit and monitorable; be based on objective criteria; foster transparency and minimize political interference in project resource allocation; and ensure that project resources do reach the poorest communities.
  - Participation in the financing of subprojects generates a sense of ownership and a willingness to share responsibility for the future operation and maintenance of project investments. Therefore, project investments are more sustainable when beneficiaries participate and communities contribute to subproject financing in a cost-sharing arrangement.
  - A widely disseminated and carefully designed publicity campaign is essential to ensure transparency and proper knowledge of the program's objectives and contents by all potential beneficiaries.
  - Technical assistance should be accessible to rural communities to enable them to identify, prepare and implement their own subprojects, thereby augmenting their capacity to compete for investment funds.
  - Standardization of subproject documents, technical designs and unit costs simplifies the subproject preparation and evaluation process, facilitates the procurement of goods and works, prevents overdesign and improves the quality of subprojects, and encouraging greater participation by poorer communities.
  - A well-planned and user-friendly monitoring and evaluation system facilitates the subproject evaluation process, provides feedback and information to improve targeting and efficiency, and is essential for management and planning.

**11. Indications of borrower commitment and ownership:**

- Increasingly, land occupations have generated significant pressure on the Brazilian Government to act rapidly on the existing land tenure problems. In response to these pressures, the Government in early 1996 upgraded the sectoral institutions, designated a Federal Minister for Agrarian Reform and increased the budget for the Federal land reform program (1995: US\$1.3bn; 1996: US\$1.5bn; 1997: US\$2.6bn).
- For the Government, the market-based land reform approach provides the opportunity to respond to landless farmer pressures in a way that is less conflictive than administrative approaches to land reform. The project has been designed in close consultation with the Minister for Agrarian Reform, who personally is strongly promoting the pilot initiative for market-assisted land reform. The Governors of the participating Northeast States have enthusiastically endorsed the project concept throughout project preparation.

**12. Value added of Bank support:**

As the principal donor engaged in a sustained, long-term partnership with the Brazilian Government to address rural poverty issues in the Northeast, the Bank is particularly well placed to support this innovative approach to poverty reduction through improvements in access to land by rural communities. The Bank contributes its experience with the existing implementation mechanism of the NRDP/PAPP projects, which will be used for the proposed project. Bank participation would also make available international experience of past and ongoing programs of land reform, and would ensure the highest international quality standards of monitoring, evaluation and impact evaluation.

**Block 3: Summary Project Assessments (Detailed assessments are in the project file. See Annex 4)**

**13. Economic Assessment:**  Cost-Benefit Analysis :  Cost Effectiveness Analysis:  
NPV = US\$112 million; IERR = 32%

A detailed economic analysis has been performed to quantify the effects of the project in terms of the overall efficiency gains through increasing aggregate agricultural production. The analysis is based on four representative models of typical family farms to be established under the project, representing the different geographic regions within the participating States.

- The different farm models produce IERRs ranging from 26% to 75%, compared to an estimated cost of medium-term Government financing of 16%. The overall project IERR is estimated as 32%. Project economic returns are very robust in a range of alternative scenarios.

**Fiscal impact:**

- The initial fiscal cost per family (excluding PROCERA) of the market-based land reform in the Northeast is estimated at \$8,600 compared to \$16,400 under the currently existing program. The sources of cost savings are: (a) lower land purchase prices as the result of free negotiations between sellers and buyers; (b) lower costs of investments due to community-driven design and community participation in implementation; and (c) the repayment of the land.
- The Government has established fixed targets for the number of families to be accommodated by its land reform program over the next several years. Since the proposed project would significantly reduce the net budgetary cost per family benefiting from land reform programs, it is expected to enable the Government to reach its land re-distribution targets at a net budgetary saving.
- The total project costs over three years (US\$150m) would constitute about 2.8% of the Federal Government's land reform budget over the three year period 1995-97 (US\$5.4bn). If the pilot demonstrates the viability of the market-assisted land reform approach and cost estimates for this pilot were representative for the country, 160,000 families could be accommodated within the 1996 land reform budget (US\$1.5bn, or 0.2% of GDP, or 1.7% of Federal expenditures). Such a program could attend to 1 million families in a little over six years.

**14. Financial Assessment**

- Annual incomes of participating families are expected to rise from about \$1,200 to \$5,000-7,000 (including consumption of subsistence products; equivalent to about four to five minimum salaries) after the repayment of lands, demonstrating the full financial viability of the family farms established under the project.

**15. Technical Assessment:** Detailed farm models confirm the feasibility of the establishment of family farms as foreseen under the project. The implementation of community projects will follow the extensive experience from the NRD/PAPP projects. As part of the matching grants, beneficiaries can receive up to 8% for technical assistance for the preparation and implementation of projects.

**16. Institutional Assessment:**

a) **Executing agencies:**

- Community associations have proven very effective in the implementation of small rural investments under the NRD/PAPP projects. Obviously, the purchase of land and the execution of a larger number of investment subprojects at the same time would entail broader responsibility and larger financing than is typically made available under the NRD/PAPP projects, and therefore technical assistance will be available under the project to assist the community associations.
- Capacity of the State Land Institutes varies. Where capacity is judged insufficient to perform the designated functions, technical assistance will be provided under the project. Alternatively, the functions of the State Land Institutes can be contracted out to experienced private consultants/lawyers.
- The Bank of Brazil has been extremely efficient under the NRD/PAPP projects in passing funds directly to about 20,000 community associations. The Bank of the Northeast, under the ongoing NRD/PAPP for the State of Ceará, has developed the methodology and has successfully started implementation of a land fund component. In addition, BNB's record in collecting debt is acceptable and improving (now, 12.6% of BNB's portfolio are classified as overdue compared to 18.9% in 1994). Default on debt from small farmers is reportedly insignificant. The average default rate in the small farmer credit program for land reform beneficiaries (PROCERA) is about 2%.
- Given the strong personal commitment of the Minister of Agrarian Reform and the fact that a small group has been created, reporting directly to the Minister, effective execution of the impact evaluation and dissemination of lessons activities under the project can be expected.

b) **Project management:**

- Day to day project management is fully delegated to the State Technical Units, which have a proven track record in the implementation of the NRD/PAPP projects.

**17. Social Assessment:**

- Beneficiary targeting would occur at two levels: (a) through eligibility criteria established for participation in the project (landless rural workers or minifundistas with agricultural background); and (b) through a transparent process of project approval at the level of the State Technical Units which will share information with rural workers' unions. While approval would initially be on a first-come first-served basis, a more systematic selection process would be installed after the first year if demand is excessive.
- It is expected that under the proposed projects, most existing communities would purchase lands that are located close to their previous residence or at least in the same geographic region. This would help retain the social community structure and avoid relocation over large distances.
- The full participation of women is critical to the poverty objectives of the project. Bank-supported operations and studies in the Northeast of Brazil show the strong correlation between the problems and needs of rural women and those of producers and family units in general. Interestingly enough, they also show that community leaders in the Northeast favor women's participation due to their willingness to provide assistance and services, receptiveness to change, and greater likelihood of repaying debt. This project will seek to ensure that women's activities (both traditional and innovative) are included; to support subprojects which foster maternal/child health and day care facilities; to target groups and activities in which female participation has proven constructive; to provide technical assistance for women's subproject proposals and implementation; and to monitor women's participation in the project and its benefits.

**18. Environmental Assessment:** Environmental Category  A  B  C

- Because of their relatively small size, most community subprojects would not have a significant effect on the environment. The project would, however, ensure proper environmental screening and enforcement measures, to prevent certain types of productive or infrastructure subprojects from producing negative effects on the environment. The Operational Manual would specify key environmental criteria and screening and enforcement procedures to be followed.
- Based on specific criteria for different subproject types, each subproject proposal presented by the community associations would include a simple environmental assessment in the form of a "checklist", following a standard format. For standard subproject types, environmental screening at the subproject approval stage would be the responsibility of the State Technical Unit. Technical assistance would be contracted for exceptional subproject types, for which technical standards have not yet been developed.

- The project will explicitly exclude the purchases of protected lands or areas with primary forest or with land claims by indigenous people.
- In contrast to conventional land reform projects, which because of lower land costs are often located at or near the agricultural frontier, land purchases under the proposed project will likely occur well within traditional agricultural areas where services are available and markets are near. Therefore, the project is consistent with an overall approach to reduce the pressure on protected areas and primary forests by intensifying land use within the agricultural frontier.

<b>19. Participatory Approach:</b>	<u>Identification/Preparation</u>	<u>Implementation</u>	<u>Operation</u>
Beneficiaries/community groups - all land purchase and complementary investment subprojects will be identified and carried out by community associations.	COL	COL	COL
Intermediary NGOs - may provide technical assistance and facilitate information dissemination about the project to community associations	IS, CON	IS, CON, COL	IS, CON, COL
State/Local government - will consult community associations and NGOs in the planning of project activities, technical assistance and review of implementation	IS, CON, COL	IS, CON, COL	IS, CON, COL
[information sharing (IS); consultation (CON); and collaboration(COL)]			

#### **20. Sustainability:**

Financial analysis confirms the sustainability of the farm operations established under the project. In fact, income increases are sufficient for significant savings and investments that would allow additional medium- and long-term income increases. Additional factors favoring the sustainability of project benefits include:

- Incentives for self-selection of suitable beneficiaries include the requirement to repay the land loan.
- High degree of community participation in identification, preparation, contracting, implementing and supervising subprojects.
- Participation in counterpart funding by beneficiaries is likely to ensure a high level of sustainability of subproject benefits.
- See also section 13 on fiscal impact/sustainability.

#### **21. Critical Risks (see fourth column of Annex 1):**

	<b>Risk</b>	<b>Risk Rating</b>	<b>Risk Minimization Measure</b>
Project outputs to development objectives	• Failure of targeting mechanisms would prevent project from achieving the desired poverty impact	Moderate	• Establishment of transparent beneficiary selection mechanism; refinement of the selection process with representation from rural worker unions and other social groups.
	• Failure of financial sustainability of established family farms	Moderate	• Detailed farm models confirm financial viability. • Financial package for beneficiaries is designed generously (and can probably be tightened in the future based on the experience of the pilot project).
Project components to outputs	• Although Government commitment to the project is currently very high, it may be affected if escalating rural violence undermines a constructive approach to land reform or resistance builds up in Government bureaucracy	Substantial	• Fast project preparation and project design to rapidly show visible results. • Flexibility in the financial package for beneficiaries allows adjustment to changing political conditions. • The project is based on a fully decentralized design and does not depend on participation by federal sector agencies after the beginning of implementation.

