Document of
The World Bank

Report No: 19585-BR

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EUR 218.2 MILLION
(US$202.1 MILLION EQUIVALENT)

TO THE

FEDERATIVE REPUBLIC OF BRAZIL

FOR A

LAND-BASED POVERTY ALLEVIATION PROJECT I

November 6, 2000

Brazil Country Management Unit
Environmentally and Socially Sustainable Development Sector Management Unit
Latin America and Caribbean Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective May 31, 2000)

Currency Unit	=	Real (R$)
R$1.00	=	US$0.55
US$1.00	=	R$1.82
EUR 1.00	=	US$0.92615

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

BB	-	Bank of Brazil
BNB	-	Bank of the Northeast of Brazil
CAS	-	Country Assistance Strategy
CONTAG	-	National Confederation of Agricultural Workers
FETAGs	-	State Federations of Agricultural Workers
ICB	-	International Competitive Bidding
IICA	-	Inter-American Institute for Cooperation on Agriculture
INCRA	-	National Institute of Colonization and Agrarian Reform
LCRD	-	Local Council of Rural Development
LSMS	-	Living Standards Measurement Survey
MDA	-	Ministry of Agrarian Development
MIS	-	Management Information System
NCB	-	National Competitive Bidding
NEAD	-	Center for Agrarian Studies
NGO	-	Non-Governmental Organization
NRDP/PAPP	-	Northeast Rural Development Program
NTU	-	National Technical Unit
PPA	-	Government Development Plan, 2000-2003
PRONAF	-	National Program to Strengthen Family Agriculture
RPAPs	-	Rural Poverty Alleviation Projects
SOE	-	Statement of Expenditure
STU	-	State Technical Unit

Vice President:	David de Ferranti
Country Director:	Gobind T. Nankani
Sector Director:	John Redwood
Task Team Leader:	Luis O. Coirolo

Brazil
Land-Based Poverty Alleviation Project I

CONTENTS

Annexes

Brazil
Land-Based Poverty Alleviation Project I

Project Appraisal Document

Latin America and Caribbean Region
Brazil Country Management Unit

Date: November 6, 2000		Task Team Leader: Luis O. Coirolo				
Country Director: Gobind T. Nankani		Sector Director: John Redwood				
Project ID: 50772	Sector: Agriculture	Program Objective Category: Poverty Alleviation				
Lending Instrument: Specific Investment Loan		Program of Targeted Intervention:	[X]	Yes	[ ]	No

Project Financing Data [X] **Loan** [ ] **Credit** [ ] **Guarantee** [ ] **Other [Specify]**
Amount: EUR 218.2 million (US$202.1 million equivalent)

Proposed terms: Fixed-Spread Loan (FSL)
Grace period (years): 5
Years to maturity: 15
Commitment fee: 0.85% during the first four years, 0.75% thereafter
Front-end fee: 1%

Financing plan (EUR million):

Source	Local	Foreign	Total
Federal Government (40%)	174.6	0.0	174.6
State Governments (5%)	21.8	0.0	21.8
Community Associations (5%)	21.8	0.0	21.8
IBRD (50%)	162.0	56.2	218.2
Total	380.2	56.2	436.4

Borrower: Federative Republic of Brazil
Responsible agency(ies):
- The National Ministry of Agrarian Development
- State Governments

Estimated disbursements (Bank FY/EUR million):	2001	2002	2003	2004
Annual:	43.6	80.7	82.9	11.0
Cumulative:	43.6	124.3	207.2	218.2

Expected Effectiveness Date: February 28, 2001 Closing Date: September 30, 2004

A: Project Development Objective

1. Project development objective and key performance indicators:

The proposed loan would assist Brazil in addressing one of the major factors underlying poverty in the countryside: inadequate access to land by the rural poor. The project has been preceded by two highly successful Bank-financed pilots, and is likely to be followed by further operations to support the Government's program of community-based land reform. The first pilot was implemented as a component within the Ceará Rural Poverty Alleviation Project (Loan 3918-BR), and the second was the self-standing Land Reform and Poverty Alleviation Pilot Project (Loan 4147-BR, known in Brazil as *Projeto Cédula da Terra*), currently under implementation in five states of Northeast Brazil. These pilots have tested a community-based approach to land reform in which beneficiary groups negotiate directly with willing sellers for the purchase of suitable properties, and then obtain financing for the purchase of the land and support for complementary subprojects and technical assistance to establish themselves and improve the productivity of the acquired properties.

These pilots were designed in a context whereby the Government of Brazil has been stepping up its efforts to address longstanding issues of landlessness. Since 1995, the Government has redistributed land to about 372,500 families, using a combination of traditional approaches, including expropriation, settlement on government-owned lands, and direct negotiation of land sales by the government with landowners. Beginning in early 1996, the Government also began experimenting with a community-based approach to land reform in the Northeast region under the two above-mentioned Bank-supported pilots. The results have been extremely positive, in terms of speed, cost per family, participation of beneficiaries and expected impact. With a stated objective of reaching 15,000 families in three years, *Projeto Cédula da Terra* is about to be completed, and will benefit some 23,000 families with about 617,000 hectares at a per hectare cost of about R$193 and per family cost of about R$4,759. With complementary investments of R$4,114 per family, the results are significantly below the costs of traditional interventions. In addition, a large number of families have already identified properties for purchase (but without yet completing the transaction until financing is available).

The proposed loan would extend the community-based approach to land reform across ten Northeast States, including Minas Gerais, and would introduce/pilot the approach in the South/Southeastern States of Paraná, Rio Grande do Sul, Santa Catarina, and Espirito Santo. The proposed project is complementary to other approaches to land reform practiced today in Brazil, and as a rule will not finance lands that would be subject to expropriation. It seeks to reduce rural poverty in these regions by increasing the incomes of about 50,000 poor rural and peri-urban families by extending the community-based approach to land acquisition and participation in complementary, demand-driven community subprojects. Key performance indicators will include: (a) the number of families benefited; (b) the economic efficiency and financial viability of the community subprojects as measured by the Internal Rate of Return and the repayment rate by the beneficiaries of the land loans, (c) the poverty alleviation impact as measured by household income growth and (d) cost effectiveness of the community-based approach as measured by financial costs associated with the land purchase, subproject investments and other financing.

B: Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project (see Annex 1):

CAS document number: 20160-BR **Date of latest CAS discussion: March 30, 2000**

The current Bank Country Assistance Strategy (CAS) for Brazil identifies the reduction of poverty and inequality as the central objective of the Bank's assistance efforts. The Northeast region, where proposed project activities will be concentrated, holds the largest share of rural poor, in Brazil specifically and Latin America generally. Although a wealthier region overall, the South/Southeast also faces serious income distribution issues, including limited access by the rural poor to land assets. The CAS recommends specific anti-poverty policies, including expansion of the successful land reform pilot (Loan 4147-BR) to the rest of the Northeast and other parts of the country. It also emphasizes the importance of decentralization and shifting of expenditure and implementation responsibilities from the Federal Government to the States, municipalities and local communities.

2. Main sector issues and Government strategy:

Rural Poverty and Inequality

- Poverty in Brazil has a strong rural and regional dimension. About 48 percent of the Brazilian poor (16.5 million people) live in rural areas, and the incidence of rural poverty is more than double that for large cities and other urban areas. The Northeast Region, covering nine states and part of a tenth, accounts for nearly 20% of Brazil's total land area and almost 30% of its population (1999). However, more than 60% of all Brazilian poor, and about 69% of the country's rural poor, live in this one region, where (a) a relatively poor natural resource base, (b) periodic droughts due to variable agroclimatic conditions, (c) skewed land distribution and (d) the poor functioning of rural financial markets, have combined to perpetuate rural poverty. In the South/Southeast, although the quality of land and other natural resources is generally better than in the Northeast, poverty is similarly concentrated in rural areas.

- The distribution of income and assets in Brazil is among the most unequal in the world. As a result, poverty rates are much higher than in other countries with a similar level of per-capita GNP. Beyond the obvious relationship between inequality and poverty, there is an emerging consensus that asset inequality is also a hindrance to economic growth (Deininger and Squire, 1997). A strategy for addressing rural poverty needs, therefore, to emphasize policies and programs to reduce this asset inequality, with a range of interventions directed at different population groups. Expanded education and training opportunities are critical variables, both for improving rural productive activities and services and to facilitate absorption of part of the rural poor into other sectors of the economy. Commercial agriculture can also absorb some wage labor, especially for those with basic education, and further expansion of irrigated areas in the Northeast will create more such opportunities. For smallholders who remain in rural areas, physical infrastructure, services and productive investments can significantly improve living conditions. Demand-driven community-based approaches (including community-based land reform) can be particularly effective. Finally, there is a group of rural poor (typically older, often widows as heads of household, and those farming in areas with especially poor natural resources) who will not benefit sufficiently from any of the aforementioned strategies, and for whom a special safety net is critical to ensuring a basic decent living standard.

Land Reform

- Limited access to land and extreme inequality in land ownership are central factors contributing to rural poverty in Brazil. The 1996 Agricultural Census shows 4.5 million rural households with insufficient land for subsistence (Annex 2), and while these data do not allow a direct relation, almost all of the 16.5 million rural poor are likely to be found in the 4.5 million rural households with little or no land. The same Agriculture Census and other studies have shown that family farms in the Northeast are more efficient and labor-intensive than large farms, thus demonstrating that skewed land distribution also limits agricultural productivity and employment. This finding is consistent with studies in other rural labor-surplus economies that show efficiency gains in family farms compared to large estates. Smallholders' access to credit is often limited by the absence of undisputed titles, creating a further bias in favor of large farms. Rental and sharecropping arrangements are common, but, without security of tenancy and access to credit, do not provide the same benefits as land ownership.

- Land reform can make a quantitatively important contribution to a rural poverty reduction strategy. Considering that land reform can create a sustainable source of income for the beneficiaries, its cost compares favorably with parameters relating to alternative strategies. For example, the cost of simple urban housing with basic public services in a mid-sized Northeastern city would typically be R$8,000-10,000. The investment cost per industrial job has been about R$30,000. This compares favorably with the cost of community-based land reform, of about R$10,000 per family.

- Economic changes in Brazil in recent years have made land reform more feasible than in earlier periods. This is because many of the economic distortions that have historically contributed to land concentration have been alleviated. Agricultural credit subsidies have been cut drastically, and inflation is low. The rural land tax (ITR) has been modified to significantly raise taxation on unproductive land. The combined effect of these changes has been to reduce the financial attractiveness of holding land for non-productive purposes, which in turn has increased the supply of land and reduced its price. Particularly in the Northeast, large tracts of land are available for sale at low prices by owners, as well as from banks that hold land as collateral for defaulted farm debt. With labor-intensive production

systems (partly subsistence, partly market-oriented), small farmers can significantly increase production on these lands and thus both increase their family incomes and repay the cost of the land. In the South/Southeast, higher land prices and wage levels present somewhat different economic conditions, although there are still areas available where it is believed that land reform can increase both efficiency and family farm incomes.

- In the past, land redistribution in Brazil has focused on Government-executed programs involving expropriation with compensation, and land settlement. These administrative approaches were often associated with long delays, high costs, and political/legal conflict, with the result that: (a) the number of people benefited over the years was quite small in relation to needs; (b) beneficiaries tended not to receive final titles for a very long time, if at all, and the cost per beneficiary proved extremely high because repayment for the cost of land expropriation and complementary investments by those resettled (as required by law) rarely occurred; and (c) the cost of compensation frequently rose as expropriated owners successfully pursued their cases in the judicial system. Government commitment to effective land reform increased significantly during the first Cardoso Government (1995-98), with the President setting a target to resettle 280,000 families in the three years ending 1998. To that end, from 1995 through 1999, the National Institute for Colonization and Land Reform (INCRA) redistributed more than 9 million hectares to about 372,500 landless rural households. These families were resettled using mainly traditional approaches to land redistribution through expropriation or direct purchase from landowners. The Government has also experimented with other complementary approaches to land reform, such as a public land auction in Rio Grande do Sul, *Projeto Casulo* in the North and Northeast, and the community-based pilots financed by the Bank.

- The community-based land reform approach was initially piloted under the Bank-financed Ceará Rural Poverty Alleviation Project in 1996, through which some 700 families acquired a total 23,377 hectares of land, at a per family cost of R$6,083 and a per hectare cost of R$179 for land, plus R$5,574 per family for complementary investments. Given the promising results of the Ceará pilot (both in terms of administrative and cost efficiency), the Brazilian Government made its first-ever request to the Bank for a free-standing Land Reform Project, which culminated in the *Projeto Cédula da Terra* (Land Reform and Poverty Alleviation Pilot Project, 4147-BR) in five Northeastern States (Bahia, Ceará, Maranhão, Minas Gerais, Pernambuco). *Projeto Cédula da Terra* combines a community-based approach to land acquisition with a matching grant mechanism to finance complementary investments aimed at increasing land productivity and smallholder incomes. With a stated objective of resettling 15,000 families in three years, *Projeto Cédula da Terra* is about to be completed and will benefit some 23,000 families with about 617,000 hectares at a per hectare cost of about R$193 and per family cost of about R$4,759 for land, plus about R$4,114 for complementary investments. These costs are significantly below those of the Government's traditional approaches (Annex 2). The positive results from *Projeto Cédula da Terra* prompted the Federal Government to engage the Bank in discussions on expanding the community-based approach to the rest of the Northeast and to other parts of Brazil.

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

The proposed project would extend the community-based approach to land reform across the Northeastern states, drawing on the lessons from the successful ongoing and fully committed *Projeto Cedula da Terra* project in five Northeast states. The proposed project would also pilot the community-based approach in four Southern/Southeastern States, where the structure of agriculture varies greatly from the Northeast (e.g., more diversified, capital-intensive, high-input). It would target lands that are not subject to expropriation and the poorest potential beneficiaries of the national land reform program. The project would follow the basic principles of the ongoing pilot project:

- *Decentralization*: The success of effective decentralized implementation of rural development projects in the Northeast under the Rural Poverty Alleviation Projects (RPAPs) and the Land Reform and Poverty Alleviation Pilot project helped to create a model for an institutional framework for a decentralized, community-based approach to land reform, administered jointly by State agencies and the financial institutions.

- *Community-based approach:* The community-based approach has proven cost-effective and non-conflictive. Community associations take the initiative by selecting and negotiating the land purchase and deciding priorities for productive investments, with funds being directly channeled to the respective community associations (see Implementation and Institutional Arrangements below). The pilot experiences show that reliance on community initiative leads to higher sustainability through self-selection of beneficiaries and lands to be purchased.

- *Access to Investments*: Rather than suffering from delays in public provision of support services, community associations have immediate access to financing for joint investments to make their newly acquired lands productive. A lump-sum amount, with a per family ceiling, is available for infrastructure and productive investment subprojects (see detailed description, Annex 3).

- *Piloting and thorough evaluation*: While important lessons learned from the pilots have been incorporated into the proposed project, thorough evaluation will continue and adjustments to the project will be made as problems are detected. The National Confederation of Agricultural Workers (CONTAG), its state-level federations (FETAGs) and local unions will actively participate in the evaluation of all phases of the proposed project, and other representatives of organized civil society could do the same.

Based on the pilot experiences, it is expected that the proposed project will continue to have significantly lower costs per beneficiary family and yield higher family incomes and higher returns to investments, compared with traditional land reform methods (Annex 2). Preliminary studies by FAO and the Center for Agrarian Studies of the Ministry of Agrarian Development (NEAD) indicate that post-adjudication costs under the traditional approach can increase land expropriation costs three-fold (see section B.2., above).

C: Project Description Summary. Project components (see Annex 3 for a detailed description and Annex 4 for a detailed cost breakdown):

The total project cost is EUR436.4 million, of which the Bank will finance EUR218.2 million. Component A (Land Purchase) would be implemented with Federal Government counterpart funds, including the National Land Fund (*Ley Complementar No. 93*). It would finance community-based land purchases for approximately 50,000 rural families. Component B (complementary investment subprojects) would provide matching grant funds for on-farm investments, including both infrastructure and productive activities, and related technical assistance. Strengthening of community associations, training and technical assistance at the State level would be supported under Component C, and incremental funding for Project administration, monitoring and supervision under Component D. Given the phased nature of the Land Reform Program, Component E would support impact evaluation that is integral to continued calibration of the overall design and implementation. The Federal Government will finance EUR173.7 million of the total project cost (40%), respective State Governments will provide EUR21.8 million (5%), community associations will provide EUR21.8 million in cash or in kind (5%), and the Bank loan will finance the remaining 50% of costs. It is expected that rural workers' unions, FETAGs and CONTAG will play a critical role in both technical assistance and impact evaluation activities. Other civil society organizations would also be welcome to participate.

