

Memo Regarding the Brazil Land Reform and Poverty Alleviation Pilot Project

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The National Forum for Land Reform of Brazil, a very broad umbrella organization of grassroots groups and NGOs working for land reform has twice requested that the Inspection Panel investigate the World Bank Land Reform and Poverty Alleviation Pilot Project (No. 4147 BR), known in Brazil as Cédula da Terra. The project seeks to create "market-based" land reform, offering credit for land purchase and technical assistance to rural poor people in five states. The following discussion highlights issues drawn from the preliminary analysis of the project commissioned by the Bank to identify serious problems in the project, which, based on available evidence, are likely to result in substantial harm to the intended beneficiaries of the project (and of the national-level land reform project under preparation). The points below are based in the Avaliação Preliminar do Programa Cédula da Terra, of June 1999, prepared by consultants from the University of Campinas (UNICAMP), University of São Paulo (USP) and the Federal University of Rio de Janeiro (UFRRJ), contracted by the Nucleus of Agrarian and Development Issues (NEAD). The group surveyed 116 land acquisition projects, and 232 families, about half of the total for the pilot project.

The project beneficiaries lack basic information that is integral to the project's success. Only 66% of the families knew the purpose of the credit they obtained; 60% of the families said they did not know the interest rate on the loans they had taken out to buy land. Only 0.2% responded correctly. (P. 105) No more than 10% of beneficiaries knew that their loans are guaranteed by their land. Some 30% of the indebted participants were unaware they had taken out loans. (p. 105) While it is unsurprising that the extremely poor project beneficiaries would be gratified to obtain land, as it appears was expressed to Inspection Panel members, this is no guarantee of the soundness of the project, since they had not begun to repay loans. The astounding lack of basic information betrayed by the survey strongly suggests that minimal preconditions for the functioning of "market mechanisms" – such as access to relevant information and free negotiation among actors – are absent. Under these circumstances, defaults, loss of land, and possibly other damages, would appear likely.

Local leaders and government agencies very generally do not know the terms of the loans they are supposed to be administering. Even the presidents of associations, many of which were created specifically to get access to Cédula da Terra funds, (and which are required for participation in the project), have only a vague notion of the rules of the program: "Except for the grace period and the time over the which the land is to be paid, the great majority are unaware of the conditions of financing of the property, above all the value of the interest and the payments, and apparently do not know about the penalties for non-payment." (p. 107) Government agencies, with exception of banks, were similarly uninformed on the legal conditions of the loans.

Land prices are not set by the market in the project area and land sales are not negotiated directly between buyers and sellers. "Local land markets are incipient . . . ; market prices that could serve as references for local land values and the transactions carried out through the Cédula project do not exist . . . in large measure, the price depends on the bargaining power of the beneficiaries, which, as noted, is little." (Principais Conclusões do Estudo de Avaliação Preliminar do Program Cédula da Terra, 4) Desperately poor peasants, whose principal concern, as the report shows, is to obtain land as a question of survival, are supposed to negotiate with large landowners in the absence of a functioning market. Prices are in essence fixed by the government agencies responsible for the project, which elaborate "technical reports" (laudos técnicos) on the quality of the land and its suitability for agriculture. These are, according to the report, of highly variable quality, and clearly susceptible to political influence and manipulation. It is difficult to see how credit, on terms largely unknown to the beneficiaries, can reliably be expected to aid the extremely poor in the absence of a functioning land market.

The Cédula da Terra is far more a state and local government land reform project than a "market-based" project. The report finds that in fact the beneficiaries' associations do not negotiate land purchase – the government agency responsible for the project in a given locale does this in the majority of cases (p. 121). Rather than creating "market based" land reform, then, the project has created land reform controlled by state and municipal agencies instead of the federal agency. Given the domination of local governments, particularly in the poorest rural areas where the project is focused, by powerful elites including large landowners, political manipulation of the project is common and unsurprising.

The associations created for or participating in the project, and which control access to credit, are subject to extensive political manipulation. The idea that these associations allow the rural poor direct access to "market based"

land reform is not supported in the report. The report cites various types of manipulation of the associations. Half of the associations in the sample were created solely get access to Cédula da Terra funds; these were "predominantly constituted through the initiatives of government agencies directly or indirectly linked to the Cédula da Terra project. The participation of municipalities, local politicians, and landowners interested in selling their lands stimulating through various means the creation of associations and workers' participation in the Cédula da Terra, merits emphasis." (p. 223) Local governments or politicians may control the selection process for admission to the associations, control access to credit, pay the costs of registering the association, facilitate legal documentation for favored members, or mediate land transactions. The associations then become arms of local patronage machines rather than means for the rural poor to collectively bargain for land in the market. This kind of political manipulation of the Cédula da Terra explains the apparently remarkable lack of basic information on the project and conditions of financing demonstrated by both project beneficiaries and presidents of associations – for local elites, what matters is distribution of goods to dependant supporters, not free access to the market.

The data presented in the report strongly support the concerns raised by the National Forum for Land Reform in its two requests for Inspection Panel investigations. At a minimum, the report raises the very real possibility that the principal beneficiaries of the project will be not the rural poor, but the local and regional elites least in need of international development assistance. The National Forum for Land Reform has substantial grounds on which to claim that this project will lead to serious harm to the rural poor it is supposed to benefit.

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