• Failure of demand or implementation capacity by communities	Moderate	<ul style="list-style-type: none"><li>• Financially attractive package during the pilot phase.</li><li>• Availability of technical assistance within the financing of community subprojects.</li><li>• Information dissemination on land available for purchase through State agencies and rural worker unions.</li><li>• Assistance for communities in purchase negotiations through rural worker unions.</li></ul>
• Deterioration in macroeconomic stability could inflate land prices and significantly increase project costs, because land is typically held for speculative purposes in periods of high uncertainty and/or inflation	Low	<ul style="list-style-type: none"><li>• Continued policy dialogue by Bank management on macro policy issues.</li><li>• The recently approved reform of rural property taxes (ITR) should help to depress land prices</li></ul>
• Disruption of the efficient and timely flow of funds from Federal to state Government levels	Low	<ul style="list-style-type: none"><li>• Full authority is given to States to withdraw from their sub-accounts within the limits established by Annual Operating Plans.</li><li>• Advance deposits of monies for land purchases to Banco do Nordeste do Brasil at the start of each financial year.</li></ul>
Overall project risk rating	Moderate	
<b>22. Possible Controversial Aspects:</b> <ul style="list-style-type: none"><li>• Due to its voluntary nature, the program is not expected to engender resistance from influential land owners. Some social groups may consider the purchase of large farms and the sale to poor farmers less desirable than expropriation and subsidized distribution. However, overall the approach is expected to have a positive reception in the Northeast region, based on consultations with community associations and rural workers' representatives during project design and appraisal.</li></ul>		

#### Block 4: Main Loan Conditions

##### 23. Effectiveness Conditions

- a) Establishment of the land account by the Federal Government and deposit in the appropriate account of the Banco do Nordeste do Brasil of the first US\$5 million tranche of the total US\$15 million needed for land purchase during the first year of the project;
- b) signing of the formal agreement between the Federal Government and the participating States on the execution of the Project;
- c) signing of the contract between the Minister of Agrarian Reform and the Banco do Brasil on the administration of the Bank funds;
- d) signing of the contract between the Minister of Agrarian Reform and the Banco do Nordeste do Brasil on the administration of the land account; and
- e) adoption of the operational manuals for the land account and the community subprojects.

#### Block 5: Compliance with Bank Policies

This project complies with all applicable Bank policies.

Luis O. Coirolo

Task Manager: Luis O. Coirolo

G. T. Nankani

Country Director: Gobind T. Nankani

**Annex 1**  
**Brazil**  
**Land Reform and Poverty Alleviation Pilot Project**  
**Project Design Summary**

Narrative Summary	Key Performance Indicators <sup>1</sup>	Monitoring and Supervision	Critical Assumptions and Risks
<b>CAS Objective</b>			
Rural Poverty Alleviation	Reduction in poverty level of participating rural households	Comparison of census indicators or LSMS-type data for rural poverty	Relevance of poverty indicators for actual prevalence of rural poverty
<b>Project Development Objective</b>			
1. Increase in incomes of rural poor through improved access to land and participation in community subprojects	1. Incomes of families participating in the project in comparison with control groups and pre-project income levels	Project Impact Evaluation to be undertaken by Minister of Agrarian Reform, with baseline assessment and follow up study of with/without project	Appropriate targeting of project interventions to rural poor
2. Increase in agricultural output of lands included in the project	2. Net economic benefits of increased agricultural production	population in target group, focusing on (a) beneficiary selection and targeting; and (b) income/production effects	Financial and social sustainability of land and community subprojects
3. Piloting of new, market-based approach to land reform	3. Pilot program tested and evaluated		Continued political support for market-based approach to land reform
			Adequate development of implementation capacity by community associations
			Maintenance of macroeconomic stability, for land to reflect real value and not be used as speculative asset
			Efficient and timely flow of funds from Federal to State Government levels

<sup>1</sup> Quantitative indicators for project implementation are provided in Annex 2. Quantitative indicators for project impact are contained in the economic and financial analysis (Annex 4).

Narrative Summary	Key Performance Indicators <sup>2</sup>	Monitoring and Supervision	Critical Assumptions and Risks	
<b>Project Development Objective</b>	<p>1. Establishment of family farms on lands purchased by communities with project funds</p> <p>2. Implementation of land-value improving community subprojects</p> <p>3. Information and analysis that allows the evaluation of the pilot and its replicability and, if indicated, measures to broaden program implementation</p>	<p>1. Family farms established for about 15,000 participating families<sup>3</sup></p> <p>2. Subprojects implemented covering about 15,000 families<sup>2</sup></p>	<p>1. and 2.: Monitoring and reporting by State Technical Units of participating States</p> <p>3. Coordination by Minister of Agrarian Reform</p>	<p>Effective targeting of project funding to poor beneficiaries</p> <p>Financial success and viability of subprojects</p>
<b>Project Components</b>	<p>1. Land account</p> <p>2. Funds for community subprojects (investment and TA)</p> <p>3. TA for evaluation and dissemination</p>	<p>1. Land purchases for communities of a total of about 15,000 families approved and financed<sup>2</sup></p> <p>2. Subprojects for communities of a total of about 15,000 families approved and disbursed<sup>2</sup></p> <p>3. Contracting and delivery of agreed studies</p>	<p>1. and 2.: Monitoring and reporting by State Technical Units of participating States</p> <p>3. Minister of Agrarian Reform and State Technical Units of participating States</p>	<p>1. Availability of (a) land accounts by Government (b) sufficient land supply by the market; and (c) sufficient interest by communities; as well as (d) functioning project implementation mechanism</p> <p>2. Sufficient interest by communities; as well as functioning project implementation mechanism</p> <p>3. Implementation of study recommendations</p>

<sup>2</sup> Quantitative indicators for project implementation are provided in Annex 2. Quantitative indicators for project impact are contained in the economic and financial analysis (Annex 4).

<sup>3</sup> The exact number of beneficiary families cannot be known in advance since financing amounts required will differ from subproject to subproject.

**Annex 2**  
**Brazil**  
**Land Reform and Poverty Alleviation Pilot Project**  
**Detailed Project Description**

**Project Component 1: Land Account - US\$45.0 million (baseline cost)**

This component includes land purchases by community associations of poor farmers without land or with insufficient land, funded by loans from a land account (100% Federal Government financed) counted as counterpart funding for the other Bank financed project components. Component costs are estimated at US\$45.0 million for about 15,000 families at an average US\$3,000 per family. The component would be implemented as follows:

- Community associations would directly negotiate the purchase of suitable land with willing sellers.
- Communities present to the State Land Institute a formal declaration of the owners' willingness to sell the land to the community at a specified price and request confirmation that: (a) the title to the land is clean, and no invasion or other condition threatens the effectiveness of the land purchase; and (b) the negotiated purchase price is consistent with market conditions.
- Communities present their land purchase project to the Technical Unit of the respective State's NRD/PAPP project together with a plan for community investment projects (Project Component 2). The Technical Unit verifies the eligibility of the beneficiaries according to the general targeting conditions that will be determined in the operational manual and approves the land purchases on a first-come first serve basis. More formal ranking criteria between projects presented by different communities will be developed during the first year of project implementation if demand exceeds project funds.
- With the approval by the Technical Unit, communities are eligible for credit from the land account which is created from Federal Government budget resources and administered by the Banco do Nordeste do Brasil (BNB). Credit is given to the community association for the purchase price of the land plus land purchase related expenses such as land survey. Credits are initially given for a ten year period with three years of grace at the Government long-term interest rate (TJLP).
- Communities internally decide on and determine by contract with the individual members the division of land among individual community members and the corresponding payment obligations.

The Federal Government and the participating States will conclude a formal agreement on the annual allocation of resources of the land account among the participating states. The Federal Government will conclude an agreement with the Banco do Nordeste do Brasil including the terms of the loans made from the land account to beneficiary communities. The details of the operational mechanism will be described in an operational manual for the land account.

**Project Component 2: Community Subprojects - US\$84.3 million (baseline cost)**

Communities that participate in the land account component (about 15,000 families) would be eligible to present to the State Technical Unit proposals to finance complementary community subprojects and technical assistance.

The project would provide matching grants to rural community associations to finance small-scale subprojects identified by these groups as priority investments that would improve community well-being. Subprojects would be of many types, broadly classified as infrastructure (such as rural water supply, electrification, local road improvements, and small bridges), social (e.g., day care centers, school or health post rehabilitation) and productive subprojects (such as small-scale community agro-processing, communal tractors and minor irrigation schemes). Subproject selection is demand-driven, with negative list of subproject types ineligible for financing. Subproject proposals would observe standard documentation and technical, economic, environmental and sustainability criteria established in a detailed Project Operational Manual, which sets forth procedures and guidelines for implementation and based on the manual already in use for the reformulated NRD/PAPP projects.

In compliance with Brazilian law, beneficiaries must form legally-constituted civil associations in order to be eligible to receive financing under the project. Disbursements to the beneficiary associations would occur through agreements (*convênios*) with the Technical Unit. The final model agreements are part of the Project Operational Manual. Beneficiary associations would contribute to subprojects, either in cash, kind or labor, and would be responsible for the operation and maintenance (O&M) of the investments. The minimum level of contributions expected from the beneficiaries, municipalities and the State Government are specified in a cost-sharing matrix in the Project Operational Manual.

Each community association has the option of directing up to 8% of the cost of each subproject to hire technical assistance and training support tailored to its particular subproject. A proposal for the use of this percentage would be included in the subproject proposal. In addition, because technical assistance should extend into the operation and maintenance period of their subprojects, particularly for productive subprojects, community associations should include technical assistance among the expenditures to be financed out of O&M funds maintained by each association. As part of their regular supervision efforts, the Technical Units would monitor the frequency and quality of technical assistance and training provided to beneficiaries.

### **Project Component 3: Community Development Support, Technical Assistance and Training - US\$3.5 million (baseline cost)**

This component would help strengthen the effectiveness and quality of project operations, by financing technical assistance, seminars and training courses for community associations, and public relations campaigns to disseminate information about the project and its guidelines to all potential beneficiary communities, to increase awareness, transparency and participation.