Component	Category	Cost Incl. Contingencies (EUR million)	% of Total
(A) Land Purchase (land purchases for 50,000 poor farm families)	Physical (Land)	173.7	40.0
(B) Complementary Investment Subprojects (small grants to communities for investments, technical assistance and start-up)	Physical (Civil Works, Goods and Materials)	214.3	49.0
(C) Community development support and strengthening (technical assistance and training at the State level)	Institution-building	13.3	3.0
(D) Project administration, supervision and monitoring (State level)	Project Management	26.8	6.1
(E) Impact evaluation and dissemination by Federal Government	Other	8.3	1.9
	Total	**436.4**	**100.0**

2. Key policy and institutional reforms supported by the project:

Increased experimentation with the community-based approach to land reform as a complement to more traditional, administrative methods; strong local participation encouraged through a decentralized approach; sustainability of

subprojects enhanced through timely access to resources for complementary investments and technical assistance; and thorough land reform impact evaluation.

3. Benefits and target population:

Benefits:

- The sustainable increase in the incomes and quality of life of about 50,000 poor rural and peri-urban families previously without land or with insufficient land for subsistence.
- The generation of economic benefits in the form of increased agricultural output on the lands that are being acquired by beneficiaries.
- Expansion of community-based approach to land acquisition, helping the Government to continue its overall land reform program in a cost-effective and sustainable manner.

Target population:

The project is targeted at 50,000 poor rural and peri-urban families in ten Northeast States (Alagoas, Bahia, Ceará, Maranhão, Minas Gerais, Paraíba, Pernambuco, Piauí, Rio Grande do Norte, Sergipe) and four Southern/Southeastern States (Paraná, Rio Grande do Sul, Santa Catarina, Espirito Santo). It is estimated that, overall, Brazil has about 4.5 million families of occupants, renters, rural workers and owners of less than a full-sized family plot (1996 Agricultural Census; Gasquez and Conceição, 1998). Given that not all of these have the desire or ability to become family farmers, the likely number who could potentially benefit from land reform is probably closer to one-third to one-half of this number, or between 1.5 and 2.3 million families.

4. Institutional and implementation arrangements:

Implementation Period: Three years

Executing Entities:

Project Implementation:

- Community associations (consisting of families who do not own land or own insufficient land for subsistence) identify suitable lands and negotiate the purchase of those lands with willing sellers.

- Communities present to the Local Council of Rural Development (LCRD) (a) the owner's declaration of willingness to sell at a specified price, (b) the request for land purchase financing and (c) their choice of Financial Agent.

- The LCRD (a) analyzes community members' eligibility, the general characteristics of the land offered for sale and whether the negotiated price is consistent with local land market conditions and (b) makes resulting recommendations to the State Technical Units (STUs).

- The STU processes the community land purchase proposal, confirming that (a) the title to the land is clear, (b) no other condition threatens the effectiveness of the land purchase and (c) the negotiated price is consistent with market conditions.

- The STU authorizes the respective Financial Agent to enter into a loan agreement with the community association for the land purchase.

- The Financial Agent concludes the loan agreement with the community association and disburses loan funds to complete the land purchase.

- Communities decide internally as to the distribution of land among participating households and the corresponding payment obligations.

- Communities participating in the land purchase component are then eligible to receive funding for complementary investment subprojects and technical assistance to establish themselves on the land and to improve its productivity. The STU approves the subproject proposal on technical, environmental and institutional parameters.

- Following subproject approval by the STU, matching grant funds are disbursed by the Financial Agent to the community association, under a subproject agreement (*convênio*) signed between the STU and community association, for implementation and completion of the complementary subprojects. Community contributions, in cash or in kind, would constitute the counterpart financing for these complementary subprojects.

- Under a pilot component, financial agents would directly approve and finance selected subprojects, without the participation of the STUs. In these cases, banks would assume the full credit risk of the operation. *Banco do Brasil* has indicated the possibility of using lands held as collateral from defaulted farm debt for this component. The objective of this pilot is to open the path for commercial bank participation in land reform in Brazil, particularly for the most promising beneficiaries.

Project Coordination: STUs will: (a) appraise community subproject proposals for compliance with project guidelines and eligibility criteria set out in the Project Operational Manual; (b) assess community participation in identifying, preparing and executing 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) periodically report progress related to the project performance indicators; (f) prepare annual implementation and physical performance reviews; and (g) submit project Annual Operating Plans to the National Technical Unit (NTU) for approval.

Project Oversight: The Minister of Agrarian Development undertakes project oversight and the function of national project coordination through the NTU, under the Executive Secretary of the Ministry. The NTU approves the Annual Operating Plans for the Project and the respective resource allocations for Participating States. The NTU is responsible for overall project oversight with respect to monitoring, supervision, evaluation and reporting required under the project. Both *Banco do Brasil* and *Banco do Nordeste* have declared their willingness to act as financial agents for beneficiary associations under the proposed project.

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 (SOEs), 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 preceding land reform pilots have involved very innovative and pro-active approaches to monitoring and evaluation by the Borrower and intensive supervision by the Bank (see Section 3 below on Lessons Learned), and these will be continued and enhanced under the proposed project. 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 SOEs are generated; and (c) a project management module, from which all project reports are generated. STUs (and Financial Agents under the pilot) will establish, maintain and update the MIS, including key Project information. With 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. The NTU will aggregate all information from the MIS under its on-line monitoring system and undertake comprehensive impact evaluation of the project, drawing comparisons to the traditional approaches to land reform, leading to improvements in either (i.e., community-based or traditional) approach. CONTAG will actively participate in these and other aspects of project monitoring and evaluation. Representatives of other civil society organizations could also participate.

Impact evaluation of the community-based land reform was designed and has been field tested under the pilot project. The proposed project would finance the continued implementation of the study and its extension to the newly included States. It would be based on panel data sets, with a baseline taken in year 0 and follow-ups in years 1, 2, 5 and 10 (the project would finance the baseline and the year 1 and 2 surveys and their analyses). The basic panels to be used

include: (a) direct beneficiaries, their settlements, and the surrounding indirect beneficiaries (e.g., landless workers, merchants, providers of inputs and outputs) ; (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; and (c) a random sample of households from which can be constructed the control groups of non-beneficiaries.

Civil Society Participation: The project is implemented by civil society (community associations). Participation is also open to local, state and national civil society organizations, whose involvement could be very valuable for the project. This participation could take, among others, the following forms. *At the local level*, the Rural Workers' Unions and other representatives of organized civil society could (a) assist in project dissemination, aiding communities to organize, (b) help identify lands available for purchase, analyze land prices, and prepare land purchase proposals to be presented to the STU, (c) accompany and evaluate the Project, (d) take part in training of beneficiary associations and (e) discuss technical assistance and organizational strategy. In addition, civil society is represented on the LCRD. *At the state level*, a State Council, with participation from organized civil society representatives, would follow project implementation, making recommendations to improve Project implementation, and approving any exceptions required in processing land acquisitions. The State Council would have the authority to veto any operation that conflicts with Project guidelines. In one participating state in the South, the project could pilot civil society being ascribed the role of Technical Unit. *At the national level*, CONTAG and other representatives of organized civil society will participate in a National Council that would define the overall guidelines for the Project.

D: Project Rationale

1. Project alternatives considered and reasons for rejection:

a) Support for expansion of traditional land reform (i.e., redistribution through expropriation or direct purchase of land):

- The Federal Government seeks additional and complementary approaches to land reform that are cost effective and administratively expedient.
- Net fiscal costs per family (including land and productive investments) of the traditional approach are at least 40% higher than those of the community-based approach (see Annex 5).

b) Development of land rental market to promote general land productivity and efficiency:

- Rental arrangements are less effective in sustainably increasing incomes of the beneficiaries, because renters cannot use land as collateral in accessing credit and therefore short to medium-term rental arrangements tend to preclude longer-term investments.
- Liberalizing land rental markets is not sufficient to achieve efficient rental markets and farm operations (Deininger, et al. 1993).

c) Support for land purchases without assistance to beneficiaries for complementary investments:

- Experience under the pilots suggests that lump-sum grants to beneficiaries acquiring land, to support investments and technical assistance, are critical for achieving significant and sustainable increases in income, and that community decision-making with respect to the use of the grants has been quite sound.
- Grants linked to land purchases that result in viable farm enterprises improve the likelihood that Brazil's rural financial sector would become increasingly receptive to the idea of providing long-term financing for land purchases to rural poor communities.
- The reverse option, providing grants to poor communities for development activities not linked to land purchase, is possible and Brazil already has a large Bank-financed program in place to do this. However, such interventions do not tend to address the specific needs of the landless, for whom securing access to land is often a critical component of reducing poverty in a sustainable manner.

d) Wait and develop more experience from the Land Reform and Poverty Alleviation Pilot Project before proceeding with new Project.

- The pilot project is about to be completed, benefiting some 23,000 families in a cost-effective manner, and as evidence of potential demand for the project, a large number of additional families are already on the waiting list to purchase land. (Annex 2 and 5).
- Various evaluation studies have been completed. They provide a strong foundation for the next phase of Bank support and confirm the overall success of the pilot project in terms of both effective implementation and likely viability of the large majority of subprojects (Annex 2). Studies also provide valuable input to the design of the proposed project. Given the nature of investments, final in-depth evaluation of actual impact will only be possible after several years.
- Further adjustment to the design of the proposed project, reflecting new experiences, will be made on an ongoing basis within the framework described in this document.
- The remaining Northeast states and other states in the South/Southeast are urgently requesting their inclusion in an expanded community-based land access program.

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

Sector issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
		Implementation Progress (IP)	Development Objective (DO)
Bank-financed			
Land tenure regularization	NE Regional Land Tenure Improve. (2593-BR)	S	S
Land Reform	Land Reform and Poverty Allev. Pilot (4147-BR)	S	S
Community-based Rural Development	RPAP-Bahia (3917-BR)	S	S
	RPAP-Ceará (3918-BR)	S	S
	RPAP-Maranhão (4252-BR)	S	S
	RPAP-Paraíba (4251-BR)	S	S
	RPAP-Pernambuco (4122-BR)	S	S
	RPAP-Piauí (4121-BR)	S	S
	RPAP-Rio Grande do Norte (4120-BR)	S	S
	RPAP-Sergipe (3919-BR)	S	S
Ag. Tech. Development	PRODETAB (4169-BR)	S	S
Natural Resource Management	Nat. Res. Mgt and Pov. Allev. – Paraná (4060-BR)	S	S
Land Management	Land Mgt II-Santa Catarina (3160-BR)	S	S
	Land Mgt and Pov. Allev. – RG do Sul (4148-BR)	S	S

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in the project design:

The ongoing pilot project (Ln. 4147-BR) has involved extensive evaluation and intensive Bank supervision (Annex 2). First, the pilot includes a rigorous evaluation study comparing the economic and financial impacts of the community-based and traditional land reform approaches, carried out by the University of Campinas, Brazil (UNICAMP). Second, various smaller studies were commissioned and seminars held during 1998 and 1999 to evaluate either specific aspects of the pilot project or its impact through case studies. Third, very intensive supervision of the pilot project by the Bank has aided in evaluating implementation experience and extracting lessons for immediate adjustments to the project. Important lessons have been learned through a combination of supervision, international and national seminars, studies and workshops. The project is part of the Bank's Compact for Rural Development and has received more than average supervision support, with more than 70% of the supervision time provided by staff of the Bank's Brasilia and Recife Offices. Besides formal supervision visits from Bank Headquarters, project staff in the

field offices have made over 30 visits to participating states since project inception. Finally, the pilot project has been evaluated by private consultants and universities. The results have revealed that the community-based approach of the *Cedula da Terra* works effectively as an additional and complementary approach to expediting land access for the rural poor. As detailed below, land quality is adequate, land prices are lower than under more traditional approaches, self-selection is quite satisfactory and newly acquired farms show favorable expectations for financial and economic viability. Equally important, beneficiaries should be able to generate sufficient earnings to service their debt obligations and significantly raise both incomes and living standards. The following are summary assessments of implementation progress and impact to date.

- The project has created an agile and effective method of settling landless rural families. The community-based approach expedites land acquisition, with the entire process – from identification to purchase – typically taking less than 90 days.
- Self-selection for project participation has proven effective in pinpointing the landless rural poor; the vast majority of beneficiaries have household incomes and characteristics consistent with the target population.
- Most properties acquired under the pilot project have been small, relative to traditional land reform settlements, ranging in size from 15 to 30 families. Groups of less than 10 families are likely to face difficulties in forming an association board and the resources available to them tend to be insufficient to carry out critical investments. On the other hand, groups of over 50 families can be difficult to manage.
- To date, communities have consistently chosen good quality land at costs that represent significant savings relative to traditional land reform and without upward pressure on land prices. This result is quite striking, given the often low quality of agricultural lands in the Northeast. In drought-prone areas, the pilot project is focussing on ensuring sufficient access to water resources and STUs are avoiding approval for land purchases in areas where irrigation either does not exist or cannot be rapidly put into place.
- Land prices have been favorable, with lands under *Cedula da Terra* costing about 28% less per family than the present value of initial expropriation prices in the Northeast. Since expropriated owners often obtain additional compensation through subsequent judicial actions, the final cost of expropriated lands can be as much as three times the initial compensation amount.
- Project implementation through community associations has been successful overall. The design of the project places beneficiaries in the driver's seat, and the success of community associations in mobilizing members, selecting land for purchase, designing a productive subproject, and implementing it has been very impressive. Although many beneficiary associations were formed several years ago and are well-organized, others were formed only recently. Experience has shown that these more recent associations do need special support to build their human and social capital, while encouraging and fostering their autonomy.
- The great majority of subprojects promise to be financially and economically viable. Case studies confirm that in the more favorable agro-climatic regions, financial returns are likely to exceed estimates made at appraisal. In the semi-arid Sertão, financial estimates will likely be reached in many cases where adequate access to water is available. Annual family incomes in typical cases are expected to rise from previous levels of around R$1,400 to a level between two and four times as high within three to six years, net of required land loan repayments (see also Annex 5).
- Expanded technical assistance (up to 8% of land loan) during land purchase and subsequent production planning over the first three years will help associations in the identification of alternative available properties and possibly in the negotiation process. Enhanced technical assistance will further increase the likelihood of financial and economic success of subprojects.
- Streamlined approval of complementary investment subprojects, such that funds are immediately deposited with the community association following land acquisition and disbursed once a subproject proposal is presented and approved, will eliminate unnecessary delays.
- Given the likely economic and financial success of the vast majority of community groups, repayment of land loans appears likely. Still, further measures are important to reduce the risk of default on land loans.

- A strong MIS is a key instrument for monitoring implementation of a project which involves numerous community groups across different states. Both the MIS and continuous evaluation activities are critical to facilitate the identification of problems and early inclusion of improvements and adaptations.

In summary, in a relatively short period of time, the community-based mechanism tested under the pilot project has proven to be agile and cost-effective in increasing land access for the rural poor. The most important modifications to the project, based on the aforementioned evaluation and supervision findings, include the following: (a) technical assistance from STUs to community associations has been strengthened during land identification and subsequent negotiation, and special attention is paid to the needs of newly formed groups for closer support; (b) flow of funds has been streamlined so that complementary investment resources are available immediately upon completion of land purchase; (c) heightened attention s paid to availability of water resources in drought-prone regions of the participating states; (d) financial terms for land purchase have been revised to reduce the risk of default on land loans; (e) as a rule, only lands not subject to expropriation will be considered for purchase under the community-based mechanism; and (f) information campaigns and other forms of dissemination are being emphasized, to bolster understanding of the concepts and mechanisms of the community-based approach to land reform.

4. Indications of borrower commitment and ownership:

Throughout the second half of the 1990's, there has been growing pressure on the Brazilian Government to act rapidly to address issues of land access. In response, in early 1996, the Government upgraded the sectoral institutions, designated a Federal Minister for Land Reform (transformed into Agrarian Development in late 1999) while steadily increasing the Federal land reform budget (e.g., 1995: R$1.4 b.; 1996: R$1.5 b.; 1997: R$2.3 b.; 1998: R$2.0 b.). In 1999, however, the budget proposal for land reform had to be reduced significantly (R$1.4 b) in the context of drastic overall fiscal adjustment. Combined with increased expectations of implementation, this reduction makes more important Government's pursuit of more cost-effective complementary mechanisms for land access, such as the community-based approach of the proposed project.

In August 1999, the Federal Government prepared and submitted a comprehensive development strategy – *Avança Brasil – Plano Plurianual/ PPA 2000/3* – which determines Federal spending priorities for the next four years. The PPA sets forth six overall objectives that drive the national development strategy, (a) consolidation of economic stability with sustained growth, (b) promotion of sustainable development directed at employment generation and creation of income opportunities, (c) fight against poverty and promotion of citizenship and social inclusion, (d) the consolidation of democracy and promotion of human rights, (e) reduction of inter-regional inequalities and (f) promotion of the rights of minorities and victims of discrimination. Funds directly allocated to the Ministry of Agrarian Development over the four-year period total R$14.1 b., of which R$9.5 b. (67%) will strengthen family agriculture via the National Program to Strengthen Family Agriculture (PRONAF). The remaining funds ($4.6 b.) are earmarked for financing new rural land acquisitions and strengthening existing settlements (R$4.5 b.) and related support activities (e.g., mapping, MIS) and research (R$0.1 b.).