The resources of this component would finance a variety of capacity building programs, such as:

- Mobilization assistance for beneficiary associations. The STUs would formulate and fund strategies to extend community mobilization to those communities lacking in organization and thus not initially in a position to benefit from the project. Such assistance would include community workshops to determine priority needs, training to community groups in organization skills and help in the process of forming legal associations.
- Specialized skills training. The STUs and groups of community associations would receive, on a demand basis, practical “on-the-job” training in areas such as monitoring techniques, financial administration, as well as specific technical topics in support of subproject implementation and operation and maintenance.
- Best-practice exchange. STUs would finance technical exchanges among community associations with similar subprojects. These exchanges have proven an effective way to transfer know-how on subproject operation and maintenance from community associations with successful subprojects to associations initiating new subprojects. In addition, exchanges among the STUs could be financed to disseminate successful experiences across states.
- Publicity campaigns. Broad based dissemination of the availability, the principles, and the mechanisms of the program to potential beneficiaries is critical for promoting transparency and rapid project implementation. If necessary, publicity may be extended to facilitate the exchange of information between sellers and buyers on land available for sale.

### **Project Component 4: State Project Administration, Supervision and Monitoring - US\$9.2 million (baseline cost)**

This component would support overall project coordination, supervision and monitoring. It would finance field supervision and monitoring as well as the incremental operating costs of the Technical Units for overall coordination of project activities. Costs have been estimated based on the experience under the ongoing NRDP/PAPP projects.

- Project Administration: State Technical Units (STUs) would carry out the appraisal of community subprojects. The appraisal procedures would take into account: (a) compliance with the project's guidelines and eligibility criteria, including those related to the technical, environmental and cost specifications contained in the Project Operational Manual; (b) the beneficiary association's commitment to provide the required contribution and to take full responsibility for the execution, operation and maintenance of the investments to be funded; and (c) in the case of an association which has already benefited from other subprojects, assessment of past performance. Using standardized cost

indicators, reasonable costing for subproject implementation would be ensured. Departures from standard designs would have to be fully justified in the subproject proposal for review by Technical Unit, as would proposed investments which fall outside the range of standardized costs.

- Project Monitoring: Analysis of implementation will depend on a database of subproject information that will build on the existing project MIS, created under the NRD/PAPP. Inputs to the database would be made from a standard data sheet at key stages of the subproject cycle (e.g., identification, appraisal, procurement and disbursement). The project data base will be extended to include land purchases and the different categories of supplementary investments undertaken by the community. In order to be able to estimate and evaluate the full project costs, the database will include the contributions of beneficiaries to land purchase and community projects, including the in-kind contributions, as well as contributions from other Government programs or credit facilities. Finally, community payment performance on all groups of credit would be included in the database.
- Reporting: Periodic processing of the database information will permit the monitoring of the characteristics and evolution of project implementation. The Technical Unit will be responsible for meeting and reporting on the project performance indicators.
- Annual Physical Performance Reviews: Initially the Annual physical performance review would be done for all of the land reform beneficiary communities, rather than for a subsample, until there are more communities than can be handled on that basis. Additional variables need to be provided such as: Progress in assigning of land, whether there were disputes and how they were resolved, area planted by crop and area harvested, use of purchased inputs, sale of crops and animal products, number of family workers used, whether additional labor was hired or not, and for what (farming, construction, peak season), whether family members worked outside the settlement for wages, whether loans are repaid on time or are overdue, proportion of kids in school, status of housing of families (tents, shacks, houses), access to safe water, incidence of diseases, and whether there are abandoned plots.
- Implementation Review: The Implementation Review would be held annually, together with the Physical performance review. The Review would take place in advance of the approval of next year's Annual Operating Plan. The range of studies to be prepared for each of these reviews would be agreed upon on a rolling basis, at appraisal for the first review, and at each annual implementation review for the subsequent implementation review.

#### **Project Component 5: Federal Project Evaluation and Dissemination - US\$6.0 million (baseline cost)**

The Federal Government is responsible for project impact evaluation and dissemination of the experiences gathered. The Minister of Agrarian Reform will coordinate the impact evaluation of the pilot project, assemble information and disseminate the experience. This component will provide the basis for judging ex-post the impact of the pilot project and evaluating ex-ante the possible expansion of the pilot approach.

Center for Agrarian Studies. The Minister has established a Center for Agrarian Studies, located in his office. The Center would assemble information and data sets on agrarian reform and family agriculture, make it available electronically via a server on the Internet, sponsor national and regional workshops and other fora for the exchange of information about agrarian reform, and link with the planned international network of the FAO, IFAD and the World Bank. It would also contract out, coordinate and supervise the impact evaluation studies, as well as other studies which relate directly to family agriculture and agrarian reform. Examples are studies of less cumbersome legal options for the cooperation of land reform beneficiaries than those provided in the cooperative law, or studies on the impact of macro-economic policies, fiscal policies, agricultural policies, and the agrarian reform program on land prices. The Pilot Land Reform project will assist in the planning, execution, and financing of the Center's activities through financing of:

- a) The consultants who will form the nucleus of the Center for Agrarian Studies (one executive director, one coordinator for project impact evaluation, one coordinator for information management and dissemination and two assistants for three years.
- b) Operational expenditures including mainly communication and computing services.
- c) Information dissemination and exchange including consultant services for information management and development and maintenance of the land reform information network, seminars and technical assistance for the assembly, exchange, and dissemination of experiences in the participating States.

Impact Evaluation Study. Impact evaluation will be done on a comparable basis for the pilot land reform program financed by the Bank, for the regular INCRA program, and for the land reform and settlement programs financed by the states and executed by the state land offices or agricultural secretariats. If possible private or NGO sponsored schemes should also be evaluated in a comparable fashion. It is for this reason, and to avoid duplication that financing and contracting out of impact evaluation should be the responsibility of the federal government. The financial resources would be used to contract the necessary data collection and analysis by independent agencies such as universities and research institutes. The study will be overseen by the coordinator for project impact evaluation of the Center for Agrarian Studies.

Impact evaluation of the land reform program at the national and state levels (the pilot as well as efforts by INCRA) will be facilitated by the fact that both the population and the agricultural censuses have taken place in 1996. Aggregate impacts on farm structure, employment and incomes will therefore be measurable in subsequent censuses by using the municipal data in combination with program monitoring data on numbers of settlements created, number of beneficiaries, and amount of land transferred by municipality. Analysis can be done on data tapes that do not contain the identification of the individual farm or household. Thus very detailed analysis will be feasible. However the fact that census data cannot be individualized below municipal levels implies that they can neither be used as a basis for sampling, nor as a basis for construction of control groups.

Impact evaluation of specific federal and state level programs and pilots, therefore requires the construction of the following panel data sets, which include a baseline in year 0 of the settlement and periodic resurveys in years 1, 2, 5, 10, and 20. The pilot project would finance the baseline and the year one and two surveys, as well as their analysis. Funding for subsequent rounds would have to come from projects or programs active at that time. As far as possible the surveys will be linked to and coordinated with other ongoing or planned surveys.

The evaluation study will focus on the five participating States. However, it will include more limited samples from all regions of the country to allow comparative analysis and aide in the decision about possible future expansion of the pilot. The basic panels to be used for the study consist of the following:

- a) Direct beneficiaries, their settlements, and the surrounding indirect beneficiaries (e.g. landless workers, merchants, providers of inputs and outputs), subsequently called *the beneficiary panel*.
- b) A random sample of farms from which can be constructed the control groups of farms which are not changing hands in the land reform, *the farm panel*.
- c) A random sample of households from which can be constructed the control groups of non-beneficiaries, *the household panel*.

Other studies (US\$1.24 million). The project will finance a limited number of specific studies that will be contracted out by the Center for Agrarian Studies. These studies focus on the preparation for a possible later broadening of the pilot program. They will include, *inter alia*:

- a) An in-depth analysis of the rural land market, including analysis of land prices, lands available for sale, land holdings by Banks, remaining policies that distort land markets and the likely effect that a broader program of market-assisted land reform would have on land prices and markets.
- b) Study of financing options for land reform in Brazil considering, in particular the increased participation of banks on a commercial basis and the option of using Government bonds (such as Agrarian Reform Government Bonds - TDAs) to finance market-assisted land reform.
- c) Study of the number and characteristics of potential land reform beneficiaries and the resulting demand for land reform projects.
- d) Detailed study of the legal framework and necessary reforms for rural cooperative enterprises in Brazil.
- e) Smaller studies to be defined.

### **PROJECT PERFORMANCE INDICATORS AND IMPLEMENTATION PLAN<sup>1</sup>**

<b>Project Components and Activities</b>	<b>Responsible Institution</b>	<b>Unit</b>	<b>PY0</b>	<b>PY1</b>	<b>PY2</b>	<b>PY3</b>	<b>PY4</b>	<b>Total</b>
<b>A. Land Purchases</b>	STUs, Comm. Assoc.							
Land Purchases Financed <sup>2</sup>								
• Beneficiary families		Families	4,500	6,000	4,500			15,000
• Beneficiary individuals		Individuals	22,500	30,000	22,500			75,000
• Subprojects			150	200	150			500
<b>B. Community Subprojects</b>	STUs, Comm. Assoc.							
Subprojects Implemented								
• Start-up Grants		Families	4,500	6,000	4,500			15,000
• Investment Subprojects <sup>3</sup>		No.	500	1,000	750		250	2,500
<b>C. Institutional Development</b>								
Preparation of annual program of TA and training	STUs	No. per State	1	1	1			3
Training and TA Courses and Seminars provided:	STUs							
• for beneficiary associations		No.	20	20	10			50
• for STU/SLI staff		No.	5	5				10
Publicity Campaigns in each State	STUs							
• Presentation to Bank			x					
• Implementation			x	x	x			
<b>D. Project Administration, Supervision, and Monitoring</b>								
Supervision of Subprojects <sup>4</sup>	STUs	No. Visits	1,300	2,400	1,800	500	6,000	
Annual Operating Plans (POAs) for each State	STUs	No. per State	1 <sup>5</sup>	1	1	1		4

<sup>1</sup> Because of the demand-driven nature and flexibility of the project, these targets are indicative and will be re-assessed during the Implementation Review.

<sup>2</sup> Assumes 30 families per subproject.

<sup>3</sup> Assumes ca. US\$ 23,000 per subproject.

<sup>4</sup> 2 visits per subproject under implementation (each land and community subprojects).

Project Components and Activities	Responsible Institution	Unit	PY0	PY1	PY2	PY3	PY4	Total
Special Account established	MEPF			x				
Operational Manuals	STUs			x				
• Preparation				x				
• Review and Adjustments (with Bank approval)				x	x	x		
Monitoring Reports and Reviews								
• Monthly Disbursement and MIS update	STUs	No. per State	12	12	12	6	42	
• Semi-annual Reports	STUs	No. per State	2	2	2	1	7	
• External Audits	STUs	No. per State	1	1	1	1	4	
• Physical Performance Reviews	STUs	No. per State	1	1	1	1	4	
• Implementation Review	STUs			x				
• Mid-term evaluation	STUs, MEPF, WB			x				
<b>E. Project Evaluation</b>								
Center of Agrarian Studies	MEPF			x				
• Establishment				x				
• Operation				x	x	x	x	
• Prepare annual plan and TORs				x	x	x	x	
Information Network and Dissemination	MEPF							
• Implement activities			x	x	x	x		
Evaluation Study	MEPF							
• Detailed Design Study			x					
• Baseline study			x					
• Resurveys			x	x	x	x		
Studies	MEPF							
• Land market study			x					
• Financial options study			x					
• Social demand study			x					
• Legal framework for cooperatives study			x					
• Other Studies			x	x				

<sup>5</sup> Operating plan for period until the beginning of the first full calander year.

**Annex 3**  
**Brazil**  
**Land Reform and Poverty Alleviation Pilot Project**  
**Estimated Project Costs**

<b><u>Project Component</u></b>	<b>Local</b>	<b>Foreign</b>	<b>Total</b>	<b>Share of Foreign Costs</b>	<b>Share of Bank Financing</b>
	<b>-----US \$ million-----</b>			<b>----- Percentage -----</b>	
1) Land Purchase Fund	45.0	0.0	45.0	0.0%	0.0%
2) Community Subprojects: Investments, Technical Assistance, and Start-up Grants	69.4	14.9	84.3	17.7%	90.0%
3) Community Development Support	1.9	1.6	3.5	45.0%	100.0%
4) Project Administration, Supervision and Monitoring	7.2	2.0	9.2	21.7%	33.7%
5) Impact Evaluation and Dissemination	4.8	1.2	6.0	20.0%	100.0%
<b><u>Total Baseline Cost</u></b>	<b>128.6</b>	<b>19.4</b>	<b>148.0</b>	<b>13.1%</b>	<b>59.8%</b>
Physical Contingencies	1.0	0.3	1.3	25.0%	75.0%
Price Contingencies	0.3	0.4	0.7	50.0%	75.0%
<b><u>Total Project Cost</u></b>	<b>129.9</b>	<b>20.1</b>	<b>150.0</b>	<b>13.4%</b>	<b>60.0%</b>

**Annex 4**  
**Brazil**  
**Land Reform and Poverty Alleviation Pilot Project**  
**Economic Project Analysis**

A detailed economic and financial analysis has been prepared to analyze the quantitative effects of the project in terms of (a) the overall efficiency gains in the form of increased aggregate agricultural production; and (b) the income effect for the beneficiaries. The analysis is based on four representative models of typical family farms to be established under the project, representing the different geographic regions within the participating States. The analysis provides both the economic justification for the project and the basis for quantitative monitoring of the project impacts.

**A: Cost-Benefit Analysis Summary**

Depending on the geographic region, the farm models produce an Internal Economic Rate of Return (IERR) between 26% and 75%, compared to a cost of medium-term Government financing estimated (on the basis of the market discount rate of Government land reform bonds with 5-10 year maturity) at 16%. The overall project IERR is estimated as 32%.

Present value economic project costs (excluding studies, institutional strengthening and social investments) are \$119 million compared to project benefits almost twice as high, generating a net present value of \$112 million.

	Semi-Arid	Meio-Norte	Mata per family	Peri-Urban	Total Project (million \$)
FRR	27%	39%	52%	69%	33%
IERR	26%	39%	52%	75%	32%
<b>Family Income Compared to Base Year</b>					
Year 3	134%	201%	352%	378%	158%
Year 6	272%	416%	386%	448%	258%
Year 15	609%	824%	769%	647%	542%
<b>Sources of Benefits</b>					
Project NPV	\$5,995	\$13,462	\$12,368	\$15,590	\$112
Government Net Project Cost	\$9,399	\$9,449	\$8,818	\$7,822	\$119
Family Labor	\$7,631	\$7,761	\$6,977	\$7,084	\$98
<b>Use of Benefits</b>					
Beneficiary Income	\$20,382	\$28,057	\$26,641	\$29,160	\$298
Previous Landowners	\$43	\$43	\$43	\$690	\$1
Incremental Taxes	\$2,601	\$2,572	\$1,478	\$647	\$30

Major assumptions entering the analysis are:

- Land prices will not be affected by the pilot project given its small scale compared to the amount of lands for sale in the market.
- Multiplier effects on the local economy are not considered.
- The opportunity cost of family labor is equal to the estimated without-project family income of \$1,200 per year.
- Project beneficiaries have access to the Government PROCERA credit program equal to other land reform beneficiaries.

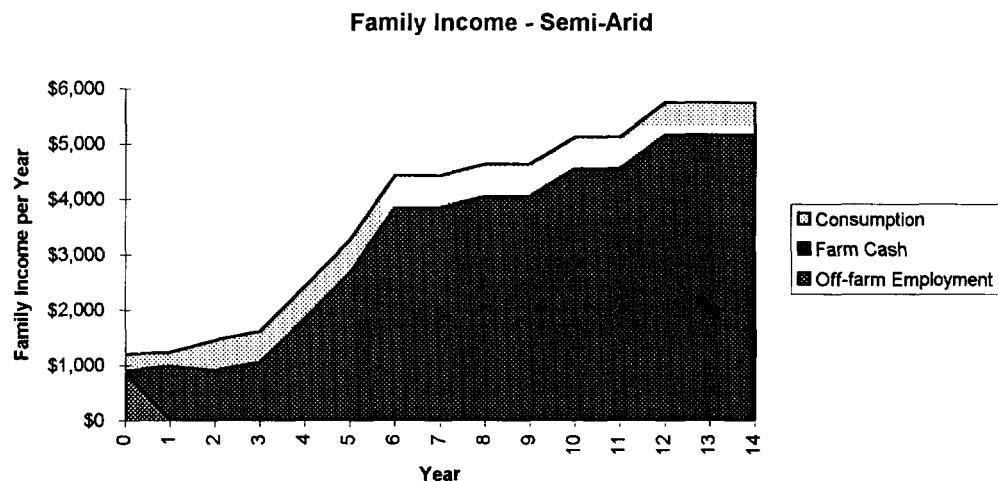
Project economic returns are very robust to a range of alternative scenarios, including the following:

- If beneficiaries paid inflated land prices, economic returns would not be affected. However, the project would produce an undesirable resource transfer to previous land owners.
- The total failure (abandonment of farm after all investments and sale at the purchase price) of 33% of subprojects would reduce the IERR from 32% to 25%. A 65% failure rate would reduce the IERR to 16%.
- If without-project family income was underestimated by 67%, the increased opportunity cost of family labor would reduce the IERR from 32% to 24%. However, beneficiaries with such elevated without-project income would suffer income decline during the first project years demonstrating the built-in targeting mechanism toward low-income families.

d) The models are based on relatively simple production systems emphasizing subsistence crops and a very small area of higher value crops. In an alternative scenario some of these higher value crops have been eliminated from the model for an even simpler production system bringing the IERR from 32% to 25%.

## B: Farm Income Analysis

Annual family income of participating families is expected to rise from about \$1,200 to \$5,000-7,000 (about four to five minimum salaries) after the repayment of land loan and agricultural credit for initial investments (including consumption of subsistence products). Even during the repayment phase, incomes are rising and well above the without-project level, demonstrating the full financial viability of the family farms established under the project. The following graph shows expected development of family income (after all repayment obligations) in the least favorable of the four farm models. In the base case of the same model, family income in years 3, 6 (during loan repayment), and 15 (after loan repayment) is 134%, 274% and 609% of without-project income.



Analysis of various alternative scenarios confirms the robustness of farm financial viability:

a) If beneficiaries paid 100% inflated land prices, family income in year 6 would be 222% instead of 274% of without-project levels.  
 b) In the simplified production system, family income would only rise to 177%, 182% and 486% of the without-project income.

The models show that family farm investments during the initial two years are critical for attaining the income increase expected over the following years. This means that model results and farm viability are sensitive to the availability of PROCERA credit and agricultural production during the first years. If credit is not forthcoming, or a drought occurs during the initial years, families cannot undertake the investments required to leave pure subsistence. Once families have managed the first critical years and have been able to invest in the production of livestock and/or a higher value crop, their incomes are relatively robust. Higher interest rates or shortened credit terms would be well affordable.

The models show significant investment by families from their retained income. Additional investments (not shown in the model) are easily perceivable in increased cultivation of higher value crops, investment in processing and marketing and would lead to even higher income in the long run. Given that further investments would require significant managerial skills on the part of the beneficiaries, they are not included in the models.

## C: Summary of Cost Comparison with Conventional Land Reform Approach

The source of cost savings of the market-assisted versus administrative approach to land reform are: (a) lower land purchase prices as the result of free negotiations between sellers and buyers; (b) lower costs of investments due to community-driven design and community participation in implementation; and (c) better repayment of loans to banks as opposed to a Government agency.

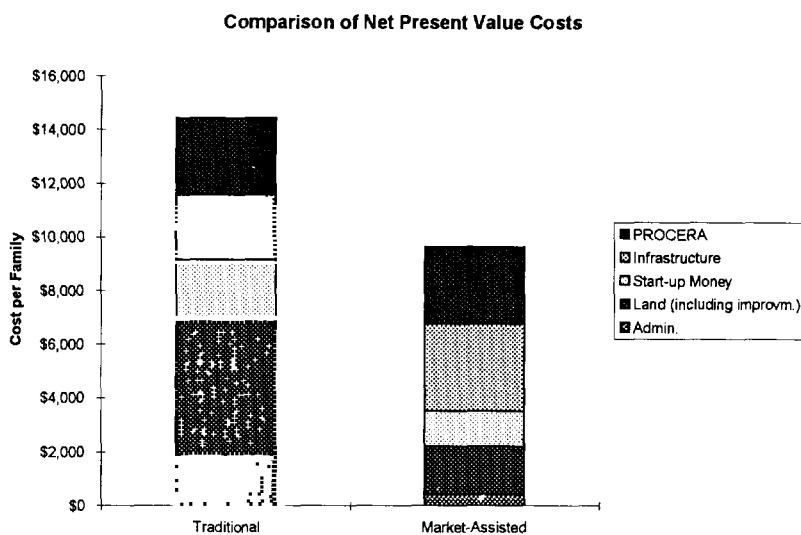
The estimated per family costs of the proposed project are compared with the typical costs of a conventional INCRA land reform project in the State of Ceará. The cost estimates for the conventional project refer to real expenditures. The administrative costs for traditional projects can be viewed as a lower bound estimate since: (a) INCRA costs that cannot be unambiguously assigned to the land reform program have been excluded, and (b) land expropriation costs are estimated based on compensation determined by INCRA; these values are frequently challenged in court, sometimes resulting in payments of a multiple of the initial amount payable years or even decades later. Incremental Government tax revenues are not considered in this comparison in either alternative. Costs of both approaches are presented below in two variants: (a) the net present value of the different project components taking into account repayments by beneficiaries (discounted at a real rate of 16%); and (b) total costs which are the non-discounted costs during the initial project years without considering repayment by beneficiaries. By both measures, the market assisted approach reduces costs (excluding PROCERA) by at least 40%.