For the Government, the community-based land reform approach provides a cost-effective means of responding rapidly to demands of the rural poor for increased access to land, as a complement to traditional interventions such as expropriation (Annex 2). The proposed project was designed in close consultation with the Minister for Agrarian Development, who personally promoted the pilot initiative in the Northeast. The Governors of participating Northeast and Southern/Southeastern States have enthusiastically endorsed the project concept throughout project preparation.

New legislation, such as *Ley Complementar No. 93* of February 1998, which established the National Land Fund and the revision of the Rural Land Tax (ITR), which significantly increases taxation of nonproductive holdings, further confirms the Government's resolve to make resources available to implement sustained agrarian reform activities.

5. Value added of Bank support in this project:

As the principal international partner 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 expansion of a community-based approach to land reform in the region. The Bank contributes its experience with the highly successful community-based Rural Poverty Alleviation Projects (RPAPs) in all Northeastern States and the land reform pilots, both of which served as templates for developing implementation arrangements. Bank participation would also make available international experience of past and ongoing programs of land reform, and would ensure

the sound international quality standards of monitoring, evaluation and impact assessment. The Bank has also become actively involved in land and natural resource management issues in the Southern States, and will therefore also be well-placed to assist the Southern State governments in introducing the new approach to land reform.

E: Summary Project Analysis (Detailed assessments are in the project file, see Annex 9)
1. Economic (see Annex 5):

- Detailed economic and financial analyses were prepared to assess the quantitative effects of the proposed 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. This analysis was based on five 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 project impacts. Three of the five models (i.e., Semi-Arid, *Meio-Norte*, *Zona da Mata*) are updates from the economic analysis of the Land Reform and Poverty Alleviation Pilot Project (Loan 4147-BR), since these models are equally representative of the Northeast States to be covered under the proposed project. The substantially different conditions in the South/Southeast, where the community-based approach will be piloted, are represented by two additional models (PR-North and PR-Southwest). The farm models were independently validated by economic simulations of farming systems representative of those expected under the project in four participating states – Bahia, Ceará, Maranhão and Pernambuco – and by the findings of several evaluation studies.
- The various farm models produce Internal Economic Rates of Return (IERRs) ranging from 24% to 58%. The overall project IERR is estimated as 35%. Project economic returns are robust in a range of alternative scenarios. Economic simulations on representative farming systems broadly concur with the results of the farm models. Simulations outside the semi-arid zone show perspectives of medium-term annual household income net of debt service obligations of R$3,600 to R$5,400, and in some cases significantly higher, relative to a pre-project household income of R$1,400. In the semi-arid zone, most families would be expected to attain annual incomes of about R$3,000 to R$4,000 in normal years. Drought in the semi-arid zone places substantial temporary risk of downward pressure on household incomes, underscoring the importance of irrigation investments and careful evaluation of water access and irrigation potential in new purchase proposals.

2. Financial (see Annex 5):

- Annual net incomes of participating families are expected to rise from about R$1,400 to R$3,000-8,000 (including consumption of subsistence products) during the repayment period of the land loan, demonstrating the full financial viability of the family farms established under the project. Analysis of various alternative scenarios confirms the robustness of farm financial viability.

Fiscal impact:

- The estimated initial fiscal cost per family of community-based land reform in the Northeast is R$10,383, compared with the pre-adjudication cost of R$17,343 under traditional approaches. The sources of cost savings are: (a) lower land purchase prices resulting from negotiations between willing sellers and buyers; (b) lower investment costs due to the community-driven design and community participation in implementation; and (c) the actual repayment of the land loan.
- The proposed project would substantially reduce the net budgetary cost per family (including land and productive investments) participating in the land reform program. Thus, the project is expected to enable the Government to reach its targets at a net budgetary saving vis-à-vis what it would have spent if it had attempted to reach these goals exclusively through traditional expropriation and direct purchase. If the proposed project were to benefit 16,700 families per year (as proposed), the expected savings would be around R$116 million per year.

3. Technical:

- Detailed farm models confirm the feasibility of the establishment of family farms as foreseen under the project. The implementation of community subprojects will follow the extensive experience from the RPAPs and Land Reform and Poverty Alleviation Pilot projects. Communities can receive technical assistance (up to 8% of the

land purchase price) to improve land productivity. Technical assistance (up to 8% of subproject cost) is also available for the preparation and implementation of the complementary investment subprojects, including community development training in the areas of organization and social capital formation.

4. Institutional:

a. Executing agencies:

- In those participating states where RPAPs or the Land Reform and Poverty Alleviation Pilot Project are currently operating, STUs are now demonstrating satisfactory ability and agility in processing community proposals for land purchases and complementary investments, following the adoption of streamlined procedures (Annex 2). In the three Southern States where Land Management Projects are present, STUs have also proven to be adept at expediting community proposals for natural resource management. Two financial agents which are likely to participate in the project (*Banco do Brasil* and *Banco do Nordeste*) have effectively administered funds for Bank-financed operations in the Northeast and in other parts of Brazil. Together with the State Land Institutes, STUs have demonstrated the capacity to assess the negotiated land purchases and appraise community complementary investment subprojects, in both cases following the guidelines set forth in the project operational manual.

b. Project management:

- Day to day management of the project is fully delegated to the respective STUs in the participating states, which have a proven track record in the implementation of the RPAP projects in the Northeast and other Bank-financed projects in the South.

5. Social:

- 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 STUs, which will share information with rural workers' unions.

- It is expected that under the proposed project, most existing communities would purchase lands that are located close to their previous homes 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 Northeast 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, receptivity 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.

6. Environmental assessment: Environmental Category [ ] A [X] 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 any such negative impacts. The Project 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 STU. Technical assistance would be contracted for exceptional subproject types, for which

technical standards have not yet been developed.

- A technical evaluation would confirm that the farm size of each subproject is appropriate for sustainable family agriculture. To the extent that the project benefits smallholders who, due to the small size of their current lots, would otherwise practice unsustainable farming techniques in fragile zones (such as the Northeastern semi-arid areas), the project will reduce land degradation.

- The project will explicitly exclude the purchase of existing or proposed protected lands or areas with primary forest or with land claims by indigenous people, and areas adjacent to them. Specifically, the Amazon region is excluded from the project.

- In contrast to conventional land reform projects, which are often located at or near the agricultural frontier due to lower land costs, 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.

7. Participatory approach :

	Identification/ Preparation	**Implementation**	**Operation**
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
Note: information sharing (IS), consultation (CON); and collaboration (COL)			

F: Sustainability and Risks

1. 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.

2. Critical Risks (reflecting assumptions in the fourth column of Annex 1):

	Risk	Risk Rating	Risk Minimization Measure
Project Outputs to Development Objectives	• Failure of targeting mechanisms would prevent project from achieving the desired poverty impact	Low	• Establish transparent beneficiary selection mechanism; refine selection process with representation from rural worker unions and other social groups.
	• Failure of financial sustainability of established family farms	Moderate	• Detailed farm models and early experiences confirm financial viability of most new farms. • Financial package for beneficiaries is designed relatively generously.
Project Components to Outputs	• Government commitment weakened by escalating rural violence, undermining a constructive approach to land reform and strengthening resistance within the Government bureaucracy	Moderate	• Sound project design and fast project preparation to rapidly show 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 implementation begins.
	• Poor implementation capacity of rural communities	Moderate	• Availability of technical assistance within the financing of community subprojects. • Information dissemination on land available for purchase through State agencies and rural worker unions. • Assistance for communities in purchase negotiations through rural worker unions.
	• Deterioration in macroeconomic stability could inflate land prices (due to speculation) and significantly increase project costs	Low	• Continued policy dialogue by Bank Management and Bank support on macro policy issues. • The recently approved reform of rural property taxes (ITR) should help to depress land prices.
	• Disruption of the efficient and timely flow of funds from Federal to state Government levels	Substantial	• Full authority is given to States to withdraw from their sub-accounts within the limits established by Annual Operating Plans. • Advance deposits for land purchases will be made at the start of each financial year.
	• Insufficient land available at affordable prices in the Southern States	Moderate	• Recent changes in the rural land tax (ITR) and a 50% decrease in land prices have stimulated the sale of non –productive land in all regions of Brazil. However, high land prices may still hamper effective demand.
Overall Project Risk Rating		**Moderate**	

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N (Negligible or Low Risk)

3. Possible Controversial Aspects:

There is active debate among interest groups at the national level in Brazil about whether land purchase by poor farmers is less desirable than expropriation and subsidized land distribution. On the other hand, the approach has had a positive reception in the Northeast region, based on consultations with community associations and rural workers' representatives during project design. Furthermore, the proposed project (via the pilot experience) has been shown to lead to a market price that is lower than the compensation under traditional approaches, with better lands being secured and increased technical support. The community-based approach may be more controversial in the Southern States, where there is a strong tradition of activism among the rural poor in pursuit of land through expropriation. The Project team has discussed the community-based approach with representatives of rural organizations active in the South. While there is still resistance at the level of some of these organizations' leaderships, members at the field level are interested in participating in the project. Additionally, CONTAG has been involved in the preparation of the project Operational Manual to be used in all regions and will participate together with its state organizations (FETAGs) and with local (municipal) rural workers' unions in different aspects of project implementation. The project will also pilot state coordination by civil society or in partnership with STUs.

In order to diffuse political controversy surrounding the pilot project, as a rule the project will not finance the purchase of lands that are legally subject to expropriation. In rare cases, and with representation from the social movements, the project state council could agree on exceptions to this rule, under criteria to be specified in the project Operational Manual. Project councils at the state and federal level include representatives from the social movements. They will remain welcome to participate in the project even if some groups at this time choose not to take their seats on the project councils.

G: Main Loan Conditions

1. Effectiveness Conditions:

- The National Technical Unit has been established;
- Formal agreements between the Federal Government and at least three Participating States for the execution of the Project have been signed, and each relevant STU has been established;
- The Operational Manual and the Management Information System have been adopted by the Ministry of Agrarian Development and by all Participating States with signed formal agreements for the execution of the Project;
- Approval by the Bank of the Annual Operating Plan for the first year of project implementation;
- Agreements between the Ministry of Agrarian Development and the Financial Agents on the administration of land and Bank funds have become effective;
- Confirmation that an amount not less than US$12 million equivalent has been committed and is available for the purchase of land.

H. Compliance with Bank Policies

[X] This project complies with all applicable Bank policies

Luis O. Coirolo
Task Manager

John Redwood, Director
Sector Management Unit
Environmentally and Socially Sustainable Development

Gobind T. Nankani
Director
Brazil - Country Management Unit
Latin America and the Caribbean Region

Annex 1
Brazil
Project Design Summary

Brazil: Land-Based Poverty Alleviation Project I

Narrative Summary	Key Performance Indicators	Monitoring and Evaluation	Critical Assumptions
Sector-related CAS Goal: • 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
Project Development Objective: • Increase in incomes of rural poor through improved access to land and participation in community subprojects • Increase in agricultural output of lands included in the project • Piloting of community-approach to land reform in Southern Brazil	• Incomes of families participating in the project in comparison with control groups and pre-project income levels • Net economic benefits of increased agricultural production • Pilot program tested and evaluated	• Project Impact Evaluation to be undertaken by the Ministry of Agrarian Development, with baseline assessment and follow up study of with/without project population in target group, focusing on (a) beneficiary selection and targeting; and (b) income/production effects • MIS updated monthly • Annual Project Reviews • Supervision Reports	**(Project Development Objectives to Program Objectives):** • Financial and social sustainability of land and community subprojects • 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
Outputs: • Establishment of family farms on lands purchased by communities with project funds • Implementation of land-value improving community subprojects • Information and analysis that allows the evaluation of the pilot and its replicability and, if indicated, measures to broaden program implementation	**Output Indicators:** • Family farms established for about 50,000 participating families • Subprojects implemented covering about 50,000 families.	• Monitoring and reporting by State Technical Units of participating States • Coordination by Ministry of Agrarian Development	**(Outputs to Project Development Objectives)** • Effective targeting of project funding to poor beneficiaries • Financial success and viability of subprojects

Project Components/Sub-components:	Inputs: (budget for each component)	Monitoring and Evaluation	(from Components to Outputs)
• Funds for land purchase committed	• Land purchases for communities of a total of about 50,000 families approved and financed. (EUR 173.7 million)	• Monitoring and reporting by State Technical Units of participating States • Ministry of Agrarian Development and State Technical Units of participating States	• Strong Government commitment may be affected if escalating rural violence undermines a constructive approach to land reform or resistance builds up in Government bureaucracy
• Funds for community subprojects (investment and technical assistance)	• Subprojects for communities of a total of about 50,000 families approved and disbursed. (EUR 214.3 million)		• Strong implementation capacity by communities
• Technical Assistance and Training at the Community Level	• Seminars, training courses for community associations and STUs, information campaign to increase project awareness. • (EUR 13.3 million)		• Macroeconomic stability such that (a) land prices are not impacted by speculation and (b) project costs do not significantly increase.
• Project Administration, Monitoring and Supervision	• Field supervision and overall coordination of Project activities. • (EUR 26.8 million)		• Efficient and timely flow of funds from Federal to state Government levels
• Impact Evaluation and Dissemination	• Support for NEAD and comprehensive impact evaluation of project. • (EUR 8.3 million)		• Sufficient land available at affordable prices in the Southern States

Annex 2
Brazil
Land-Based Poverty Alleviation Project I
Evaluation of The Brazilian Experience with Community-Based Land Reform

I. Background

Twenty-one percent of the Brazilian population lives in rural areas. Using a poverty line of R$65 per month per capita and based on the 1996 PNAD household survey, 52% of the rural population is poor. Forty-eight percent of all of Brazil's poor (16.5 million people) live in the rural areas. Of these rural poor, 69% live in the Northeast, followed by the Southeast (16%), the South (9%), and the Center-West (4%). The heads of poor rural households have extremely low levels of schooling (52% less than one year, and another 30% up to four years). They work mostly as self-employed or informal employees, they have not migrated, and they have typically held their employment or occupation for many years.[1]

The 1996 Agriculture Census shows 4.5 million rural households with insufficient land for subsistence (Table 1). More than half of these are *minifundiarios*. While these data do not allow a direct relation, almost all of the 16.5 million rural poor are likely to be found in the 4.5 million rural households with no or little land.

Table 1: Rural Households in Brazil, by Land Tenure Status, 1996

Number of Households	Smallholder	Renter	Sharecropper	Occupant	Worker	Total
North	217,036	2,726	5,236	69,354	53,999	348,351
Northeast	1,201,739	150,441	180,116	472,289	344,720	2,349,305
Center-West	98,873	4,801	2,014	14,023	97,247	216,958
Southeast	448,138	23,499	32,148	33,867	291,314	828,966
South	488,698	46,776	48,254	58,088	130,415	772,231
Total	**2,454,484**	**228,243**	**267,768**	**647,621**	**917,695**	**4,515,811**

A strategy for addressing rural poverty has to include several elements directed at different population groups. First, further migration into urban areas seems inevitable, considering the high incidence of poverty, the large absolute number of very small farms, and the relatively low agricultural growth potential in non-irrigated areas of the Northeast. More training and education opportunities for the rural poor appear to be the most critical policy variable for facilitating this absorption into other sectors of the economy. An important preoccupation of policy makers is to maintain rural-urban migration at manageable levels. Second, the commercial agriculture sector can absorb wage labor, favoring those with at least some basic education. Further expansion of irrigated areas in the Northeast will create more such opportunities. Third, for those who stay in rural areas, productive investments can significantly improve living conditions. Physical investments and services for poor farmers (e.g., intensification through small-scale irrigation projects or community-based land reform) can efficiently increase labor productivity and incomes and reduce migration pressures. Fourth, there is a group of rural poor who will not be able to benefit from opportunities in commercial agriculture or small-scale intensification, or from migration. Members of this group are typically older, often widows as heads of household, and farm in poorly endowed areas. This group is 'trapped' in extreme poverty with little viable future in agriculture and faces considerable barriers in finding off-farm employment. For this group, a social safety net is critical to assure a basic decent living standard.

Land reform can make a quantitatively important contribution to a rural poverty reduction strategy. At the recent rate of 100,000 families settled per year, land reform could in five years reach 2.5 million people, or 15% of Brazil's rural poor (assuming five individuals per household). Considering that land reform creates a sustainable source of income for the beneficiaries, its cost compares favorably with parameters relating to alternative strategies. The cost of simple urban housing with basic public services in a mid-sized Northeastern city would typically be R$8,000-10,000. The investment cost per industrial employment has been above R$30,000. This compares to a cost of community-based land reform of about R$10,000 per family.