A full cost-benefit comparison (not just a cost comparison as shown above) would yield results even more favorable for the market assisted approach. The benefits of the market-assisted approach are likely higher than those of the traditional approach because: (a) there are fewer delays; (b) beneficiary selection is better; and (c) sufficient funds for infrastructure investments are being provided.

Main assumptions entering the cost comparison are:

- a) Land expropriation costs exclude final settlements by the courts.
- b) There is no difference in the availability of PROCERA credit from the traditional to the market-assisted approach.
- c) PROCERA repayment is based on the actual default rate of about 2%.
- d) Land loan repayment is based on an assumed 5% default rate.

	Admin.	Land (including improv.)	Start-up Money	Infrastructure	PROCERA	Sub Total (ex PROCERA)	Total
<b>NPV Costs</b>							
Traditional	\$1,930	\$4,910	\$2,331	\$2,407	\$2,858	\$11,578	\$14,436
Market-Assisted	\$441	\$1,791	\$1,300	\$3,258	\$2,858	\$6,789	\$9,647
Savings	77%	64%	44%	-35%	0%	41%	33%
<b>Initial Costs</b>							
Traditional	\$2,941	\$7,292	\$2,980	\$3,193	\$4,500	\$16,406	\$20,906
Market-Assisted	\$478	\$3,000	\$1,300	\$3,758	\$4,500	\$8,536	\$13,036
Savings	84%	59%	56%	-18%	0%	48%	38%



#### D: Fiscal Impact

The Government has established fixed targets for the number of families to be accommodated by its land reform program over the next years. Since the proposed project would reduce the net budgetary cost per family participating in the land reform program by about 40-50%, the project is expected to enable the Government to reach its targets at a net budgetary saving:

Year	1996	1997	1998	1999	2000
Total Families Resettled	60,000	80,000	100,000	100,000	100,000
Project Families Resettled	0	2,000	5,000	5,500	2,500
Projected INCRA Budget (\$ million)	1,500	2,600	3,250	3,250	3,250
Cost for Project Families (\$ million)	0	17	43	47	21
Saved INCRA Cost (\$ million)	0	33	82	90	41
Net Project Budget Savings (\$ million)	0	16	39	43	20

The initial fiscal cost per family (excluding PROCERA) of the market-assisted land reform in the Northeast is estimated at \$8,500 compared to \$16,400 under the currently existing program. The total project costs over three years (US\$150m) would constitute about 2.8% of the Federal Government's land reform budget over the three year period 1995-97 (US\$5.4bn). If the pilot demonstrates the viability of the market-assisted land reform approach and if the costs estimated for this pilot were representative for the country, 160,000 families could be accommodated within the 1996 land reform budget (\$1.5bn, or 0.2% of GDP, or 1.7% of Federal expenditures). Such program could attend to 1 million families in a little over six years.

If the pilot experience confirms the results of the economic and financial analysis, beneficiaries would be able to carry a larger share of project costs, for example through higher interest rates on credit. Such future modifications could further and significantly reduce the net cost of the land reform program to the government.

**Annex 5**  
**Brazil**  
**Land Reform and Poverty Alleviation Pilot Project**  
**Financial Summary**

Years Ending December 31  
 (in million US\$)

	Implementation Period					Operational Period <sup>1</sup>		
	1997 <sup>2</sup>	1998	1999	2000 <sup>3</sup>	Total	2001	2002	2003
<b>Project Costs</b>								
Investment Costs	18.2	45.4	50.0	22.7	136.3	0.0	0.0	0.0
Recurrent Costs	1.8	4.6	5.0	2.3	13.7	1.0	1.0	1.0
Total	20.0	50.0	55.0	25.0	150.0	1.0	1.0	1.0
<b>Financing Sources (% of total project costs)</b>								
IBRD/IDA	8.0%	20.0%	22.0%	10.0%	60.0%			
Federal Government	4.0%	10.0%	11.0%	5.0%	30.0%			
State Governments	0.6%	1.5%	1.7%	0.8%	4.6%			
Community Associations	0.7%	1.8%	2.0%	0.9%	5.4%	100.0%	100.0%	100.0%
Total	13.3%	33.3%	36.6%	16.7%	100%	100.0%	100.0%	100.0%

<sup>1</sup> Continued recurrent expenditures are required to extend project benefits to additional beneficiaries but not necessary for sustaining the estimated benefits of this project.

<sup>2</sup> Half-year July-December 1997

<sup>3</sup> Half-year January-June 2000

**Annex 6**  
**Brazil**  
**Land Reform and Poverty Alleviation Pilot Project**  
**Procurement and Disbursement Arrangements**

### **Procurement**

Procurement for community subprojects costing the equivalent of US\$ 50,000 or less and procured by local communities, would be carried out mainly through direct contracting, and under subproject agreements signed between the State Technical Unit and the community. This procurement procedure is appropriate because most subprojects: (a) would be small and/or implemented in scattered or remote areas and therefore it will be difficult to obtain competitive proposals; (b) can be managed directly by rural communities which will contribute to the work through the donation of unskilled labor and local materials; (c) will be selected on the basis of willingness of the beneficiary communities to contribute to and physically supervise their execution; and (d) would provide a vehicle for communities to play an active role in the local development process. There may be cases when the community lacks the capacity to make the necessary purchases of equipment and materials. For such subprojects, the State Technical Unit would make purchases on behalf of the communities, packaging the procurement for several subprojects whenever possible. Procurement by the State Technical Unit would follow: (i) National Shopping procedures for goods, and procedures acceptable to the Bank for procurement of small works under lump sum, fixed-price contracts awarded on the basis of price quotations (under US\$ 100,000 and up to an aggregate amount of US\$ 2.4 million for goods and US\$1.5 million for small works); or (ii) National Competitive Bidding -- NCB (over US\$ 100,000). For NCB the standard bidding documents agreed between the Bank and the Federal Government of Brazil will be used. ICB is not anticipated for any goods or works under the project.

Prior review of procurement documentation by the Bank would be made for all NCB contracts and for a random sample of about 25% of community subprojects. In addition, an audit of procurement by community contracting would be carried out during the first year of the project, under terms of reference agreed during appraisal, and determine whether the agreements on procurement methods have been followed. Cost comparisons of similar subprojects would be conducted using the project MIS in order to detect possible procurement problems and determine whether prices paid under community procurement were reasonable. The project's annual physical performance evaluation would verify the physical implementation of subprojects and analyze procurement issues; and finally, during Bank supervision, additional random reviews would be conducted of subprojects, including field visits and review of subproject documentation.

Consultant services to provide technical assistance and training to the beneficiary communities, the State Technical Units and the Minister of Agrarian Reform would be procured in accordance with Bank guidelines for the use of consultants. Contracts, short lists, and selection procedures for technical assistance and training would receive prior review by the Bank when the value of the contract is US\$ 100,000 or more for consulting firms or US\$ 50,000 or more for individual consultants. Also, all sole-source contracts would be subject to prior review. In addition, all consultant terms of reference would be subject to Bank prior review.

**Table A: Project Costs by Procurement Arrangements<sup>1</sup>**

(in US\$ million equivalent)

Expenditure Category	Procurement Method <sup>2</sup>				Total Cost	
	NCB	Local Shopping	Direct Contracting	Other	N.B.F. <sup>3</sup>	(including contingencies)
1. <u>Land</u>	-	-	-	-	45.0	45.0
	( - )	( - )	( - )	( - )	( - )	( - )
2. <u>Civil Works<sup>4</sup></u>	3.5	1.5	32.8	-	-	37.8
	(3.2)	(1.3)	(29.6)	( - )	( - )	(34.1)
3. <u>Goods and Materials<sup>5</sup></u>	-	2.4	44.1	-	-	46.5
	( - )	(2.2)	(39.6)	( - )	( - )	(41.8)
4. <u>Consulting Services, Studies and Project Administration</u>	-	-	-	20.7	-	20.7
	( - )	( - )	( - )	(14.1)	( - )	(14.1)
<b>Total</b>	<b>3.5</b>	<b>3.9</b>	<b>76.9</b>	<b>20.7</b>	<b>45.0</b>	<b>150.0</b>
	(3.2)	(3.5)	(69.2)	(14.1)	( - )	(90.0)

<sup>1</sup> Totals include taxes and contingencies.<sup>2</sup> Figures in parenthesis are the amounts to be financed by the Bank loan/IDA credit.<sup>3</sup> N.B.F. = Not Bank-financed.<sup>4</sup> Community subprojects<sup>5</sup> Community subprojects and start-up grants

**Table B: Thresholds for Procurement Methods and Prior Review**

Expenditure Category	NCB	Local Shopping	Direct Contracting	Contracts Subject to Prior Review
1. <u>Small Works</u>	> US\$ 100,000	US\$ 50,000- 100,000 (aggregate < US\$ 1.5 million)	< US\$ 50,000	<ul style="list-style-type: none"> <li>• All NCB</li> <li>• All Local Shopping</li> <li>• 25% of Direct Contracting</li> </ul>
2. <u>Goods and Services</u>	> US\$ 100,000	US\$ 50,000- 100,000 (aggregate < US\$ 2.4 million)	< US\$ 50,000	<ul style="list-style-type: none"> <li>• All NCB</li> <li>• All Local Shopping</li> <li>• 25% of Direct Contracting</li> </ul>
3. <u>Consultant Services</u>	N/A	N/A	All	<ul style="list-style-type: none"> <li>• Firms: &gt; US\$ 100,000</li> <li>• Individuals: &gt; US\$ 50,000</li> <li>• All Sole Source</li> <li>• All TORs</li> </ul>

## Disbursement

The proposed Bank loan would be disbursed over a period of three years. The project is expected to be completed by December 31, 2000, and the project's Closing Date is June 30, 2001. The allocation of loan proceeds by disbursement category is shown in Table C.