Due to its productive and economically viable nature, land reform is also attractive compared to the alternative of

[1] The rural North is not covered by this survey.

investments into a stronger rural safety net. If, hypothetically, the cost of about R$10,000 per family was converted into a perpetual income support (using a discount rate of 16%), this would be insufficient to achieve the same household income gains expected under the project. Under the proposed project, the same fiscal expense will allow most beneficiary families to reach an income level above the poverty line.

Brazil has one of the most unequal distributions of land ownership in the world (Deininger and Squire, 1996). Limited access to land and extreme inequality in land ownership are central factors contributing to rural poverty in Brazil. Moreover, studies undertaken in Northeast Brazil, and confirmed by the 1995/6 Agriculture Census, have shown that family farms are more efficient and 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 family farms compared to large estates. Smallholders' access to credit is often limited by the absence of undisputed titles, creating a further bias in favor of large farms. Rental and sharecropping arrangements are common but without security of tenancy and access to credit do not provide the same benefits as land ownership.

Economic changes over recent years have made land reform an investment that can reduce poverty and inequality at a relatively modest fiscal cost while at the same time improving the efficiency of the rural economy. Many of the economic distortions that have historically contributed to land concentration have been alleviated. Agricultural credit subsidies have been cut drastically, and inflation is at a historic low. The rural land tax (ITR) has been modified to significantly raise taxation on unproductive land. 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. Particularly in the Northeast, large tracts of land are available for sale at low prices by owners, as well as from banks that hold land as collateral for defaulted farm debt. With labor-intensive production systems (partly subsistence, partly market-oriented), small farmers can significantly increase production on these lands and thus both increase their family income and repay the cost of the land. In the South, higher land prices and higher wage levels create somewhat different economic conditions, although there are still significant areas available where land reform increase both efficiency and family farm income.

Historically, land reform in Brazil focused on Government-administered approaches through expropriation with compensation. These approaches had limited success due to long delays, high costs, the possibility for abuse, and political conflict. Also, repayment for the cost of land expropriation and complementary investments by those resettled (as required by law) almost never occurred. However, the speed and effectiveness of the expropriation process has been greatly improved recently. The Cardoso administration has greatly accelerated the pace of land reform in Brazil. From 1995 through the end of 1999, some 372,500 families were resettled, by far exceeding combined resettlements under the previous three administrations since 1985.

The challenges associated with the traditional approach to land reform led the Government to explore complementary approaches to improve land access. For example, INCRA launched a public land auction in Rio Grande do Sul that seeks to reduce the costs of land acquisition and expedite the creation of new settlements. Also, *Projeto Casulo* has already benefited 1,300 families in the North and Northeast by providing land for commercial agricultural purposes in peri-urban areas. Finally, the Government has piloted a community-based approach to land reform – first under the Ceará Rural Poverty Alleviation Project (Ln 3918-BR) and, more recently, under the *Cédula da Terra* project (Ln 4147-BR) – where beneficiaries negotiate the purchase of land directly with owners. By creating new options for land access through credit provision, community-based land reform increases the menu of available options for agrarian policy and the scope of land reform, enabling it, if well implemented, to benefit thousands of families in rural areas.

II. Implementation Experience with Community-based Land Reform

The community-based land reform approach was initially piloted under the Bank-financed Ceará Rural Poverty Alleviation Project (Ln 3918-BR) in 1996/97 at a total cost of R$4.1 million for land purchases and R$3.9 million for complementary investments. Families financed land purchases over 15 years, with five years of grace, at the government established long-term interest rate (TJLP) plus one percent with funds of the State Government. The complementary investments were Bank-financed on a matching grant basis with a 10% beneficiary contribution either in cash or in kind. Under this pilot, 44 community associations, with a total of 688 families, acquired a total of 23,377 hectares of land, at a per family cost of R$6,083 and a per hectare cost of R$179. With average complementary investments of R$5,574 per family, total per family costs were R$11,657.

Given the promising results of community-based land reform under the Ceará Rural Poverty Alleviation Project (both in terms of administrative and cost efficiency), the Brazilian Government made its first-ever request to the Bank for a

free-standing Land Reform Project, which culminated in the *Projeto da Cédula da Terra* (Land Reform and Poverty Alleviation Project, 4147-BR) in five Northeastern States (Bahia, Ceará, Maranhão, Minas Gerais, Pernambuco). *Cédula da Terra* combines a community-based approach to land acquisition with a matching grant mechanism to finance complementary investments toward increasing land productivity and smallholder incomes.

The pilot project, ***Cédula da Terra,*** combines elements of the successful community-based Rural Poverty Alleviation Projects in Northeast Brazil with an innovative community-based component for land purchases by the landless or near-landless rural poor. Five states comprise the project area: Bahia, Ceará, Maranhão, Minas Gerais and Pernambuco. Under the project, rural families come together to form community associations with the objective of identifying suitable land for purchase and then negotiating the sale of the land with willing land owners. Following title clearance from the STU/State Land Institute, these associations are eligible for financing of the land purchase through Federal Government counterpart funds. Loans for land purchase under the pilot project were initially for ten years, with a three year grace period, at the Government established TJLP. Communities then determine internally the allocation of land among participating families and the corresponding payment obligations.

The total cost of the pilot project is US$150.0 million, of which US$45.0 million corresponds to contributions by the Federal Government for land purchases (Table 2). Following the land purchase, the community associations are eligible to present proposals for on-land complementary investments, under grant financing from Federal, State and Bank sources, including a beneficiary contribution of at least 10% of subproject cost, in cash or in-kind. Technical assistance and community support are also financed through the pilot project, as well as a comprehensive impact evaluation that seeks to draw important lessons concerning the pace, targeting and cost effectiveness of the community-based approach to land reform.

Table 2: Components and Associated Costs, Land Reform and Poverty Alleviation Pilot Project

Component	Category	Indicative Cost (US$M)	% of Total
(A) Land Purchase Account (land purchases for 15,000 rural poor 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 the Federal Government	Other	6.7	4.5%
	TOTAL	**150.0**	**100%**

The pilot project sought to resettle some 15,000 families over a three-year period following effectiveness (September 12, 1997). For the first 9,000 families, about 225,000 hectares were purchased through negotiations between community associations and willing landowners, with implementation strongest in Bahía, Ceará, and Maranhão (Table 3). Cost per beneficiary family averaged R$4,759 and average land cost per hectare was R$193. In total, some 23,000 families are expected to benefit under the project with purchases of about 617,000 hectares. In regard to Component B, an average of R$4,114 has been available for each family resettled for the purpose of complementary subproject investments.

Table 3: Land Reform Pilot Project, Implementation Summary for the first 9,000 families

State	#Families	Total Land Area (Ha)	Ha/Fam	Total Value (R$million)	R$/Ha	R$/Fam
Bahia	2,429	44,986	18.5	10.58	235.1	4,355
Ceará	2,597	84,945	32.7	12.72	149.7	4,897
Maranhão	1,588	43,483	27.4	5.34	124.8	3,419
Minas Gerais	1,044	25,260	24.2	5.13	203.0	4,913
Pernambuco	1,435	25,996	18.1	9.51	365.8	6,627
TOTAL	**9,093**	**224,670**	**24.7**	**40.36**	**192.6**	**4,759**

Source: NEAD, INCRA

III. Evaluation of the Land Reform and Poverty Alleviation Pilot Project (Loan 4147-BR)

The extensive evaluations conducted and intensive Bank supervision of the pilot project reveal that the community-based mechanism works as an alternative and complementary approach to expediting land access for the rural poor. Thorough evaluation is an integral component of the pilot project. This approach ensures that lessons are learned and reflected in ongoing adjustments to the pilot and in the proposed project. In fact, various lessons from the ongoing evaluation have been incorporated into both the ongoing pilot project and the proposed project. Evaluation is being done at three levels (see Table 4 for list of completed and ongoing evaluation studies):

1. The Pilot Project includes a rigorous evaluation study comparing the economic and financial impacts between the community-based and the traditional land reform approach. This study – being carried out by the University of Campinas, Brazil (UNICAMP) – included a preliminary study in late 1998/early 1999, visiting more than one-half of lands purchased under the project and applying a comprehensive questionnaire to a representative sample of 222 households benefiting from the community-based land reform approach. Results from this preliminary study are applicable at the aggregate level (i.e., the five participating states), while an expanded sampling effort will be conducted in late 2000. Results from the expanded study will afford disaggregation to the individual state level. Parallel to the survey study described above, UNICAMP drew on data from the 1997 National Household Survey (PNAD) amassed for 3,413 households which share the characteristics of the target population for land reform (i.e., head of household > 18 years and <60 years, agricultural laborer, with household income < R$240 per month). These data were then analyzed and compared with data on *Cédula da Terra* beneficiaries to evaluate the effectiveness of the self-selection targeting mechanism. Under the proposed project, this thorough and rigorous impact evaluation will be continued and expanded to newly included states.

2. Second, various smaller studies were commissioned and seminars held during 1998 and 1999 to evaluate either specific aspects of the Pilot project or evaluate the impact of the project by means of case studies (Table 4). Most of the studies have been completed and form the basis of adjustments incorporated into the proposed project. These studies and seminars included, among others:

    - Detailed case studies of subprojects in different regions of Ceará and Bahia. These case studies included a qualitative assessment of project implementation and a quantitative model of the production system adopted or likely to be adopted in the selected cases.

    - Analysis of the functioning of community associations for implementation of the project and other social aspects.

    - Analysis of the financial structure set-up for the project, the likelihood of and measures to increase the likelihood of timely loan repayment.

    - The potential impact of community-based land reform on land markets and land prices.

    - Analysis of the total target population for land reform in Brazil.

    - Four seminars were held to discuss the ongoing implementation of *Cédula da Terra*

        - In July 1998, the Ministry of Land Reform and the Bank co-sponsored an international conference which spanned a wide range of topics including (i)the theoretical foundations linking wealth distribution,

poverty and growth, (ii) empirical evidence on these issues from different countries and (iii) specific applications and experiences, in particular with land reform, in different countries.

- In November 1998, the MDA sponsored – in conjunction with the State of Ceará, *Banco do Nordeste* and IICA -- a seminar entitled "Agrarian Reform and Sustainable Development" in Fortaleza, Ceará, with wide participation from NGOs, various government agencies and the Bank.

- August 1999, the Bank sponsored a workshop, attended by the National Confederation of Rural Workers (CONTAG), leading Northeast rural development NGOs, church agencies, RPAP technical personnel, and Bank staff, to explore ways to leverage greater participation by certain sectors (state federations and NGOs) in the ongoing RPAP and Land Reform and Poverty Alleviation Pilot Project.

- In December 1999, participating states and the Bank held a seminar to review and discuss the preliminary findings of the UNICAMP study of *Cédula da Terra*. The study looked at the beneficiary selection process, the characteristics of the settlements under the *Cédula da Terra* and the economic and financial viability of the settlements.

Table 4: Evaluation studies, *Cédula da Terra*

Completed Studies:	**Author(s)**
1. Land Reform Policy Options	Buainain et al. 1998
2. Rural Land Prices and the Impact of the *Cédula da Terra*	Reydon and Plata 1998
3. Social Relations on Land Reform Settlements	Martins de Carvalho 1998
4. Socioeconomic Profile of *Cédula da Terra* Beneficiaries	Souza Filho et al 1999
5. Demand for Land Access in Brazil	David 1999
6. Agrarian Reform and Development of Family Agriculture	Gomés et al 1999
7. Financial Options for Land Reform	Troster 1998
8. Evaluation of *Cédula da Terra* in Bahia	Garcia Filho et al. 1998
9. Social Dimensions of the Project	Navarro 1998
10. Case Studies of RPAP-Ceará pilot land reform component	Danilo 1998
Works in Progress:	
1. Technical Assistance for Land Reform Settlements	Lopes
2. Small-scale Agriculture in Brazil	DIPES/IPEA
3. Regional Impacts of Land Reform	REDES

3. The very intensive supervision of the Pilot project has aided in evaluating implementation experience and extracting lessons for immediate adjustments to the project. Important lessons have been learned through supervision, international and national seminars, studies and workshops. The project is part of the Bank's Compact for Rural Development and has received more than average supervision support. Some 82 staff weeks have been used in project supervision over a 27-month period, well above the average for other projects in Brazil, and with more than 70% of supervision time provided by staff of the Bank's Brasilia and Recife Offices. Besides formal supervision from Bank Headquarters, project staff in the field offices have made some 30 visits to participating states since project inception. The Brazil Country Management Unit (CMU) Director, the Regional Vice President for Latin America and the Caribbean, and other Bank Directors (including from the Africa region) have visited the project. There have also been a number of workshops involving the STUs with the community associations in each state, the latest one with all 50 associations of the State of Pernambuco. In addition, the project has been evaluated by private consultants and universities. The result of all this activity has been a series of lessons which have been or will be incorporated as changes or adaptations in the existing project and the design of the proposed project. Because of large interest in the Bank and among foreign governments, the project has received frequent visits. This together with the Bank's presence in the Recife field office has led to a much more intensive supervision effort than otherwise typical.

4. In addition, two requests for an investigation of the pilot project, submitted to the Bank's Inspection Panel in December 1998 and again in September 1999, provided a further opportunity for stocktaking and evaluation of the project's implementation experience. The Inspection Panel reviewed both requests, visited several subprojects in the field and, in May 1999 and again in December 1999, concluded not to recommend an investigation of the project.

IV. Evaluation Findings

Results from the various evaluation studies conducted, as well as Bank supervision, reveal that the *Cédula da Terra* project is achieving its objective of expediting land access to the rural poor. The evaluation confirms that the innovative community approach is working and producing effective results on the ground. Given the innovative nature of the pilot project, the evaluation shows results as favorable as they could possibly be expected at this stage, lending strong support to the continuation and expansion of the approach. As detailed below, land quality is adequate, land prices are lower than under more traditional approaches, self-selection is quite satisfactory and newly acquired farms show favorable expectations for financial and economic viability. Equally important, beneficiaries – with few caveats – should be able to generate sufficient earnings to service their debt obligations and significantly raise both incomes and living standards. The following are summary assessments of implementation progress and impact to date, as well as modifications both introduced to the current project and slated for introduction in the proposed project:

1. *The project has created an agile and effective method of settling landless rural families:* A central message from many organizations and the beneficiaries themselves, is that the target population wants land access in a rapid, participatory and less conflictive manner, even though they know the land must be purchased. Proof of this was the huge demand for purchase of land, which reached about 40,000 families by the end of the first year of project implementation. The community-based approach expedites the settlement of landless rural families, with land acquisition from identification to purchase typically taking less than 90 days (as long as funds are available). It is important to place this finding in the context of overwhelming demand for land access: a large number of families have negotiated lands and are today awaiting approval and availability of loan funds for land purchase. Given this demand for land access and a proven mechanism for expediting rural land purchases for the target beneficiaries, it would be irresponsible not to move forward with the community-based approach.

2. *Self-selection of the landless rural poor is working well:* Results of the preliminary evaluations presented in Buainain et al. (1999a, 1999b) clearly demonstrate that the project is attracting families with the social and economic profile of the intended target group (i.e., poor families in rural areas). The average beneficiary household monthly income was R$92, or about 73% of the national minimum wage. About one-half of this income was generated off-farm. Some 32% of beneficiaries were illiterate, while another 47% had completed no more than 4th grade. Discriminant analysis of the data reveals that *Cédula da Terra* beneficiaries (i) have lower overall asset ownership, larger household density and poorer quality housing, relative to comparisons with a control group of households with similar socioeconomic standing (Buainain 1999b). Leakage to non-poor beneficiaries is minimal and would not justify a more structured targeting mechanism. Most beneficiaries are previous tenants or share-croppers, often on the same lands purchased under the project. Practically all have some previous farming experience, with some 90% having worked in the rural sector prior to becoming project beneficiaries. The requirement for active participation by beneficiaries leads to a desirable self-selection of "entrepreneurial poor" who are more likely to be successful as farmers than the average rural poor.

3. *Most settlements under the pilot project have been small, relative to traditional land reform settlements:* It has been observed that groups should have a minimum of 10 families and a maximum of 30 to 35 for optimal performance. Community associations under the pilot project tend to range in size from 15 to 30 families. Groups smaller than 10 families are likely to have difficulty forming an association board, which is a condition of eligibility for land. The resources available to a very small group are likely to be insufficient to make certain investments, either due to cost (as in the case of rural electrification), or to under-utilization of purchased equipment, (in the case of a tractor). For groups of over 50 families, experience shows that management of a rural property by a large group can be difficult and that the tendency, demonstrated in traditional land reform settlements, where 100, 200 or more families are settled, is for such groups to ultimately be sub-divided into smaller groups of around 50 families which then create their own associations.

    - The proposed project will continue to be viewed (as has been the *Cédula da Terra*) as a complementary instrument for providing land access to the rural poor. While innovative in many aspects, and different in others when compared with traditional land reform approaches, these complementary lines of action will, over time, find both their own particular pace and space, and be utilized in a way that maximizes benefits from the Federal land reform program.

4. *Land quality is generally adequate and representative of the predominant conditions in each state*: Most purchased land shows promise for good productive potential including adequate water supply or irrigation potential. In fact, beneficiaries have often made excellent choices for their land. For example, typical cases

include the purchase of banana, coconut and cacao plantations that were underutilized by previous owners because of high labor costs and labor supervision requirements but can quickly be turned productive and profitable again. This result is, in fact, quite striking, given the often low quality of agricultural lands in the Northeast and the tendency of land reform in the past to focus on low quality lands. Buainain et al. (1999b) analyzed the prevailing geography in each state, comparing it with the characteristics of the purchased lands under the project and found the *Cédula da Terra* projects to be well-distributed among the meso-regions in the participating states, with low levels of concentration in any one meso-region. (Table 5). Some better-endowed lands (e.g., *Oeste Baiano* in Bahia, *Serra de Ibiapaba* and *Serra do Cariri* in Ceará) had no land purchases under *Cédula da Terra*, most likely due to the cost of these holdings in relation to the cost ceilings imposed by the project. In line with overall agroclimatic conditions in the region, some areas are prone to periodic droughts and require access to water or irrigation investments to ensure sustainable production.

- In drought-prone areas, the pilot project is focusing on (and the proposed project will emphasize) ensuring sufficient access to water resources, particularly through TA available for production and productive investment planning and complementary investment in irrigation. Also, STUs will avoid approval for land purchases in drought-prone areas where irrigation either does not exist or cannot be rapidly put into place.

Table 5: Distribution of *Cédula da Terra* Projects across Meso- and Micro-regions, participating states

States	Meso-regions with Projects (%)	Micro-regions with Projects (%)	State Projects (% of Total)
Bahia	71%	38%	24%
Ceará	86%	55%	34%
Pernambuco	100%	58%	17%
Maranhão	100%	48%	13%
Minas Gerais	60%	43%	12%

5. *Land prices are very favorable:* Lands prices under *Cédula da Terra* are about 22% lower per hectare and 28% lower per family than the present value of initial INCRA expropriation prices in the Northeast. There has also been a general downward trend in land prices in the Northeast, due to recent changes introduced at the Federal level (e.g., increased ITR). Under the pilot project, land has been acquired at an average cost of R$193 per hectare and R$4,759 per family. The nominal cost of expropriated land in the Northeast in 1998 was R$311 per hectare and R$8,229 per family. Since part of the expropriation compensation is paid in long-term government bonds at below-market interest rates, the nominal values for expropriation need to be adjusted to present value terms to be comparable to cash payments to owners under the project. Employing an estimated medium- to long-term interest rate of 16%, the cost of expropriated land in the Northeast in 1998 was R$249 per hectare an R$6,578 per family. Moreover, in many cases expropriated owners later obtain additional compensation through judicial actions, which can increase the final cost of expropriated lands to as much as three times the initial compensation amount.

6. *Project implementation through community associations has been overall successful:* The success of community associations in mobilizing members, selecting land for purchase, designing a productive subproject, and implementing it is truly remarkable, given the constraints they face. Bauinain (1999a), using the aforementioned analysis of the self-selection targeting mechanism, found that the average beneficiary "...besides having a low income level, has a low educational level, no experience with modern technology, limited access to general and technical information, and little experience in running a business..." – all of which are fully consonant with the characteristics of the rural poor of the Northeast and combine to place substantive obstacles in the way of project beneficiaries in the course of implementation. Although many beneficiary associations were formed several years ago and are well-organized, others were formed only recently. Experience has shown that these more recent associations can lack a set of agreed principles to guide interpersonal relationships between the groups formed, and an understanding of public policies and basic notions of planning, which are needed to make settlements sustainable. The key challenge is to provide support to these associations while encouraging and fostering their autonomy. These issues have been discussed at length with participating states and with NEAD, and recommendations have been adopted for the proper training of settlers to efficiently implement and start settlement activities, creating the foundations for the settlement's sustainability. This model for building human and social capital will also be a feature of the proposed project.

The design of the project places beneficiaries in the driver's seat, and its success depends entirely on their active participation, through community associations, in all stages of the project cycle. Experience to date has been very positive at the community level, with the associations (many of them pre-dating the project) showing strong

interest, initiative and active participation. At the same time, the project also envisaged the creation of a Consultative Council in each State, comprising representatives of Government and organized civil society, including churches, unions (of owners and workers) and other NGOs. In contrast to the active grassroots level community associations, the Councils' performance has been below expectations. The Government is reviewing the functions, composition and procedures of the Councils to identify ways to increase their effectiveness.

- The proposed project will include a special effort by the States to provide assistance to community associations in the project identification phase. Before subproject approval, members of the STU will discuss the subproject proposal with the entire association to ensure that the proposal is the outcome of an effective decision-making process within the association, and all that its members clearly and fully understand the obligation they are assuming under the project.

7. *The subprojects demonstrate the expectation for financial and economic viability:* Simulations based on actual properties purchased and conditions faced by beneficiaries show that the great majority of production systems under the project have the capacity to generate sufficient income to lift families out of poverty and enable them to repay the land loan (Buainain et al. 1999b). In the more favorable agro-climatic regions, financial returns are likely to exceed estimates made at appraisal (Box 1). In the semi-arid *Sertão*, financial estimates will likely be reached in many cases where adequate access to water is available (see no. 4 above). When the Project was prepared, the TJLP was selected by the Government and applied to the financing for land purchases under the pilot project. The payment period, as defined, was up to 10 years, with 3 years' grace. Studies done by NEAD found that, in most regions such as the *litoral* (coastal region) of Bahia and Ceará, repayment likelihood was very high under the terms stipulated by the loan. In the least advantaged regions, however, principally the semi-arid, which is subject to periodic droughts, some families could find it hard to fulfil their repayment obligations. Furthermore, a temporary though significant increase in the TJLP in the context of the recent economic crisis increased the cost of the land loan to a level at which repayment in some of the least favorable areas would have been doubtful.

Box 1: Financial Viability of Farms Representative of *Cedula da Terra* projects

Northern Coast of Bahia. Typical production systems include coconut, fruits and livestock, and net family incomes are expected to reach R$3,000 after four years and R$5,000 after ten years, leaving no doubt as to capacity to repay land purchase loans.

Cacao Region of Bahia. Annual net family incomes will range from R$2,500-R$2,800 in Year 7 and R$3,700-R$4,000 in Year 10, depending on climatic conditions. Expected financial outcomes in the extreme South of Bahia are similar to, or marginally better than, those in the cacao region.

Semi-arid Region of Bahia. Production systems are similar to those in the semi-arid zone of Ceará (beans, corn, manioc, and livestock), although access to irrigation is much better. Net family incomes are expected to reach R$4,000 in years of normal rainfall, while drought years will yield net incomes substantially lower, thus making debt repayment difficult and again highlighting the importance of evaluating irrigation potential on prospective land purchases.

Semi-arid Zone of Ceará: This is the most difficult area, typically with subsistence production systems (beans, corn, manioc), some livestock (goats, cattle), and some higher value crops in relatively small irrigated areas. Under rain-fed conditions in normal years, net family incomes would reach about R$1,300 in Year 4, reaching as high as R$2,000 in Year 10, but a significant share of this income is in the form of a on-farm consumption. Drought years in the rain-fed areas would make loan repayment extremely doubtful, while irrigated areas in drought years would be expected to have net family incomes in a range of R$888 to R$2,000. Irrigation in normal years would yield net incomes on the order of R$1,600 to R$3,400.

Maranhão: Cattle production, beans, rice, maize and cassava (possibly using animal traction) would translate into net family incomes of about R$2,000 in year 4, reaching R$3,500 by year 10.

***Zona de Mata* of Pernambuco:** Drawing on an existing *Cédula da Terra* property – a once-abandoned coconut plantation – which should yield net family incomes of about R$5,500 by year 4.

- The TJLP is no longer used to define financial charges stemming from the loan and has been replaced by the loan conditions of the National Land Fund (*Ley Complementar, No. 93*), which include a fixed real interest rate of 4% per annum and a payment period of 20 years. These new charges and terms will also be applied retroactively to current land loans before the end of the three year grace period.

- Under the proposed project, beneficiaries will receive a land loan for 20 years (with three years of grace) with a fixed interest rate of 4%. Under these conditions financial and economic viability in all areas is highly likely.

8. *Given the likely economic success of the vast majority of subprojects, repayment of land loans appears likely, however, further measures are being taken to reduce the risk of default on land loans:* Beneficiaries themselves are optimistic and enthusiastic regarding loan repayment (Box 2). The replacement of the TJLP with a fixed real interest rate of 4% per annum and a payment period extended to 20 years will only increase the already strong likelihood for repayment on the part of the beneficiaries.

    - Under the proposed project, land loan will be also be granted at a fixed interest rate and structured more like a fully commercial banking operation with periodic balance statements. The pilot under the proposed project (with full commercial risk of the operation taken by the financial agent) will seek to establish a model under which the agent has much stronger incentives for effective debt collection.

Box 2: Voices of *Cédula da Terra* Beneficiaries

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

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

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

-Edilson, community of Maria Izabel, Gravatá, Pernambuco

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

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

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

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

9. *State Technical Units and CSOs play an important role in supporting community associations in the identification and negotiation of land purchase opportunities:* Lack of information and some tendency toward purchasing the land previously cropped as share-croppers have inhibited many beneficiary associations from comparing a broader range of properties available for sale and actively negotiating the purchase price with the previous owners. Frequently, State agencies have assisted in land identification and subsequent negotiations, thus ensuring land quality and purchase prices consistent with prevailing market conditions. In other cases, NGOs, churches and

others have provided useful support to community associations in the identification and negotiations processes. Buainain et al. (1999a) found that the role of State agencies in supervising and mediating the land negotiation and purchase process was both adequate and necessary and recommended that it be reinforced. It is expected that, over time, as local capacity is strengthened, the role of State agencies in helping communities during the land negotiations process will diminish. The proposed project will include several modifications to provide additional support to beneficiary associations in selecting and negotiating land for purchase:

- Beneficiary associations can contract technical assistance for the preparation of their project proposal. This includes assistance in land selection and negotiations. Up to 8% of the approved land loan can be used for this purpose and is released at the time of land purchase. Subproject applications would include information on other properties considered for purchase and rejected.

- Each participating State will present an action plan for an expanded publicity campaign and the further mobilization of NGOs, banks and other groups to provide information and assistance to beneficiary associations, through seminars, training programs and other means.

- In particular, a mechanism would be developed for regular dissemination of information by state and region on properties for sale.

10. *Technical assistance, in conjunction with the land purchase and subsequent productive activities, is crucial to both realize and sustain project benefits:* Under the pilot project, community associations have access for technical assistance for their specific investment projects. The extent and quality of broader technical assistance has differed with the availability and quality of local public extension services (EMATER) or different private institutions. Studies/observations during the first year of project implementation indicated that official TA has fallen short of expectations in both quality and timeliness. The Project calls for TA funding for the preparation and implementation of community investment subprojects. However, communities need more effective and efficient TA in planning family farming activities, i.e., the production of crops and their processing, storage and marketing.

    - Alternatives have been discussed with the STUs to improve TA for beneficiary families, especially in the first three years of settlement. The amount allocated for the community to purchase TA has been increased during the land purchase process and subsequent production planning over the first three years after installation to help ensure increases in productivity and incomes.

    - To ensure sufficient and high quality technical assistance for community associations, the proposed project includes the option for communities to use up to 8% of the land loan for the contracting of technical assistance, up to 4% for initial technical assistance for project preparation, and the remainder for technical assistance for the production system throughout the first three years of the subproject. In addition, community associations will continue to be able to contract technical assistance for the specific investment subprojects, as under the pilot project.

11. *In some States, there have been significant and unnecessary delays in the approval of investment subprojects after land acquisition:* Bureaucratic bottlenecks and a slowdown of the flow of funds at the Federal level hindered the implementation of complementary investments to the newly acquired lands. Such delays slow the establishment of productive farm operations in the critical first year and need to be avoided. Experience with land reform over many decades shows that to avoid out-migration and keep families on their land, they must establish themselves in the area immediately after land is acquired.

    - Under the pilot project, a mechanism was introduced by which, immediately after land acquisition, the STU calculates the amount of community investment (under the defined subsidy ceiling) to which each beneficiary association is entitled, plus aid in the amount of R$1,300 for the cost of establishing each family. The STU authorizes the *Banco do Brasil* to draft a single contract with the association, with investment subproject resources being blocked in each association's account until subproject proposals are approved by the STU, at which point the resources are rapidly unblocked and disbursed. This streamlined mechanism permits beneficiary families to immediately use the aid money to move in and get established. The certainty of investment resources once the land is acquired, without the need to work as paid laborers to support their families, encourages beneficiaries to establish the property rapidly and start farming.

    - Under the proposed project, the streamlined approval procedures for investment subprojects will be used

from the beginning. In addition, the technical assistance available for project preparation will support associations in the definition and preparation of necessary investments as early as possible, thus speeding up their implementation after land acquisition.

12. *The control structure and the information system have been adequate for a rapidly evolving pilot.* The pace with which the pilot has been implemented has placed a high degree of importance on reliable data to assess achievement of project objectives and determine demand for follow-up activities. Data detailing implementation progress are freely available through the INCRA homepage (http://www.incra.gov.br); this site also allows downloads of evaluation studies and other materials related to *Cédula da Terra.*

    - NEAD has worked to further improve the scope of the MIS for the pilot project. The current MIS provides data on all phases of the land acquisition cycle, including details of land purchase proposals (e.g., land type and location, families benefited, expected cost of land, production potential), final land purchase arrangements, and complementary investments financed through the project.

    - As a condition of effectiveness, the Government will establish the MIS, which is the key instrument for monitoring implementation of all subprojects on a on-line basis.

V. Summary

In a relatively short period of time, the community-based mechanism for land reform piloted under the project has proven to be agile and cost effective in increasing land access for the rural poor. The modifications to the project, based on the aforementioned evaluation and supervision findings are summarized below:

- Only lands not subject to expropriation will be considered for purchase under the community-based mechanism;

- Financial terms for land purchase have been revised to a fixed real interest rate of 4% over a 20 year loan period;

- Flow of funds has been streamlined such that complementary investment resources are available immediately upon completion of the land purchase;

- Technical assistance from STUs to community associations has been strengthened during land identification and subsequent negotiation;

- Heightened attention to availability of water resources in drought-prone regions of the participating states;

- Expanded information campaign to bolster understanding of the concepts and mechanisms of the community-based approach to land reform.

Annex 3
Brazil
Land-Based Poverty Alleviation Project I
Detailed Project Description

Project Component A: Land Purchase Funds– EUR 173.7 million (US$160.87 million equivalent, total cost plus contingencies)

This component includes land purchases by community associations of poor farmers without land or with insufficient land, funded by loans (financed from Federal Government budgetary sources) representing counterpart funding for the Bank-financed project components. Component costs are estimated at US$160.0 million for about 50,000 families in the Northeast and South (at an average cost of US$3,000 per family in the Northeast and US$11,000 per family in the South). The component would be implemented as follows:

- Community associations (consisting of rural workers who do not own land or own insufficient land for subsistence) identify suitable lands and negotiate the purchase of those lands with willing sellers.

- Communities present to the Local Council of Rural Development (LCRD) (a) the owner's declaration of willingness to sell at a specified price, (b) the request for land purchase financing and (c) their choice of financial agent.

- The LCRD (a) analyzes community members' eligibility, the general characteristics of the land offered for sale and whether the negotiated price is consistent with local land market conditions and (b) makes resulting recommendations to the STUs.

- The State Technical Unit (STU) processes the community land purchase proposal, confirming that (a) the title to the land is clear, (b) no other condition threatens the effectiveness of the land purchase and (c) the negotiated price is consistent with market conditions.

- The STU authorizes the respective financial agent to enter into a loan agreement with the community association for the land purchase.

- The Financial Agent concludes the loan agreement with the community association and disburses loan funds to complete the land purchase.

- Communities decide internally as to the distribution of land among participating households and the corresponding payment obligations.

The MDA will provide loan funds for each participating State from which community land purchases will be financed. The financial agents for the project, appointed by the MDA, will administer and disburse loan funds for land purchases to the community associations through the financial agents chosen by the communities.

Land purchases would be collective financial obligations formalized through contracts signed between the participating banks and the respective community association. Terms of the land purchase financing would follow those set forth under the National Land Fund (i.e., *Ley Complementar No. 93*) including financing for up to 20 years, with three years of grace, at a nominal interest rate of not more than 12%. The current financing conditions for loans of the amount to be paid under this project (i.e., under R$15,000) provide for a real interest rate of 4% with a 50% rebate on the interest rate in the poorest regions of the country.