The Minister of Agrarian Reform would open a Special Account in US Dollars, and five sub-accounts in *Reais* (one for each participating State) at the Banco do Brasil. The authorized allocation would be equivalent to the Bank-financed expenditures expected during a period of six months of project implementation (about US\$ 15 million). After the initial deposit of the authorized amount in the Special Account, amounts defined in the Annual Operating Plan of the Project are being transferred to the sub-accounts of the participating States. The STUs will transfer approved funds directly from their respective sub-accounts to the beneficiary communities.

The STUs may draw from the Special Account an amount sufficient to meet eligible expenditures for a period of 90 days or less. This modification from standards Special Account procedures is necessary since the majority of expenditures under this project are small and numerous local currency expenditures throughout the States which require sufficient time to complete expenditure accounting.

Disbursements for all expenditures would be made on the basis of statements of expenditure (SOEs), except for goods and works exceeding US\$ 100,000 equivalent; contracts with consulting firms above US\$ 100,000 equivalent; and with individuals above US\$ 50,000. The information required for the compilation of SOEs would be maintained by the State Technical Units in the MIS data base. All SOEs would be transmitted from the STUs to the Bank in Washington with copy to the Minister of Agrarian Reform. Simultaneously, the STUs would send to the Bank's Recife Office a copy of SOEs and reimbursement applications submitted to the Bank in Washington, as well as updated information on the status of all subprojects, enabling a rapid review of subproject eligibility. This procedure would allow the Bank, the Minister of Agrarian Reform and the STUs to maintain a cumulative account of the progress of project implementation.

The communities' contributions to subproject investments would be defined in the agreement (*convênio*) between the State Technical Unit and the community association. This contribution would be computed as part of counterpart finance of the project. Simple, standard records, whose format would be included in the Operational Manual, would be completed by a designated community representative. They would be used to record cash contributions, materials and labor inputs, and would be subject to project audit procedures.

Table C: Allocation of Loan Proceeds by Project Category

Expenditure Category	Project Cost in US\$ million	Financing Percentage	Allocation of Loan Proceeds in US\$ million
0. <u>Land</u>	45.0	0%	0.0
1. <u>Grants for Community Subprojects</u> (investments, technical assistance and start-up grants)	84.3	90.0%	75.9
2. <u>Institutional Strengthening</u> (technical assistance, training and publicity)	4.0	100%	4.0
3. <u>Project Evaluation and Dissemination</u> (by the Federal Government)	6.0	100%	6.0
4.(a) <u>Project Administration</u>	5.7	20.0%	1.1
4.(b) <u>Field Supervision and Monitoring</u>	3.0	50.0%	1.5
5. <u>Unallocated</u>	2.0		1.5
Total	150.0	60%	90.0

**Annex 7**  
**Brazil**  
**Land Reform and Poverty Alleviation Pilot Project**  
**Project Processing Budget and Schedule**

<b>A. Project Budget (US\$'000)</b>	<u>Planned</u>	<u>Actual</u>
	112.4	94.0
<b>B. Project Schedule</b>	<u>Planned</u>	<u>Actual</u>
Time taken to prepare the project (months)		8
First Bank mission (identification)		05/30/1996
Preappraisal mission departure	11/25/1996	11/25/1996
Appraisal mission departure	01/20/1997	
Negotiations	01/27/1997	03/03/1997
Planned Date of Effectiveness	05/31/1997	07/31/1997
Prepared by:	Brazilian Federal Minister of Agrarian Reform and Participating States	
Bank staff who worked on the project include:		
Luis Coirolo, Portfolio Manager, LA1ER		
Hans Binswanger, Senior Agricultural Policy Adviser, AGRDR		
Joachim von Amsberg, Economist, LA1ER		
Tulio Barbosa, Head, Recife Office, LA1RE		
João Barbosa de Lucena, LA1RE		
Raimundo Caminha, LA1RE		
Elmar Cruz, Arlindo Costa Lima, James Ndlovu, Pedro Olinto, Consultants		

**Annex 8**  
**Brazil**  
**Land Reform and Poverty Alleviation Pilot Project**  
**Documents in the Project File\***

**A. Project Implementation Plan**

Draft Operational Manuals of Participating States

**B. Bank Staff Assessments**

**Sector Issues and Project Concept**

- Land Distribution and Markets
- Current Land Reform Program
- Comparison of Approaches
- Advantages of Market-Based Land Reform
- Incentives under Market-Based Land Reform
- Pilot Approach

**Project Economic and Financial Analysis**

- Cost Benefit Analysis
- Farm Income Analysis
- Summary of Cost Comparison with Administrative Land Reform Approach
- Fiscal Impact

**Project Implementation Arrangements**

- Community Organizations
- State Technical Units (STUs) and State Land Institutes (SLIs)
- Minister of Agrarian Reform
- NGOs
- Institutional Capacity

**Project Monitoring**

- Project Database
- Monitoring Activities
- Project Reporting

**Project Evaluation**

- Annual Physical Performance Reviews
- Implementation Review

**Project Supervision**

- Supervision Responsibilities
- Supervision Reporting
- World Bank Supervision

**C. Other**

Detailed Farm Models underlying Economic and Financial Analysis

Cost estimates for comparison of INCRA versus market-assisted land reform approach

Working Paper on the design of the project evaluation study

Working Paper on the design and work program of the Center for Agrarian Studies

\*Including electronic files.

**Annex 9**  
**Brazil**  
**Land Reform and Poverty Alleviation Pilot Project**

**Statement of Loans and Credits**

**A. Statement of IBRD Loans and IDA Credits in Brazil (as of December 31, 1996)**

Project ID	Loan No.	Fiscal Year	Purpose	Original Amount in US\$ Millions				Difference Between actual and expected Disbursements a/
				IBRD	IDA	Cancellations	Undisbursed	
Number of Closed Loans/credits: 184								
BR-PE-6367	L26810	1986	SALVADOR METRO DEVT	55.00	0.00	18.39	3.19	21.58
BR-PE-6392	L28640	1987	LVSTK DISEASE CNTL	51.00	0.00	10.00	0.00	10.00
BR-PE-6431	L28100	1987	SKILLS FORMATION	74.50	0.00	58.90	.78	59.68
BR-PE-6360	L29500	1988	IRR SUB-SECTOR	195.00	0.00	26.00	4.55	30.55
BR-PE-6407	L31020	1989	WATER SCTR SAO PAULO	280.00	0.00	0.00	12.83	12.83
BR-PE-6414	L30430	1989	NTRL GAS DIST	94.00	0.00	0.00	21.92	21.92
BR-PE-6448	L30180	1989	LND MGMT I-PARANA	63.00	0.00	0.00	1.38	1.38
BR-PE-6370	L30130	1989	NE IRRI JAIBA	71.00	0.00	0.00	8.09	7.43
BR-PE-6446	L31730	1990	NAT ENVIRONMT	117.00	0.00	0.00	43.02	43.02
BR-PE-6453	L31700	1990	NE IRRIG I	210.00	0.00	69.00	72.48	141.48
BR-PE-6473	L31600	1990	LND MGMT II-S. CATAR	33.00	0.00	0.00	10.01	8.81
BR-PE-6403	L31350	1990	NE BASIC HLTH SRV II	267.00	0.00	50.00	36.01	86.01
BR-PE-6442	L28831	1990	ITAPARICA	100.00	0.00	0.00	6.60	38.60
BR-PE-6492	L33760	1991	HYDROCARBEN TRNSP/PRO	260.00	0.00	0.00	62.04	62.04
BR-PE-6364	L33750	1991	INNOV BASIC ED	245.00	0.00	0.00	121.94	116.68
BR-PE-6505	L34920	1992	MATO GROSSO NAT RES	205.00	0.00	0.00	117.05	105.39
BR-PE-6495	L34800	1992	NATL IND POLLUTN	50.00	0.00	0.00	17.79	17.79
BR-PE-6379	L34570	1992	METRO TRANSP. SPAULO	126.00	0.00	0.00	32.27	32.27
BR-PE-6454	L34440	1992	RONDONIA NTRL RES. M	167.00	0.00	0.00	53.57	44.23
BR-PE-6368	L34420	1992	WATER SECTOR MODERNI	250.00	0.00	0.00	123.76	104.16
BR-PE-6547	L36330	1993	METRO TRANSP. RIO	128.50	0.00	0.00	69.87	60.53
BR-PE-6427	L36040	1993	NE BASIC EDUC II	212.00	0.00	0.00	96.66	52.95
BR-PE-6540	L35540	1993	WTR Q/PLN(MINAS GERA	145.00	0.00	0.00	85.89	84.13
BR-PE-6378	L35480	1993	STATE HWY MGMT	38.00	0.00	18.00	12.69	-7.31
BR-PE-6378	L35470	1993	STATE HWY MGMT	50.00	0.00	0.00	15.83	8.24
BR-PE-6541	L35050	1993	WTR Q/PLN(SP/PARANA)	117.00	0.00	0.00	73.78	71.88
BR-PE-6541	L35040	1993	WTR Q/PLN(SP/PARANA)	119.00	0.00	0.00	66.57	64.60
BR-PE-6541	L35030	1993	WTR Q/PLN(SP/PARANA)	9.00	0.00	0.00	7.51	7.42
BR-PE-6522	L37670	1994	ESP.SANTO WATER	154.00	0.00	0.00	125.60	65.66
BR-PE-6558	L37660	1994	PARANA BASIC EDUC	96.00	0.00	0.00	78.19	28.45
BR-PE-6543	L37330	1994	M. GERAIS BASIC EDUC	150.00	0.00	0.00	120.29	42.29
BR-PE-6555	L37150	1994	STE HWY MGT II	79.00	0.00	18.00	43.27	-17.73
BR-PE-6555	L37140	1994	STE HWY MGT II	87.00	0.00	0.00	25.73	-61.27
BR-PE-6555	L37130	1994	STE HWY MGT II	54.00	0.00	18.00	25.85	19.25
BR-PE-6452	L36630	1994	NE BASIC EDUC III	206.60	0.00	0.00	132.39	67.37
BR-PE-6546	L36590	1994	AIDS CONTROL	160.00	0.00	0.00	47.44	-.06
BR-PE-6524	L36390	1994	MINAS MNC. DEVELOPMNT	150.00	0.00	0.00	92.29	49.29
BR-PE-38885	L39190	1995	RURAL POV.-SERGipe	36.00	0.00	0.00	27.38	1.12
BR-PE-38884	L39180	1995	RURAL POV.- CEARA	70.00	0.00	0.00	65.80	11.96
BR-PE-35717	L39170	1995	RURAL POV. (BAHIA)	105.00	0.00	0.00	81.46	5.80
BR-PE-6564	L39160	1995	BELO H M.TSP	99.00	0.00	0.00	92.17	20.01
BR-PE-38882	L39150	1995	RECIFE M.TSP	102.00	0.00	0.00	100.98	22.98
BR-PE-6436	L37890	1995	CEARA UR.DV/WATER CO	140.00	0.00	0.00	121.35	40.35
BR-PE-37828	L40600	1996	(PR) R. POVERTY	175.00	0.00	0.00	175.00	16.66
BR-PE-6554	L40470	1996	HLTH SCTR REFORM	300.00	0.00	0.00	292.04	17.04
BR-PE-40028	L40460	1996	RAILWAYS RESTRUCTURG	350.00	0.00	0.00	226.17	-7.17
BR-PE-6512	L39240	1996	ENV/CONS(CVRD)	50.00	0.00	0.00	37.34	-.54
BR-PE-6562	L41100	1997	BAHIA MUN.DV	100.00	0.00	0.00	100.00	0.00
BR-PE-39196	L41390	1997	RGS ST.REFORM	125.00	0.00	0.00	125.00	0.00
BR-PE-42566	L41220	1997	R. POVERTY (PE)	39.00	0.00	0.00	39.00	0.00
BR-PE-43871	L41210	1997	(PIAUI)R. POVERTY	30.00	0.00	0.00	30.00	0.00
BR-PE-38896	L41200	1997	R. POVERTY(RGN)	24.00	0.00	0.00	24.00	0.00
<b>Total</b>				<b>6,613.60</b>	<b>0.00</b>	<b>286.29</b>	<b>3,406.82</b>	
<b>Active Loans</b>				<b>2,920.49</b>	<b>Closed Loans</b>	<b>Total</b>		
Total Disbursed (IBRD and IDA):				14,337.45	17,257.94			
of which has been repaid:				406.27	11,195.68	11,601.95		
Total now held by IBRD and IDA:				5,921.03	3,210.56	9,131.59		
Amount sold :				0.00	45.83	45.83		
Of which repaid :				0.00	45.83	45.83		
Total Undisbursed :				3,406.82	68.79	3,475.61		

a/ Intended disbursements to date minus actual disbursements to date as projected at appraisal.

## B. Statement of IFC's Committed and Disbursed Portfolio (as of February 28, 1997)

NY Approval	Company	Committed				Disbursed			
		IFC		IFC		IFC		IFC	
		Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1966	Celucat	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1969	Celucat	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1973	CODEMIN	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1975	Oxiteno NE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1978	CODEMIN	0.00	3.94	0.00	0.00	0.00	3.94	0.00	0.00
1980	DENPASA	.29	1.00	0.00	0.00	.29	.96	0.00	0.00
1980	Ipiranga	0.00	5.32	0.00	0.00	0.00	5.32	0.00	0.00
1980	OPP	0.00	1.64	0.00	0.00	0.00	1.64	0.00	0.00
1981	Brasilpar	0.00	.04	0.00	0.00	0.00	.04	0.00	0.00
1981	COBRAPE	.35	0.00	0.00	0.00	.35	0.00	0.00	0.00
1982	Cimento Cae	0.00	3.26	0.00	0.00	0.00	3.26	0.00	0.00
1982	PISA	0.00	2.50	0.00	0.00	0.00	2.50	0.00	0.00
1983	CODEMIN	0.00	.40	0.00	0.00	0.00	.40	0.00	0.00
1983	SOCOCO	0.00	0.00	2.50	0.00	0.00	0.00	2.50	0.00
1984	PISA	0.00	1.40	0.00	0.00	0.00	1.40	0.00	0.00
1986	Cimento Cae	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1986	PISA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1987	Duratex	.28	0.00	0.00	.70	.28	0.00	0.00	.70
1987	Ipiranga	0.00	1.00	0.00	0.00	0.00	1.00	0.00	0.00
1987	MBR	1.43	0.00	0.00	0.00	1.43	0.00	0.00	0.00
1987	Perdigao	0.00	10.00	0.00	0.00	0.00	10.00	0.00	0.00
1987	SP Alpargatas	3.20	0.00	0.00	.80	3.20	0.00	0.00	.80
1988	OPP	1.87	0.00	0.00	.80	1.87	0.00	0.00	.80
1988	Unibanco	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1989	Celucat	2.31	0.00	0.00	0.00	2.31	0.00	0.00	0.00
1989	COPENE	13.64	0.00	0.00	0.00	13.64	0.00	0.00	0.00
1989	ELJUMA	2.00	0.00	5.00	0.00	2.00	0.00	5.00	0.00
1989	Politeno	4.50	0.00	0.00	0.00	4.50	0.00	0.00	0.00
1990	Bahia Sul	22.86	15.00	0.00	0.00	22.86	15.00	0.00	0.00
1990	ENGEPOL	1.97	0.00	0.00	0.00	1.97	0.00	0.00	0.00
1990	Ripasa	8.57	5.00	0.00	0.00	8.57	5.00	0.00	0.00
1991	Bahia Sul	0.00	5.97	0.00	0.00	0.00	5.97	0.00	0.00
1991	Bradesco-AL	26.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1991	Bradesco-Bahia	6.75	0.00	0.00	0.00	6.75	0.00	0.00	0.00
1991	Bradesco-Eucatex	7.50	0.00	0.00	0.00	7.50	0.00	0.00	0.00
1991	Bradesco-Petrof	7.50	0.00	0.00	0.00	7.50	0.00	0.00	0.00
1991	Bradesco-Romi	3.18	0.00	0.00	0.00	3.18	0.00	0.00	0.00
1991	Rhodia-Ster	12.86	5.95	0.00	0.00	12.86	5.95	0.00	0.00
1992	Bahia Sul	0.00	0.00	0.00	20.00	0.00	0.00	0.00	20.00
1992	Brazil Inv. Fund	0.00	3.00	0.00	0.00	0.00	3.00	0.00	0.00
1992	CRP-Caderi	0.00	2.00	0.00	0.00	0.00	.75	0.00	0.00
1992	DENPASA	.15	0.00	.12	0.00	.15	0.00	.05	0.00
1992	MBR	16.43	0.00	10.00	20.57	16.43	0.00	10.00	20.57
1992	TRIKEM	0.00	12.86	0.00	0.00	0.00	12.86	0.00	0.00
1993	BACELL	13.50	10.70	0.00	30.60	13.50	10.70	0.00	30.60
1993	CEBRACTEX	3.00	4.00	0.00	0.00	3.00	4.00	0.00	0.00
1993	CEVAL	25.93	10.00	0.00	1.57	25.93	10.00	0.00	1.57
1993	Macedo Alimentos	20.83	0.00	0.00	0.00	20.83	0.00	0.00	0.00
1993	TRIKEM	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1993	Votorantim	18.14	0.00	0.00	1.57	18.14	0.00	0.00	1.57
1994	CHAPECO	10.00	0.00	0.00	0.00	10.00	0.00	0.00	0.00
1994	GAVEA	10.94	0.00	5.50	0.00	10.94	0.00	5.50	0.00
1994	GP Capital	0.00	19.51	0.00	0.00	0.00	18.22	0.00	0.00
1994	Para Pigmentos	30.00	9.00	0.00	35.00	25.50	8.14	0.00	29.75
1994	Portobello	17.00	5.00	0.00	0.00	14.00	5.00	0.00	0.00
1994	S.A.I.C.C.	0.00	5.00	0.00	0.00	0.00	4.85	0.00	0.00
1994	Sadia	26.00	10.00	0.00	1.86	26.00	10.00	0.00	1.86
1994	Unibanco	25.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1995	Bradesco-Hering	7.50	0.00	0.00	0.00	7.50	0.00	0.00	0.00
1995	Brahma - BRA	35.00	0.00	0.00	110.70	35.00	0.00	0.00	110.70
1995	Cambuhy/MC	26.25	0.00	0.00	0.00	26.25	0.00	0.00	0.00
1995	Globocabo	35.00	10.00	0.00	118.00	35.00	10.00	0.00	108.00
1995	Lojas Americana	28.00	0.00	5.00	20.00	28.00	0.00	5.00	20.00
1995	LATASA - Brazil	19.67	0.00	0.00	4.50	19.67	0.00	0.00	4.50
1995	Politeno Ind.	19.00	0.00	0.00	0.00	19.00	0.00	0.00	0.00
1995	Rhodiaco/PTA	30.00	0.00	0.00	30.00	30.00	0.00	0.00	30.00
1995	Sadia	0.00	0.00	0.00	56.36	0.00	0.00	0.00	56.36
1996	Banco Liberal	10.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1996	CEVAL	35.00	0.00	10.00	130.00	35.00	0.00	10.00	130.00
1996	CHAPECO	15.00	0.00	0.00	5.00	15.00	0.00	0.00	5.00
1996	Duratex	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1996	Globocabo	0.00	8.06	0.00	0.00	0.00	8.06	0.00	0.00
1996	Lightel	25.00	10.00	0.00	0.00	25.00	10.00	0.00	0.00
1996	Mallory	8.00	3.96	0.00	0.00	8.00	3.96	0.00	0.00

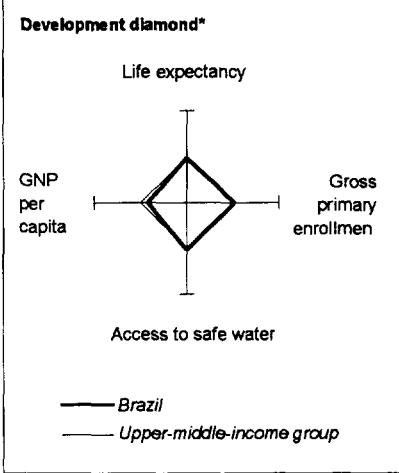
**B. Statement of IFC's Committed and Disbursed Portfolio (as of February 28, 1997)**  
**(Continued)**