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 also conclude agreements with financial agents for the project, appointed by MDA, specifying the terms of the loans to be made to beneficiary communities. The details of the operational mechanism for community land purchases will be described in an operational manual for the land account.

Up to 8% of the total land purchase cost is available to the community association in the form of technical assistance, of which up to one-half could be accessed for aid in preparing the land purchase subproject. Remaining technical assistance could then be applied toward increasing the productivity of the land acquired over a subsequent three year period of project implementation.

Under a pilot component, financial agents (*Banco do Brasil* and/or *Banco do Nordeste*) would implement some subprojects fully under their responsibility. In these cases, there would be no participation from STUs, and financial agents would assume the full credit risk of the operation. *Banco do Brasil* has indicated that they would like to use lands they are holding as collateral from defaulted farm debt for this component. The objective of this pilot is to open the path for commercial bank participation in the pilot, in particular for the most promising beneficiaries.

Project Component B: Community Subprojects – EUR 214.3 million (US$198.47 million equivalent, total cost plus contingencies)

Communities participating in the land purchase component are then eligible to present proposals to their respective STU for financing complementary investment subprojects and technical assistance to establish the land settlement and improve the productivity of the acquired land. The component 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 would be demand-driven, with a short negative list of ineligible subproject types. 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 is based on the manual already in use for the *Cédula da Terra* and RPAP projects. The STU would appraise the subproject proposals on technical, environmental and institutional parameters. Financial agents – as designated by the community associations - would then disburse grant funds to these associations for implementation and completion of the subprojects.

The total available financing for a community association - the sum of (a) the amount of the land loan; (b) grants for community investments; and (c) an initial cash grant - would be subject to a ceiling of about R$15,000 per family. However, participating states are free to set a lower ceiling if they so choose. This means that a community association can decide between purchasing more expensive land or investing more through complementary investment subprojects.

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 operation and maintenance (O&M) funds maintained by each association. As part of their regular supervision efforts, the STUs would monitor the frequency and quality of technical assistance and training provided to beneficiaries.

In compliance with Brazilian law, beneficiaries must form legally-constituted civil associations in order to be eligible to receive financing under the project, such as those already formed for the land purchases conducted under Project Component A. Disbursements to the beneficiary associations would occur through signed agreements (*convênios*) with the STU (or with financial agents under the pilot). The 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 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.

Project Component C: Community Development Support and Strengthening – EUR 13.3 million (US$12.32 million equivalent, total cost plus contingencies)

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 community associations.* The STUs would formulate and fund strategies to extend community mobilization to those communities lacking in organization and social capital and thus not initially poised to benefit from the project. Such assistance would include community workshops to determine priority needs, training for community groups in organizational skills, formation of legal associations and methods to access technical assistance for subproject preparation and implementation.
- *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 O&M.
- *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 O&M from community associations with successful subprojects to associations undertaking new subprojects. In addition, exchanges among the STUs could be financed to disseminate successful experiences across participating states.
- *Publicity campaigns.* Broad based dissemination of the availability, the principles, and the mechanisms of the project 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 D: Project Administration, Supervision and Monitoring - EUR 26.8 million (US$24.82 million equivalent, total cost plus contingencies)

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 NTU and STUs for overall coordination of project activities. Costs have been estimated based on the experience under the ongoing RPAP projects.

Project Coordination: State Technical Units will confirm that (a) the title to the land is clean, (b) no other condition threatens the effectiveness of the land purchase and (c) the negotiated price is consistent with market conditions. STUs will also: (a) appraise community subproject proposals for compliance with project guidelines and eligibility criteria found in the Project Operational Manual; (b) assess community participation in identifying, preparing and executing 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) periodically report progress related to the project performance indicators; (f) prepare annual implementation and physical performance reviews; and (g) submit project Annual Operating Plans to the NTU for approval. 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 the STU, as would proposed investments which fall outside the range of standardized costs.

Project Oversight: The Office of the Minister of Agrarian Development 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.

The MDA and the financial administrator of the Project will act through the financial agents selected by the communities and accredited by MDA. Both the Special Account and the funds for land purchase will be administered by the financial administrators appointed by MDA. Both *Banco do Brasil* and *Banco do Nordeste* have declared their willingness to act as financial agents for beneficiary associations under the proposed project.

Monitoring and evaluation arrangements: The project monitoring will be based on a Management Information System (MIS) operated and maintained by the NTU and 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. Under the *mainstream model*, the NTU and the STUs will establish, maintain and update the MIS, including key Project information (as agreed

with the Bank). Under the *pilot model*, financial institutions would forward such data to the STUs periodically for inclusion in the MIS. The STUs would forward to the NTU and the Bank headquarters in Washington, D.C. a monthly summary of key MIS data (as agreed with the Bank) so that a central database of overall project implementation could be maintained. With 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.

Civil Society Participation: The project is implemented by civil society (community associations). The project is also open to local, state and national civil society organizations, whose participation could be very valuable for the project. This participation could take, among others, the following forms. *At the local level*, the Rural Workers' Unions and other representatives of organized civil society could (a) assist in project dissemination, aiding communities to organize, (b) help identify lands available for purchase, analyze land prices, and prepare land purchase proposals to be presented to the STU, (c) accompany and evaluate the Project, (d) take part in training of beneficiary associations and (e) discuss technical assistance and organizational strategy. *At the state level*, a State Council, with participation from organized civil society representatives, would follow project implementation, making recommendations to improve Project implementation, and approving any exceptions required in processing land acquisitions. The State Council would have the authority to veto any operation that conflicts with Project guidelines. In one participating state in the South, the project could pilot civil society being ascribed the role of Technical Unit. *At the national level*, CONTAG and other representatives of organized civil society will participate in a National Council that would define the overall guidelines for the Project.

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 (SOEs), 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.

Project Reporting: Periodic processing of the database information will permit the monitoring of the characteristics and evolution of project implementation. The STUs will be responsible for meeting and reporting on the project performance indicators.

- *Annual Physical Performance Reviews:* The Annual physical performance review would be conducted on a sample of land reform beneficiary communities. Variables assessed during the Review would include: progress in assigning of land, land dispute resolution, crop patterns and yields across beneficiary communities, use of purchased inputs, sale of crops and animal products, number of family workers used, use and purpose of hired labor, off-farm family labor, land repayment experience of beneficiaries, proportion of children in school, status of family housing (e.g., 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 E: Impact Evaluation and Dissemination – EUR 8.3 million (US$7.69 million equivalent, total cost plus contingencies)

The Federal Government is responsible for project impact evaluation and dissemination of the experiences gathered. The Minister of Agrarian Development will coordinate the impact evaluation of the Project, assemble information and disseminate the experience. This component will provide the basis for judging ex-post the impact of the Project and determining ex ante the possible extension of the Program to the subsequent phases.

The National Technical Unit. The Ministry of Agrarian Development is establishing a National Technical Unit (NTU) which 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 forums 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 Project will assist in the planning, execution, and financing of the NTU's activities through financing of:

a) The consultants who will form the nucleus of the NTU.

b) Operational expenditures including mainly communication, hardware, software 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 Bank-financed Project and the traditional INCRA program. 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 NTU.

Impact evaluation of the land reform program at the national and state levels (the Bank-financed Project as well as efforts by INCRA) will be facilitated by an agricultural census completed 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.

Impact evaluation of the community-based land reform, with comparisons to the traditional expropriation and redistribution programs, would be based on panel data sets, with a baseline taken in year 0 with follow-ups in 1, 2, 5 and 10 years. CONTAG, its federations and unions and other representatives of organized civil society would actively participate in the evaluation of all phases of the proposed project. The Project would finance the baseline and the year one and two surveys, as well as their analyses. As far as possible, the surveys will be linked to and coordinated with other ongoing or planned surveys. 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.

The evaluation study was designed and a field-tested under the pilot project. The proposed project will finance the continued implementation of the evaluation study and its extension to the newly included States.

Project Performance Indicators

Project Components and Activities	Responsible Institution	Unit	PY0	PY1	PY2	PY3	PY4	Total
A. Land Purchases	STUs, Comm. Assoc.							
Land Purchases Financed[1]								
• Beneficiary families		Families		15,000	20,000	15,000		50,000
• Beneficiary individuals		Individuals		75,000	100,000	75,000		250,000
• Subprojects				300	400	300		1,000
B. Community Subprojects	STUs, Comm. Assoc.							
Subprojects Implemented								
• Start-up Grants		Families		15,000	20,000	15,000		50,000
• Investment Subprojects[2]		No.		1,000	2,000	1,500	500	5,000
C. Institutional Development								
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.		40	40	20		100
• For STU/SLI staff		No.		10	10			20
Publicity Campaigns in each State	STUs							
• Presentation to Bank				X				
• Implementation				X	X	X		
D. Project Administration, Supervision, and Monitoring								
Supervision of Subprojects[3]	STUs	No. Visits		2,600	4,800	3,600	1,000	12,000
Annual Operating Plans (POAs) for each State	STUs	No. per State	1[4]	1	1	1		4
Special Account established	MDA			X				
Operational Manuals	STUs							
• 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

1 Assumes 30 families per subproject.
2 Assumes ca. US$ 23,000 per subproject.
3 2 visits per subproject under implementation (each land and community subprojects).
4 Operating plan for period until the beginning of the first full calender year.

Project Components and Activities	Responsible Institution	Unit	PY0	PY1	PY2	PY3	PY4	Total
• Physical Performance Reviews	STUs	No. per State		1	1	1	1	4
• Implementation Review	STUs				X			
• Mid-term evaluation	STUs, MDA, WB				X			
E. Project Evaluation								
Information Network and Dissemination	MDA							
• Implement activities				X	X	X	X	
Evaluation Study	MDA							
• Detailed Design Study				X				
• Baseline study				X				
• Resurveys				X	X	X	X	
Studies	MDA							

Annex 4
Brazil
Land-Based Poverty Alleviation Project I
Estimated Project Costs

Project Component	**Local**	**Foreign**	**Total**
	----------EUR million----------		
1) Land Purchase Fund	173.7	0.0	173.7
2) Community Subprojects: Investments, Technical Assistance, and Start-up Grants	175.0	39.3	214.3
3) Community Development Support	6.5	5.3	11.8
4) Project Administration, Supervision and Monitoring	19.3	5.2	24.5
5) Impact Evaluation and Dissemination	5.8	1.6	7.4
Total Baseline Cost	**380.3**	**51.4**	**431.7**
Physical Contingencies	2.3	0.8	3.1
Price Contingencies	0.9	0.7	1.6
Total Project Cost	**383.5**	**52.9**	**436.4**

Annex 5
Brazil
Land-Based Poverty Alleviation Project I
Economic Analysis

Detailed economic and financial analyses were prepared to assess the quantitative effects of the proposed 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. These analyses were principally based on five representative models of family farms to be established under the proposed project, characterizing the different geographic regions within the participating States. These analyses provide both the economic justification for the proposed project and the basis for quantitative monitoring of its impacts. Three of the five models are updates from the economic analysis of the Land Reform and Poverty Alleviation Pilot project (i.e., Semi-Arid, *Meio-Norte, Zona da Mata*) since these models are equally representative of the Northeast States to be covered under the proposed project. In addition, two new models were prepared to represent the substantially different conditions of the South, where the approach will be piloted under the proposed project.

The model results indicate that household agricultural productivity and projected cash flows will be satisfactory to service debt obligations and achieve significant, long-run increases in household income (Section A). In fact, there are cases of households already saving for eventual loan repayment, following the three year grace period. Outside of the semi-arid zone (i.e., *Medio-Norte, Zona de Mata*), medium-term annual net family incomes of R$4,300 to R$5,000 are expected, nearly a fourfold increase over pre-project family income. This would fully meet the expectations regarding returns and viability. In the semi-arid regions, the situation is more complicated. Most families would be expected to arrive at an net annual income of about R$4,000 in normal years. However, the periodic droughts can endanger the capitalization process in these areas. The proposed project is therefore considering longer land loan repayment periods to provide a larger margin of safety and ensure viability of farms even in the semi-arid areas.

The economic situation in the South is significantly different. The cost of a family farm plot is likely to be on the order of R$10,000 or higher rather than the R$4,500 encountered in the Northeast. Also, the opportunity cost of family labor is at least twice as high as in the Northeast. The South farm models indicate medium-term annual net family incomes of roughly R$8,000, approaching R$12,000 to R$14,000 at the close of the 10-year projection period. Relatively more sophisticated production systems are necessary to achieve economic and financial viability under these conditions. While likely beneficiaries are overall less poor than those in the Northeast, the fiscal cost per beneficiary family is significantly higher. However, regional conditions differ greatly within the South.

The farm models were then validated by the independent results from farming systems simulations conducted in four states – Bahia, Ceará, Maranhão, Pernambuco—and encompassing the diverse agroclimatic regions of these states.[1] The simulations analyze the scope for household income growth following land acquisition and the repayment capacity of these households based on the production potential of their newly acquired lands. Income projections over ten years were calculated for beneficiary households, incorporating a variety of production possibilities (both existing and potential). Overall, the simulation results confirm the models of the economic evaluation and the financial viability of the new farms (Section C).

A: Cost-Benefit Analysis Summary

Depending on the geographic region, the farm models produce an Internal Economic Rate of Return (IERR) between 24% and 58%, compared to a cost of medium-term Government financing estimated at 16% (on the basis of the market discount rate of Government land reform bonds with 5-10 year maturity before the outbreak of the recent financial crisis). The overall project IERR is estimated as 35%. The total net present value generated by the project amounts to R$415 million.

Major assumptions entering the analysis are:

[1] These simulations, although not conducted directly with *Cédula da Terra* land settlements, incorporate two parameters using actual *Cédula da Terra* data: total family farm area (in ha.) and family workforce. Furthermore, the simulations emphasize the core production activities envisaged under the *Cédula da Terra*. As such, the simulations depict conditions representative of lands purchased by beneficiaries under the project and therefore serve to independently corroborate the updated farm model results.

a) Land prices will not be affected by the project given its small scale compared to the amount of lands for sale in the market.
b) Multiplier effects on the local economy are not considered.
c) The opportunity cost of family labor is equal to the estimated without-project family labor income of R$1,400 per year.
d) Project beneficiaries have access to the Government's PRONAF credit program, or equivalent credit, equal to other land reform beneficiaries.

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

a) 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.
b) The total failure (i.e., farm production that, despite investments, never exceeds the pre-project level, abandonment of the farm after three years, and the sale of the land at the purchase price) of 33% of the subprojects would reduce the IERR to 19%. A 50% failure rate would reduce the IERR to 11%.
c) If without-project family income was underestimated by 67%, the increased opportunity cost of family labor would reduce the IERR to 24%. However, beneficiaries with such elevated without-project income would suffer an income decrease 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 to 25%.

Table 1: Summary Results, Family Farm Models, *Cédula da Terra*

Per Family Results (R$)	**Semi-Arid**	**Meio-Norte**	**Mata**	**PR – North**	**PR – Southwest**	**Total Project Average**
Economic Rate of Return	24%	39%	53%	58%	37%	35%
Economic NPV (per family)	R$4,758	R$12,229	R$11,135	R$28,592	R$28,232	R$9,558
Family Income Compared to Base Year						
Year 3	116%	182%	333%	331%	255%	189%
Year 6	244%	389%	359%	294%	283%	303%
Year 15	453%	668%	613%	445%	525%	534%
Assumed Project Implementation (number of families)						
Year 1	8,333	3,500	3,500	667	667	16,667
Year 2	8,333	3,500	3,500	667	667	16,667
Year 3	8,333	3,500	3,500	667	667	16,667
Total	25,000	10,500	10,500	2,000	2,000	50,000
NPV (R$million)	103.3	111.5	101.5	49.7	49.1	415.1

B: Farm Income Analysis

Annual family labor income of participating families is expected to rise from about R$1,400 to $3,000-8,000 during the later years of repayment of land loan and agricultural credit for initial investments (including consumption of subsistence products). Analysis of various alternative scenarios confirms the robustness of farm financial viability.

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 credit and agricultural production during the first years. If credit (e.g., PRONAF) is not forthcoming, or a drought occurs during the initial years, families cannot undertake the investments required to leave pure subsistence activities. 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 affordable.

The models show significant investment by families from their retained earnings. 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. Farming System Simulations: Corroborating Evidence

Family farming systems were simulated for the participating states of Bahia, Ceará, Maranhão and Pernambuco. (Table 2). Estimates were obtained for household income *net of debt service*, following the three year grace period. Net household incomes are reported for three years of the ten-year simulation period: year 4 (when debt service begins), year 7 and year 10. For the semi-arid simulations (i.e, Bahia and Ceará), results are presented for both normal and drought years. In the case of Maranhão, results are reported for production with and without animal traction.