FY Approval	Company	Committed				Disbursed			
		Loan	IFC Equity	Quasi	Partic	Loan	IFC Equity	Quasi	Partic
1996	MBR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1996	Oxiteno NE	30.00	0.00	0.00	0.00	30.00	0.00	0.00	0.00
1996	Perdigao	35.00	0.00	0.00	20.00	35.00	0.00	0.00	20.00
1996	S.A.I.C.C.	0.00	2.85	6.87	0.00	0.00	2.85	6.87	0.00
1996	TIGRE	25.00	0.00	5.00	0.00	0.00	0.00	0.00	0.00
1997	Duratex	22.00	0.00	0.00	78.00	22.00	0.00	0.00	78.00
1997	Sadia	30.00	0.00	10.00	160.00	30.00	0.00	10.00	160.00
1997	Sucorrico	15.00	0.00	0.00	0.00	15.00	0.00	0.00	0.00
1997	SP Alpargatas	25.00	0.00	5.00	0.00	0.00	0.00	0.00	0.00
<u>Pending Commitments</u>									
1996	* AGUAS LIMEIRA	17.00	1.00	0.00	23.00				
1997	* BOMPRECO	25.00	0.00	5.00	0.00				
1996	* BRADESCO CL	40.00	0.00	0.00	60.00				
1996	* CTBC	25.00	0.00	0.00	0.00				
1996	* GLOBOCABO II	0.00	0.00	0.00	38.00				
1997	* IPIRANGA RI	0.00	.32	0.00	0.00				
1997	* NOVA DUTRA	35.00	0.00	0.00	70.00				
1997	* SAMARCO	23.00	0.00	0.00	16.00				
1997	* SP ALPARGATAS II	0.00	0.00	0.00	30.00				
1997	* WENTEX	15.00	10.00	0.00	20.00				

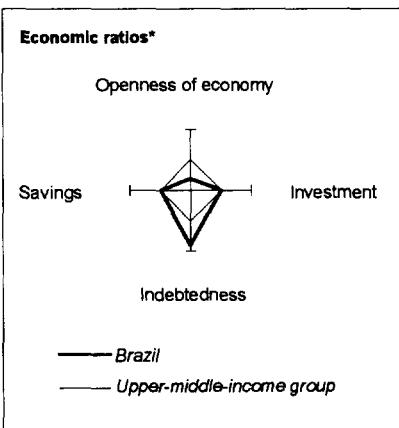
## Annex 10

## Brazil at a glance

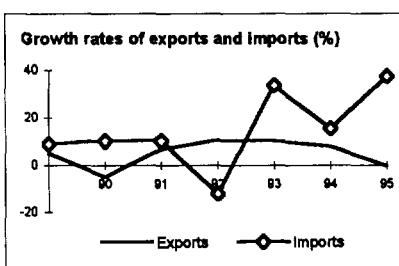
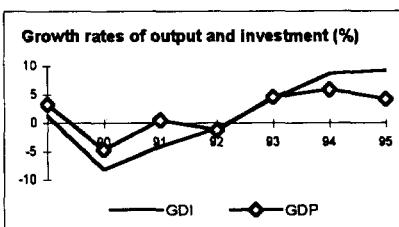
POVERTY and SOCIAL	Latin America & Carib.	Upper-middle-income	
	Brazil		
Population mid-1995 (millions)	161.6	480	440
GNP per capita 1995 (US\$)	3,620	3,300	4,300
GNP 1995 (billions US\$)	584.6	1,584	1,892
<b>Average annual growth, 1990-95</b>			
Population (%)	1.7	1.8	1.7
Labor force (%)	1.9	2.4	2.1
<b>Most recent estimate (latest year available since 1989)</b>			
Poverty: headcount index (% of population)	17	..	..
Urban population (% of total population)	78	74	74
Life expectancy at birth (years)	67	68	69
Infant mortality (per 1,000 live births)	55	41	36
Child malnutrition (% of children under 5)	18	..	..
Access to safe water (% of population)	92	81	89
Illiteracy (% of population age 15+)	17	13	13
Gross primary enrollment (% of school-age population)	111	110	107
Male	..	..	..
Female	..	..	..



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1975	1985	1994	1995	
GDP (billions US\$)	121.7	222.9	554.6	675.0	
Gross domestic investment/GDP	26.8	19.2	20.8	21.9	
Exports of goods and non-factor services/GDP	7.5	12.2	8.1	6.8	
Gross domestic savings/GDP	22.9	24.4	22.4	21.1	
Gross national savings/GDP	21.4	19.0	20.6	19.4	
Current account balance/GDP	-5.8	-0.2	-0.2	-2.6	
Interest payments/GDP	1.7	3.3	0.9	1.2	
Total debt/GDP	22.5	47.2	27.2	23.3	
Total debt service/exports	43.5	39.1	31.8	40.7	
Present value of debt/GDP	..	..	25.2	..	
Present value of debt/exports	..	..	276.3	..	
	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	3.0	1.5	5.8	4.2	5.3
GNP per capita	0.2	-0.1	3.7	3.7	3.8
Exports of goods and nfs	10.4	6.2	7.7	-0.4	6.2



STRUCTURE of the ECONOMY	1975	1985	1994	1995	
(% of GDP)					
Agriculture	12.1	11.5	12.7	12.8	
Industry	40.2	45.3	38.7	38.4	
Manufacturing	30.3	33.7	25.2	24.8	
Services	47.7	43.1	48.7	48.8	
Private consumption	66.5	65.8	61.1	62.1	
General government consumption	10.6	9.9	16.5	16.8	
Imports of goods and non-factor services	11.5	7.1	6.5	7.6	
	1975-84	1985-95	1994	1995	
(average annual growth)					
Agriculture	4.2	2.3	7.6	5.9	
Industry	3.0	-0.5	7.1	2.0	
Manufacturing	2.6	-0.9	5.5	1.6	
Services	2.9	3.0	4.4	5.7	
Private consumption	4.3	1.9	7.2	7.9	
General government consumption	0.8	2.3	-1.0	2.4	
Gross domestic investment	-3.2	0.2	8.5	9.2	
Imports of goods and non-factor services	-3.7	9.0	15.4	37.3	
Gross national product	2.5	1.7	6.2	3.8	



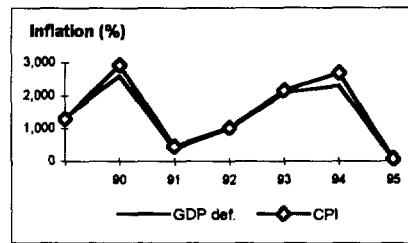
Note: 1995 data are preliminary estimates.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

## Brazil

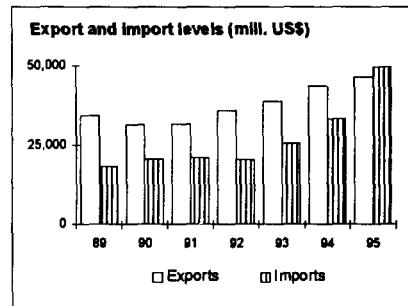
## PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
<b>Domestic prices</b>				
(% change)				
Consumer prices	29.1	226.9	2,668.6	66.0
Implicit GDP deflator	33.9	231.7	2,284.0	67.4
<b>Government finance</b>				
(% of GDP)				
Current revenue <sup>1</sup>	..	..	24.6	29.7
Current budget balance <sup>2</sup>	..	..	5.2	0.4
Overall surplus/deficit <sup>3</sup>	..	..	1.3	-5.0



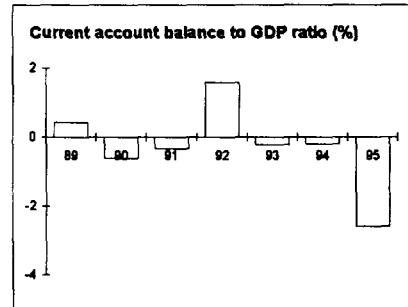
## TRADE

	1975	1985	1994	1995
(millions US\$)				
Total exports (fob)	..	25,638	43,563	46,506
Coffee	..	2,607	1,942	2,850
Other food	..	2,545	1,851	2,100
Manufactures	..	13,356	26,844	27,081
Total imports (cif)	..	13,153	33,133	49,663
Food	..	..	4,740	7,500
Fuel and energy	..	6,176	4,695	5,103
Capital goods	..	2,480	11,906	18,200
Export price index (1987=100)	..	97	116	121
Import price index (1987=100)	..	79	139	148
Terms of trade (1987=100)	..	123	84	82



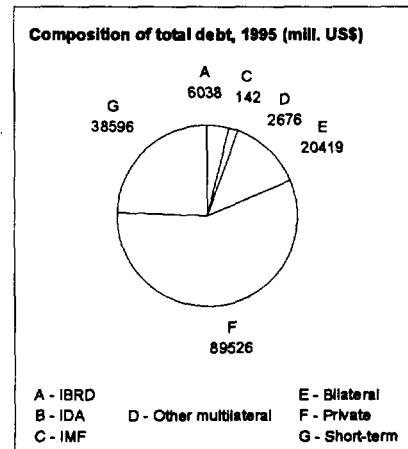
## BALANCE of PAYMENTS

	1975	1985	1994	1995
(millions US\$)				
Exports of goods and non-factor services	9,418	27,713	44,966	47,846
Imports of goods and non-factor services	14,323	16,928	36,187	53,516
Resource balance	-4,905	10,785	8,779	-5,670
Net factor income	-2,106	-11,213	-12,580	-15,246
Net current transfers	U	0	2,597	3,513
Current account balance, before official transfers	-7,011	-428	-1,203	-17,404
Financing items (net)	5,946	1,842	8,203	30,450
Changes in net reserves	1,065	-1,414	-7,000	-13,046
<b>Memo:</b>				
Reserves including gold (mill. US\$)	4,166	11,618	39,463	53,704
Conversion rate (local/US\$)	3.0E-12	2.3E-09	0.6	0.9



## EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US\$)				
Total debt outstanding and disbursed	27,329	105,187	151,104	157,397
IBRD	1,045	5,274	6,311	6,038
IDA	0	0	0	0
Total debt service	4,319	11,471	16,114	21,199
IBRD	98	796	1,883	1,868
IDA	0	0	0	0
Composition of net resource flows				
Official grants	9	34	69	65
Official creditors	1,059	935	-2,116	-1,181
Private creditors	4,213	149	3,717	867
Foreign direct investment	1,302	1,348	3,072	3,100
Portfolio equity	0	0	5,082	2,976
World Bank program				
Commitments	538	1,525	1,024	404
Disbursements	249	765	640	838
Principal repayments	26	405	1,346	1,377
Net flows	224	359	-706	-539
Interest payments	72	391	537	491
Net transfers	152	-32	-1,243	-1,030

<sup>1</sup> Tax revenue.<sup>2</sup> Primary budget balance.<sup>3</sup> Operational budget balance.







## **IMAGING**

Report No.: 16342 BR  
Type: PAD