Table 2: Simulation Description and Production Mix, *Cédula da Terra* participating states

Region/ Farming System	State	Production Mix
North Coast	Bahia	• Coconut/orange, Passion fruit, Cattle, Beans, Maize
Cacao	Bahia	• Cacao or coffee, Cattle
Northeast Semi-Arid	Bahia	• Cattle Raising, Cassava, Beans, Maize
Sertão Cearense (with irrigation)	Ceará	• Beans, Cotton, Cattle/goats
Extensive Cattle Raising	Maranhão	• Cattle, Cassava, Beans, Maize
Zona de Mata	Pernambuco	• Coconut, Yams, Cattle, Cassava, Beans, Maize

Simulations outside of the semi-arid zone show perspectives of medium-term annual net family income of R$3,600 to R$5,400, compared to pre-project income of R$1,400 (Table 3). In Bahia's North Coast, using either coconut or orange as the main cash crop, net annual household incomes were roughly twice the pre-project household income by year 4, reaching almost four times that amount in year 10. The chosen case in Pernambuco show tremendous potential and, in fact, is based on a recovered coconut plantation purchased under *Cédula da Terra*. The simulated system in Pernambuco benefited from significant previous capital investment, which is a strong assumption for most lands purchases under the project. Yet the positive results clearly demonstrate the productive potential for some of the more promising properties secured by project beneficiaries.

Table 3: Simulated Net Household Income, Various Regions/Farming Systems, *Cédula da Terra* States

State	Region/Farming System	Annual Household Income (net of debt repayment) (R$)		
		Year 4	Year 7	Year 10
Bahia	North Coast (coconut, orange)	6,200	18,000	20,000
	North Coast (orange)	2,617	2,751	5,180
	Cacao (Cacao)	1,125	2,837	3,985
	Cacao (Coffee)	594	2,447	3,688
	NE Semi-arid (regular)	2,455	3,679	3,908
	NE Semi-arid (drought)	276	565	667
Ceará	Sertão Cearense (regular)	2,268	3,232	3,394
	Sertão Cearense (drought)	888	1,931	1,993
Maranhão	Cattle Raising (w/ traction)	1,970	2,343	3,031
	Cattle Raising (w/o traction)	1,970	2,063	1,927
Pernambuco	Zona de Mata	5,436	15,985	24,215

In the semi-arid regions, the situation is more complicated. Most families would be expected to arrive at an annual income of about R$3,000 to R$4,000 in normal years. Drought in the semi-arid zone places substantial temporary risk of downward pressure on household incomes, underscoring the importance of irrigation investments and careful evaluation of water access and irrigation potential in new purchase proposals.

D: Summary of Cost Savings under the Community-Based Approach to Land Reform

The source of cost savings under the community-based approach to land reform are: (a) lower land purchase prices as the result of negotiations between willing 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 loan by beneficiaries.

The estimated per family costs of the proposed project are compared with the typical costs of a conventional INCRA land reform project in the Northeast. 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 later. Incremental Government tax revenues are not considered in this comparison in either alternative. Costs of both approaches are presented below in two forms: (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 community-based approach shows a cost savings of about 40%.

A full cost-benefit comparison (not just a cost comparison as shown above) would yield results even more favorable for the community-based approach. The benefits of the community-based 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) Land loan repayment is based on an assumed 5% default rate.
c) Estimates based on data from the pilot project through September 1999.

Table 4: Cost Comparison, Traditional and Community-based approaches (all figures in R$ per family)

Northeast	Administration	Land (including improvement)	Start-up Money	Infrastructure	Total
NPV Costs					
Traditional	$1,930	$6,578	$2,331	$2,407	$13.246
Community-based	$441	$3,521	$1,300	$3,258	$8,519
Savings	77%	46%	44%	-35%	36%
Initial Costs					
Traditional	$2,941	$8,229	$2,980	$3,193	$17,343
Community-based	$478	$4,847	$1,300	$3,758	$10,383
Savings	84%	41%	56%	-18%	40%

E: Fiscal Impact

The proposed project would reduce the net budgetary cost per family participating in the land reform program by about 40%. Thus, the project is expected to enable the Government to reach its targets at a net budgetary saving vis-à-vis what it would have spent if it had attempted to reach these goals exclusively through traditional expropriation and direct purchase. If the proposed project were to benefit 16,700 families per year (as proposed), the expected savings would be around R$116 million per year. If total Government spending for land reform continued at 1997 levels (R$2.3 billion), and all this spending were at the per-family initial cost of the proposed project, the Government would be able to benefit about 221,500 families per year, or about 1 million families in four and one-half years.

Annex 6
Brazil
Land-Based Poverty Alleviation Project I

Financial Summary

Years Ending December 31
(in EUR million)

	Implementation Period					Operational Period		
	2001	2002	2003	2004	Total	2005	2006	2007
Project Costs								
Investment Costs	151.0	147.2	84.6	9.8	392.6	0.0	0.0	0.0
Recurrent Costs	16.8	16.4	9.4	1.2	43.8	1.1	1.1	1.1
Total	167.8	163.6	94.0	11.0	436.4	1.1	1.1	1.1
Financing Sources (% of total project costs)								
IBRD	19.2	18.7	10.8	1.3	50.0			
Federal Government	15.4	15.0	8.6	1.0	40.0			
State Governments	1.9	1.9	1.1	0.1	5.0			
Community Associations	1.9	1.9	1.1	0.1	5.0	100.0%	100.0%	100.0%
Total	38.4	37.5	21.6	2.5	100.0	100.0%	100.0%	100.0%

Annex 7
Brazil
Land-Based Poverty Alleviation Pilot Project I

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 STU and the community association. 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 STU would make purchases on behalf of the communities, packaging the procurement for several subprojects whenever possible. Procurement by the STU would follow: (a) 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$ 5.4 million for goods and US$3.4 million for small works); or (b) National Competitive Bidding -- NCB (over US$ 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. Although the level of Bank prior review of procurement would be low, it would be compensated in several ways. First, 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. Second, 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. Third, 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. In addition, during project implementation, some specific procurement supervision missions will be carried out.

Consultant services to provide technical assistance and training to the beneficiary communities, the STUs and the MDA 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, 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[1]

(in EUR million)

Expenditure Category	Procurement Method[2]					Total Cost
	NCB	Local Shopping	Direct Contracting	Other	N.B.F[3]	(including contingencies)
1. Land	-	-	-	-	173.7	173.7
	(-)	(-)	(-)	(-)	(-)	(-)
2. Civil Works[4]	9.2	3.9	86.6	-	-	99.7
	(8.2)	(3.3)	(75.9)	(-)	(-)	(87.4)
3. Goods and Materials[5]	-	6.3	116.6	-	-	122.9
	(-)	(5.5)	(101.5)	(-)	(-)	(107.0)
4. Consulting Services, Studies and Project Administration	-	-	-	40.1	-	40.1
	(-)	(-)	(-)	(23.8)		(23.8)
Total	9.2	10.2	203.2	40.1	173.7	436.4
	(8.2)	(8.8)	(177.4)	(23.8)	(-)	(218.2)

Table B: Thresholds for Procurement Methods and Prior Review

Expenditure Category	NCB	Local Shopping	Direct Contracting	Contracts Subject to Prior Review
1. Small Works	> US$ 100,000	US$ 50,000-100,000 (aggregate < US$ 3.4 million)	< US$ 50,000	• All NCB • All Local Shopping
2. Goods and Services	> US$ 100,000	US$ 50,000-100,000 (aggregate < US$ 5.4 million)	< US$ 50,000	• All NCB • All Local Shopping
3. Consultant Services	N/A	N/A	All	• Firms: > US$ 100,000 • Individuals: > US$ 50,000 • All Sole Source • All TORs

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

Disbursement

The proposed Bank loan would be disbursed over a period of three years. The project is expected to be completed by March 1, 2004, and the project's Closing Date is September 30, 2004. The allocation of loan proceeds by disbursement category is shown in Table C.

The Minister of Agrarian Development would open a Special Account in US Dollars and fourteen sub-accounts in *Reais* (one for each participating State) with Banco do Brasil. The authorized allocation would be equivalent to EUR20.5 million. After the initial deposit of the authorized amount in the Special Account, amounts defined in the respective state Annual Operating Plan will be transferred to the sub-accounts of the participating States. The STUs will approve funds for transfer directly to the beneficiary communities, via the financial agent chosen by the community association.

The STUs may draw from the Special Account an amount sufficient to meet eligible expenditures for a period of 60 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 STUs in the MIS data base. All SOEs would be transmitted from the STUs to the Bank in Washington with copy to the MDA. 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 MDA 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 STU 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.

The financial management system of the MDA was reviewed during project preparation for compliance with OD11.02 concerning Financial Management and was found to be satisfactory. An action plan to make this project eligible for Project Management Reporting (PMR) has been agreed with the Borrower and its implementation would be completed within four months of project effectiveness. This is a follow-up project to Loan 4147-BR, under which financial management and internal controls are satisfactory. All participating States in the proposed project also have ongoing Bank loans under which audit compliance is satisfactory.

Table C: Allocation of Loan Proceeds by Project Category

Expenditure Category	Project Cost in EUR million	Financing Percentage	Allocation of Loan Proceeds in EUR million
0. Land	173.7	0%	0.0
1. Grants for Community Subprojects (investments, technical assistance and start-up grants)	206.2	90%	184.7
2. Institutional Strengthening (technical assistance, training and publicity)	12.6	100%	12.6
3. Project Evaluation and Dissemination (by the Federal Government)	8.0	100%	8.0
4.(a) Project Administration	16.4	20.0%	3.2
4.(b) Field Supervision and Monitoring	9.4	50.0%	4.8
5. Fee	2.2	100%	2.2
6. Premia for Interest Rate Caps	0.0	0%	0.0
7. Unallocated	7.9	-	2.7
Total	436.4	50%	218.2

Annex 8
Brazil
Land-Based Poverty Alleviation Project I
Project Processing Budget and Schedule

A. Project Budget (US$000)	Planned (At final PCD stage)	Actual	
	US$300,000	US$280,000	
B. Project Schedule	**Planned (At final PCD stage)**	**Actual**	
Time taken to prepare the project (months)	8	26	
First Bank mission (identification)	03/28/98	03/28/98	
Appraisal mission departure	12/16/98	05/09/00	(completed)
Negotiations	05/24/00	06/20/00	
Planned Date of Effectiveness	09/30/00	02/28/01	

Prepared by: Brazilian Federal Minister of Agrarian Development and Participating States

Bank staff who worked on the project included:

Luis Coirolo, Team Leader, LCSES
Joachim von Amsberg, LCC5C
Edward Bresnyan, LCSES
João Barbosa de Lucena, LCSRE
Tulio Barbosa, LCSRE

Peer Reviewers:
Hans Binswanger, Sector Director, Agriculture and Environment, AFTRE
Klaus Deininger, Economist, DECRG

Annex 9
Brazil
Land-Based Poverty Alleviation Project I
Documents in the Project File*

A. Project Implementation Plan

- Draft Operational Manuals for Participating States

B. Bank Staff Assessments

- Sector Issues and Concept
  - Land Distribution and Markets
  - Current Land Reform Program
  - Comparison of Approaches
  - Advantages of Community-based Land Reform
  - Incentives under Community-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
  - Minister of Agrarian Development
  - NGOs
  - Institutional Capacity

- Project Monitoring
  - Project Database
  - Monitoring Activities
  - Project Reporting

- Project Supervision of Land Reform and Poverty Alleviation Pilot Project (Loan 4147-BR)
  - World Bank Supervision Reports

C. Background Studies

- Financial Options Study
- Evaluation of *Cédula da Terra* in States of Bahia and Ceará
- Evaluation of Land Reform Pilot of Ceará Rural Poverty Alleviation Project (Loan 3918-BR)
- Assessment of Target Population, Production Systems and Land Prices in Paraná
- Community-Based Land Reform in Brazil: Assessing the Selection Process
- Community-Based Land Reform Implementation in Brazil: A New Way of Reaching Out to the Marginalized? June 1999
- Preliminary Evaluation of *Cédula da Terra* Project, February 1999

*Including electronic files.

Annex 10: Statement of Loans and Credits
BRAZIL: Land-based Poverty Alleviation Project I

Project ID	FY	Borrower	Purpose	Original Amount in US$ Millions				Difference between expected and actual disbursements[a]	
				IBRD	IDA	Cancel.	Undisb.	Orig	Frm Rev'd
P006559	1998	Brazil	(BF-R)SP.TSP	45.00	0.00	0.00	44.27	41.27	0.00
P043871	1997	Brazil	(PIAUI)R.POVERTY	30.00	0.00	0.00	4.44	2.44	0.00
P043873	1997	Brazil	AG TECH DEV.	60.00	0.00	0.00	40.86	26.75	4.98
P055388	1999	Brazil	ANIMAL&PLANT DIS. CO	44.00	0.00	0.00	44.00	12.60	0.00
P006562	1997	Brazil	BAHIA MUN.DV	100.00	0.00	0.00	79.24	56.24	3.84
P035728	1998	Brazil	BAHIA WTR RESOURCES	51.00	0.00	0.00	35.94	27.02	0.00
P006564	1995	Brazil	BELO H M.TSP	99.00	0.00	0.00	28.60	24.59	0.00
P037828	1996	Brazil	BR (PR)R.POVERTY	175.00	0.00	0.00	112.79	94.79	0.00
P058129	1999	Brazil	BR EMER. FIRE PREVENTION	15.00	0.00	0.00	13.85	9.85	0.00
P006474	1998	Brazil	BR LAND MGT 3 (SAO PAULO)	55.00	0.00	0.00	53.00	21.50	5.00
P006524	1994	Brazil	BR MINAS MNC.DEVELOPMT	150.00	0.00	9.70	22.04	31.74	26.74
P006541	1993	Brazil	BR WTR Q/PLN(SP/PR/FED)	245.00	0.00	9.30	5.88	15.18	5.71
P054120	1999	Brazil	BR- AIDS & STD Control II	165.00	0.00	0.00	103.48	47.23	0.00
P043874	1999	Brazil	BR- DISEASE SURVEILLANCE - VIGISUS	100.00	0.00	0.00	87.22	50.97	0.00
P050763	1999	Brazil	BR- Fundescola 2	202.03	0.00	0.00	140.14	-17.36	0.00
P050762	1998	Brazil	BR- Fundescola I	62.50	0.00	0.00	6.33	-10.53	0.00
P006554	1996	Brazil	BR- HEALTH SECTOR REFORM - REFORSUS	300.00	0.00	0.00	186.36	186.36	0.00
P006543	1994	Brazil	BR- MINAS GERAIS BASIC EDU.	150.00	0.00	0.00	13.48	13.48	0.00
P006558	1994	Brazil	BR- PARANA BASIC EDUC	96.00	0.00	0.00	11.38	11.38	0.00
P038947	1998	Brazil	BR- SC. & TECH 3	155.00	0.00	0.00	128.13	83.13	0.00
P006449	2000	Brazil	CEARA WTR MGT	136.00	0.00	0.00	136.00	16.18	0.00
P046052	1997	Brazil	CEARA WTR PILOT	9.60	0.00	0.00	5.86	5.86	5.86
P048357	1998	Brazil	CEN.BANK TAL	20.00	0.00	0.00	7.31	7.31	0.00
P006436	1995	Brazil	Ceara Urban Development & Water Resource	140.00	0.00	0.00	30.95	30.95	0.58
P039200	2000	Brazil	ENERGY EFFICIENCY (ELETROBRAS)	43.40	0.00	0.00	43.40	0.50	0.00
P006522	1994	Brazil	ESP.SANTO WATER	154.00	0.00	54.00	18.29	72.29	3.58
P006532	1997	Brazil	FED HWY DECENTR	300.00	0.00	0.00	178.00	168.00	0.00
P038895	1998	Brazil	FED.WTR MGT	198.00	0.00	0.00	141.85	86.99	6.85
P006549	1998	Brazil	GAS SCTR DEV PROJECT	130.00	0.00	0.00	36.94	36.94	0.00
P062619	2000	Brazil	INSS REF LIL	5.05	0.00	0.00	4.64	1.39	0.00
P006475	1997	Brazil	LAND RFM PILOT	90.00	0.00	0.00	38.17	27.68	0.00
P051701	1998	Brazil	MARANHAO R.POVERTY	80.00	0.00	0.00	21.94	-18.06	0.00
P006505	1992	Brazil	MATO GROSSO NAT RES	205.00	0.00	0.00	38.91	38.91	0.00
P006547	1993	Brazil	METRO TRANSP. RIO	128.50	0.00	0.00	0.29	0.29	0.00
P048870	1997	Brazil	MT STATE PRIV.	45.00	0.00	0.00	5.00	5.00	0.00
P035741	2000	Brazil	NATL ENV 2	15.00	0.00	0.00	14.11	-0.89	0.00
P006453	1990	Brazil	NE IRRIG I	210.00	0.00	69.00	13.41	82.41	59.40
P050776	2000	Brazil	NE Microfinance Development	50.00	0.00	0.00	49.50	0.00	0.00
P042565	1998	Brazil	PARAIBA R.POVERTY	60.00	0.00	0.00	40.45	8.15	0.00
P057910	1998	Brazil	PENSION REFORM LIL	5.00	0.00	0.00	4.71	4.71	0.00
P039199	2000	Brazil	PROSANEAR 2	30.30	0.00	0.00	30.30	0.00	0.00
P042566	1997	Brazil	R.POVERTY(PE)	39.00	0.00	0.00	8.68	6.58	0.00
P038896	1997	Brazil	R.POVERTY(RGN)	24.00	0.00	0.00	6.95	5.35	0.00
P040028	1996	Brazil	RAILWAYS RESTRUCTURG	350.00	0.00	50.00	35.31	80.31	35.31
P038882	1995	Brazil	RECIFE M.TSP	102.00	0.00	0.00	54.13	48.62	0.00
P034578	1997	Brazil	RGS HWY MGT	70.00	0.00	0.00	56.09	38.09	10.09
P043868	1997	Brazil	RGS LAND MGT/POVERTY	100.00	0.00	0.00	84.00	40.69	0.00
P043421	1998	Brazil	RJ M.TRANSIT PRJ.	186.00	0.00	0.00	174.62	155.81	0.00
P006454	1992	Brazil	RONDONIA NTRL RES. M	167.00	0.00	0.00	26.28	26.28	0.00
P035717	1995	Brazil	RURAL POV. (BAHIA)	105.00	0.00	0.00	17.10	14.60	0.00
P038884	1995	Brazil	RURAL POV.- CEARA	70.00	0.00	0.00	6.16	4.16	0.00
P038885	1995	Brazil	RURAL POV.-SERGIPE	36.00	0.00	0.00	2.11	1.11	0.00
P048869	1999	Brazil	SALVADOR URBAN TRANS	150.00	0.00	0.00	144.52	32.02	0.00
P043420	1998	Brazil	WATER S.MOD.2	150.00	0.00	0.00	148.29	103.53	53.32
			Total:	5,903.38	0.00	192.00	2,785.70	1,860.39	221.26

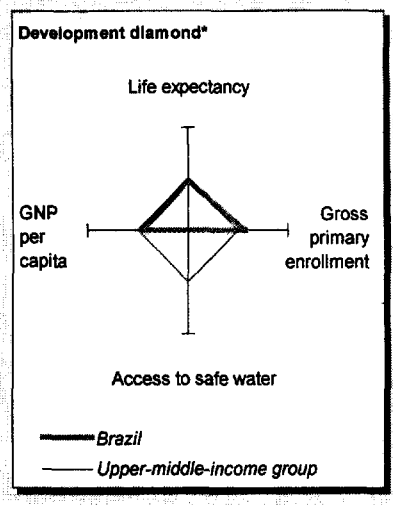
BRAZIL
STATEMENT OF IFC's
Held and Disbursed Portfolio
15-Oct-2000
In Millions US Dollars

		Committed IFC				Disbursed IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1998	Arteb	20.00	7.00	0.00	20.00	20.00	7.00	0.00	20.00
1999	AutoBAn	35.00	0.00	0.00	31.00	19.25	0.00	0.00	16.64
1993	BACELL	6.00	15.70	0.00	16.20	6.00	15.70	0.00	16.20
1998	BSC	11.53	0.00	0.00	6.18	11.53	0.00	0.00	6.18
1990/91/92	Bahia Sul	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1996	Banco Bradesco	14.26	0.00	0.00	19.57	14.26	0.00	0.00	19.57
1997	Bompreco	22.92	0.00	5.00	0.00	22.92	0.00	5.00	0.00
1991	Bradesco-Bahia	1.50	0.00	0.00	0.00	1.50	0.00	0.00	0.00
1991	Bradesco-Eucatex	6.25	0.00	0.00	0.00	6.25	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
1991	Bradesco-Petrofl	7.50	0.00	0.00	0.00	7.50	0.00	0.00	0.00
1991	Bradesco-Romi	0.40	0.40	0.00	0.00	0.40	0.40	0.00	0.00
1995	Brahma - BRA	15.00	0.00	5.00	24.60	15.00	0.00	5.00	24.60
1993/96	CEVAL	0.00	10.00	0.00	0.00	0.00	10.00	0.00	0.00
1994/96	CHAPECO	15.00	0.00	0.00	5.00	15.00	0.00	0.00	5.00
1973/78/83	CODEMIN	0.00	0.40	0.00	0.00	0.00	0.40	0.00	0.00
1992	CRP-Caderi	0.00	0.68	0.00	0.00	0.00	0.68	0.00	0.00
1995	Cambuhy/MC	13.13	0.00	0.00	0.00	13.13	0.00	0.00	0.00
1997	Copesul	32.50	0.00	0.00	141.43	32.50	0.00	0.00	141.43
1993/97/00	Coteminas	0.00	0.53	0.00	0.00	0.00	0.53	0.00	0.00
1980/92	DENPASA	0.00	0.00	0.12	0.00	0.00	0.00	0.05	0.00
1998	Dixie Toga	0.00	15.00	0.00	0.00	0.00	15.00	0.00	0.00
1987/96/97	Duratex	20.64	0.00	0.00	59.93	20.64	0.00	0.00	59.93
1990	ENGEPOL	0.44	0.00	0.00	0.00	0.44	0.00	0.00	0.00
1999	Eliane	32.00	0.00	13.00	0.00	32.00	0.00	13.00	0.00
1998	Empesca	5.00	0.00	10.00	0.00	5.00	0.00	10.00	0.00
2000	Fleury	9.00	0.00	6.00	0.00	0.00	0.00	0.00	0.00
1998	Fosfertil	20.00	0.00	0.00	45.00	18.15	0.00	0.00	40.85
1998	Fras-le	10.00	0.00	10.00	0.00	10.00	0.00	6.70	0.00
1994	GAVEA	8.13	0.00	5.50	0.00	8.13	0.00	5.50	0.00
1994	GP Capital	0.00	10.39	0.00	0.00	0.00	10.39	0.00	0.00
1995/96/98	Globocabo	0.00	9.91	0.00	0.00	0.00	9.91	0.00	0.00
1997	Guilmana-Amorim	27.75	0.00	0.00	71.84	27.75	0.00	0.00	71.84
1998	Icatu Equity	0.00	30.00	0.00	0.00	0.00	4.39	0.00	0.00
1999	Innova SA	20.00	5.00	0.00	60.00	11.50	5.00	0.00	34.50
1980/87/97	Ipiranga	37.33	0.00	0.00	111.82	37.33	0.00	0.00	111.82
1999	Itaberaba	0.00	0.00	5.34	0.00	0.00	0.00	5.34	0.00
1999	JOSAPAR	13.00	0.00	7.00	0.00	0.00	0.00	0.00	0.00
1995	LATASA - Brazil	10.33	0.00	0.00	1.00	10.33	0.00	0.00	1.00
1996/97	Lightel	0.00	8.17	0.00	0.00	0.00	8.17	0.00	0.00
1995	Lojas Americana	20.00	0.00	5.00	8.00	20.00	0.00	5.00	8.00
1987/92/96	MBR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1993	Macedo Alimentos	9.04	0.00	5.00	0.00	9.04	0.00	5.00	0.00
1996	Mallory	5.82	0.00	0.00	0.00	5.82	0.00	0.00	0.00
	Total Portfolio:	764.02	139.98	120.79	912.55	705.36	114.37	104.42	866.49

		Approvals Pending Commitment			
FY Approval	**Company**	**Loan**	**Equity**	**Quasi**	**Partic**
2000	BBA	50,000.00	0.00	0.00	50,000.00
1997	CTBC	35,000.00	0.00	0.00	150,000.00
1999	Cibrasec	0.00	0.00	7,500.00	0.00
1998	FSA	35,000.00	10,000.00	0.00	45,000.00
1998	Fras-le	0.00	0.00	0.00	15,000.00
1996	Globocabo II	0.00	0.00	0.00	38,000.00
1998	Ipiranga-RI 2	0.00	0.00	92.07	0.00
1999	MBR LTDP	20,000.00	5,000.00	0.00	115,000.00
1996	Oxiteno/Ethylo	0.00	0.00	5,000.00	0.00
2000	Portobello II	0.00	0.00	0.00	5,000.00
1998	Randon	0.00	0.00	0.00	15,000.00
1997	SP Alpargatas II	0.00	0.00	0.00	30,000.00
2000	Samaritano	20,000.00	0.00	0.00	0.00
2000	Sepetiba	27,000.00	0.00	6,000.00	18,000.00
1998	Unibanco	40,000.00	0.00	0.00	250,000.00
	Total Pending Commitment:	227,000.00	15,000.00	18,592.07	731,000.00

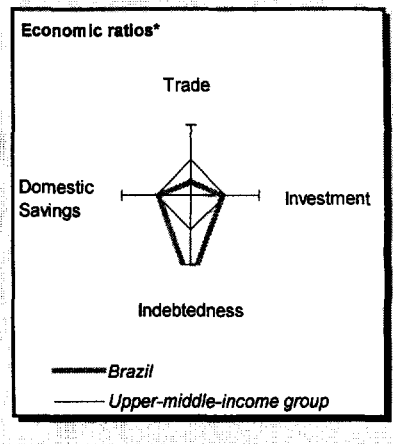
Annex 11: Country at a Glance
BRAZIL: Land-based Poverty Alleviation Project I

POVERTY and SOCIAL	Brazil	Latin America & Carib.	Upper-middle-income
1999			
Population, mid-year *(millions)*	168.1	509	573
GNP per capita *(Atlas method, US$)*	4,420	3,840	4,900
GNP *(Atlas method, US$ billions)*	742.7	1,955	2,811
Average annual growth, 1993-99			
Population *(%)*	1.4	1.6	1.4
Labor force *(%)*	2.1	2.5	2.1
Most recent estimate (latest year available, 1993-99)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	81	75	76
Life expectancy at birth *(years)*	67	70	70
Infant mortality *(per 1,000 live births)*	33	31	27
Child malnutrition *(% of children under 5)*	6	8	7
Access to improved water source *(% of population)*	..	75	78
Illiteracy *(% of population age 15+)*	15	12	10
Gross primary enrollment *(% of school-age population)*	125	113	109
Male	..	..	..
Female	..	..	..



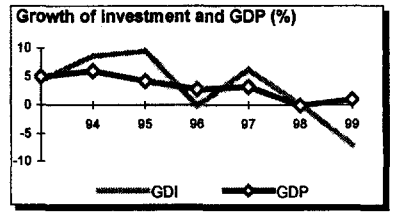
KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1979	1989	1998	1999
GDP *(US$ billions)*	225.0	448.8	787.1	791.4
Gross domestic investment/GDP	22.8	24.8	21.3	21.0
Exports of goods and services/GDP	7.1	8.2	7.4	9.7
Gross domestic savings/GDP	20.7	28.0	18.6	21.7
Gross national savings/GDP	18.0	25.0	16.3	18.8
Current account balance/GDP	-4.7	0.4	-4.3	-3.1
Interest payments/GDP	2.1	0.9	1.4	1.5
Total debt/GDP	27.3	25.5	29.5	28.0
Total debt service/exports	62.8	36.3	73.5	120.8
Present value of debt/GDP	..	..	27.9	..
Present value of debt/exports	..	..	337.5	..

	1979-89	1989-99	1998	1999	1999-03
(average annual growth)					
GDP	2.9	2.6	-0.1	1.0	4.0
GNP per capita	0.9	0.7	-1.4	-2.6	2.8
Exports of goods and services	8.9	4.2	0.2	-6.5	5.6

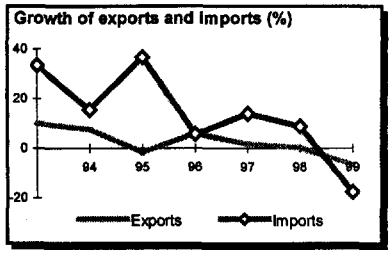


STRUCTURE of the ECONOMY

	1979	1989	1998	1999
(% of GDP)				
Agriculture	11.0	8.5	8.4	8.4
Industry	40.6	42.7	28.8	31.7
Manufacturing	31.0	29.5	22.7	22.7
Services	48.3	48.8	62.8	59.9
Private consumption	69.5	57.8	63.6	62.8
General government consumption	9.7	14.3	17.8	15.6
Imports of goods and services	9.2	5.0	10.1	9.0



	1979-89	1989-99	1998	1999
(average annual growth)				
Agriculture	3.4	2.9	0.0	9.5
Industry	2.3	2.1	-1.3	-1.7
Manufacturing	1.9	1.1	-2.0	-0.7
Services	3.4	2.7	0.8	1.3
Private consumption	1.9	5.8	-3.4	9.4
General government consumption	6.4	-2.0	2.1	-9.3
Gross domestic investment	-0.1	2.4	0.1	-6.9
Imports of goods and services	-1.4	12.4	8.9	-17.4
Gross national product	2.9	2.2	0.0	-1.3

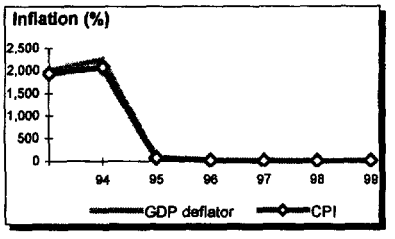


Note: 1999 data are preliminary estimates.

* 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.

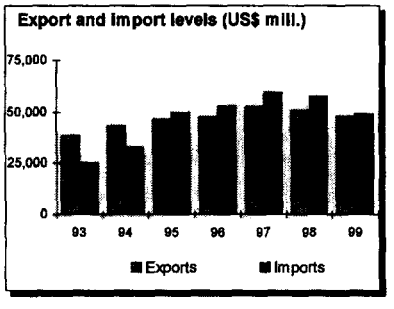
PRICES and GOVERNMENT FINANCE

	1979	1989	1998	1999
Domestic prices				
(% change)				
Consumer prices	..	1,430.7	2.7	8.6
Implicit GDP deflator	56.5	1,322.5	3.9	11.3
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	..	20.4	21.9
Current budget balance	..	..	-4.4	-5.2
Overall surplus/deficit	..	..	-5.5	-6.2



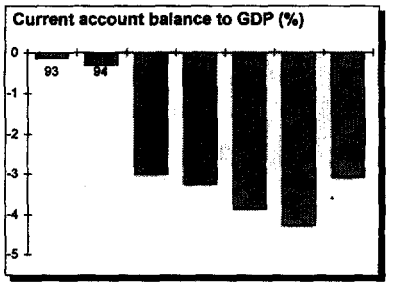
TRADE

	1979	1989	1998	1999
(US$ millions)				
Total exports (fob)	..	34,375	51,140	48,011
Coffee	..	1,803	2,576	2,441
Soybeans	..	3,647	4,755	3,784
Manufactures	..	17,575	31,964	30,251
Total imports (cif)	..	18,264	57,733	49,219
Food	..	1,249	3,057	2,078
Fuel and energy	..	3,753	1,965	2,169
Capital goods	..	4,873	25,283	21,157
Export price index *(1995=100)*	..	98	92	86
Import price index *(1995=100)*	..	85	84	89
Terms of trade *(1995=100)*	..	115	108	97



BALANCE of PAYMENTS

	1979	1989	1998	1999
(US$ millions)				
Exports of goods and services	16,708	36,394	55,473	51,887
Imports of goods and services	21,724	21,486	69,650	57,516
Resource balance	-5,016	14,908	-14,177	-5,629
Net income	-5,479	-13,265	-21,217	-20,786
Net current transfers	5	249	1,778	2,040
Current account balance	-10,490	1,892	-33,616	-24,375
Financing items (net)	7,703	-7,087	16,331	13,634
Changes in net reserves	2,787	5,195	17,285	10,741
Memo:				
Reserves including gold *(US$ millions)*	9,045	7,672	43,971	35,725
Conversion rate *(DEC, local/US$)*	9.79E-12	1.03E-6	1.1	1.3



EXTERNAL DEBT and RESOURCE FLOWS

	1979	1989	1998	1999
(US$ millions)				
Total debt outstanding and disbursed	61,327	114,532	232,004	221,792
IBRD	1,790	8,311	6,298	6,822
IDA	0	0	0	0
Total debt service	11,310	14,122	47,887	73,694
IBRD	234	1,475	1,373	1,380
IDA	0	0	0	0
Composition of net resource flows				
Official grants	10	44	97	..
Official creditors	436	223	4,911	-1,077
Private creditors	5,236	-3,716	21,930	-15,796
Foreign direct investment	2,419	1,267	31,913	26,916
Portfolio equity	0	0	542	3,234
World Bank program				
Commitments	674	933	1,290	1,465
Disbursements	302	819	1,240	1,533
Principal repayments	74	871	995	952
Net flows	228	-52	245	580
Interest payments	160	604	378	428
Net transfers	67	-656	-133	153