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# land reform

LAND SETTLEMENT AND COOPERATIVES

SPECIAL EDITION



WORLD BANK



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## special edition

2003/3

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## Preface

This special edition of *Land Reform, Land Settlement and Cooperatives* is a joint publication by FAO, through the Rural Development Division's Land Tenure Service and the World Bank. These two institutions have a long tradition of research and policy advice on land issues. Greater awareness of the importance of access to assets for poverty reduction, economic growth and good governance has led to increased attention to land issues by other development partners and provides the justification for the publication of this special volume.

The papers contained in this issue have been selected from those presented at a series of workshops, held in 2002 in Hungary, Uganda, Mexico and Cambodia, that were organized by the World Bank jointly with the Department for International Development (DFID), the French Ministry for Foreign Affairs, the German Agency for Technical Cooperation (GTZ), the United States Agency for International Development (USAID), and with FAO, the Inter-American Development Bank (IDB), the African Development Bank (AfDB), the European Union (EU), the International Land Coalition, Oxfam, and other bilateral and multilateral agencies. The purpose of these meetings was to provide input into the World Bank's Policy Research Report: *Land Policies for Growth and Poverty Reduction*, which was prepared under the authorship of Klaus Deininger of the World Bank's Development Research Group. Building on the discussions at these workshops, this report (which can be accessed at [http://econ.worldbank.org/prr/land\\_policy/](http://econ.worldbank.org/prr/land_policy/)) identifies general principles for policies to strengthen tenure security, improve the functioning of land markets and ensure socially desirable land use.

Although the report has made a valuable contribution in helping to establish a broad consensus on general principles that should guide land policies, more detailed work will be required to implement these in specific country contexts. The case studies in this volume help to illustrate not only the complexity of the issues but also the opportunities and the progress made by a number of countries. The challenge ahead is to transform recommendations into actual policies and investments and to provide analytical support that can guide their implementation.

In trying to meet this challenge, it will be possible to draw on three major sources of support. The first is the rich material that has been made available in the preparation of the policy research report (<http://lnweb18.worldbank.org/ESSD/ardext.nsf/24ByDocName/PolicyResearchReport>) as well as the policy documents prepared by both institutions. These include FAO's Land Tenure Series with guidelines such as *Good practice guidelines for agricultural leasing arrangements; Land tenure and rural development; Gender and access to land; and Rural property tax systems in Central and Eastern Europe*, together with guidelines on *The design of land consolidation pilot projects in Central and Eastern Europe* (to be published shortly) and a number of others in planning.

A second source of support in moving towards implementation is the cooperation between the World Bank and FAO in the areas of access to land and land administration. The Cooperative Programme between the two institutions has enabled the collaboration of staff at field level, including

in the preparation and supervision of World Bank-financed projects and in the preparation of policy analysis materials. The staff of the Land Tenure Service, led by its chief, Paul Munro-Faure, both those based in Rome and those based in the regions, have had substantial involvement at this level in the Latin American, Asian and Pacific, Central and Eastern European and African regions. FAO also executes, through World-Bank-financed Trust Fund arrangements, a number of projects around the world dealing with access to land issues.

The third source of support, without which all the other elements will only be of limited impact, is the active collaboration and support by our development partners all over the world. The papers in this volume, together with others presented at the regional workshops, illustrate the competence and hard work of research institutions, non-governmental organizations and think tanks around the world in participating in the policy debate on this issue. It is our hope that this special issue will contribute to this debate.

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# Land policy to facilitate growth and poverty reduction

**K. Deininger, G. Feder, G. Gordillo de Anda and P. Munro-Faure**

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*To provide a conceptual framework for the papers in this volume, this article focuses on the broad conclusions from recent research on land issues. It argues that well-defined and secure land rights are critical to provide incentives for investment and sustainable resource management, to facilitate low-cost transfers of land and credit access as the rural non-farm economy develops, and to allow provision of public services at minimum cost. The fact that land issues are politically highly charged and controversial has often implied limited relevance in the policy dialogue, despite their importance. Based on a review of the historical evolution of property rights, the paper outlines channels through which the nature of such rights, and the way in which they can be exchanged, affect economic growth, poverty reduction and governance. For each of these areas, policy actions to improve the security of land rights, reduce the cost of exchanging them and promote socially desirable land use are outlined.*

## **ACCESS AND PROPERTY RIGHTS IN LAND**

Land is a key asset for the rural and urban poor that provides an important foundation for economic and social development. Sound property rights in, and equitable access to, land can also offer the potential to help empower the rural and urban poor to adjust to the challenges posed by recent trends of globalization. This paper focuses on the main forces shaping the evolution of land rights and reviews possible sources of tenure insecurity. It identifies ways in which actions by the community or the government can help to reduce such insecurity. These approaches can provide a basis for more effective land utilization that will be critical for the promotion of growth and the reduction of poverty.

### **Origins and evolution of rights in land**

Land tenure systems are defined by societies. Within such systems, rights in land are identified that, among others, determine access to specific uses of a certain piece of land and the distribution of the benefits that accrue from these. A number of arguments support public

involvement in the recording and protection of such rights. First, the potentially high fixed costs of the institutional infrastructure needed to establish and maintain formal records of rights in land favour public provision of recording, or at least its regulation. Second, public involvement is justified because the benefits of being able to exchange rights in land are potentially of widespread benefit to society. These benefits will only be fully realized where such rights are relatively standardized and can be reasonably easily and independently verified. Finally, without public involvement in the recording and protection of such rights, holders of such rights are likely to be forced to spend resources to defend their claims to property, for example through guards and fences. This is not only socially wasteful but also disproportionately disadvantages the poor, who will be the least able to afford such expenditures.

Greater formalization of property rights has tended to evolve in response to higher potential returns from investment. These tend to reflect prospects for more intensive use of land as a result of opportunities that

are often associated with population growth, greater market integration and technical advances. In the course of development by virtually all societies, the need to sustain larger populations will require investments in land that cultivators are more likely to make if land rights are secure (Boserup, 1965). Evidence suggests, in the context of increasing populations, that appropriate institutional innovations can lead to greater investment in land, economic growth and increased welfare (Hayami and Ruttan, 1985). At the same time, failure of the institutions administering land rights to respond to these demands can lead to conflict, and in extreme circumstances can undermine societies' productive and economic potential. In addition to this evolutionary perspective, the seizure of property rights to land and the introduction of imported systems for their administration by outside forces or local overlords has affected the nature of such rights in many developing countries (Binswanger, Deininger and Feder, 1995). Apart from securing the land itself, the goals of such interventions often included obtaining surpluses from local smallholder populations or to force independent smallholders into wage labour by preventing them from acquiring independent land rights. Such seizures and introductions often disrupted the evolution of land rights that might otherwise have occurred as a response to population growth and other factors and have continuing impacts on how land is allocated and managed at the local level.

Land tenure systems have therefore evolved in response to a range of societal forces; political, social and economic. It is not surprising therefore that the land tenure arrangements found in many countries are often not optimal from either an economic or a social perspective. For example, many countries in Africa face the challenges of administering multiple systems of land tenure and of bringing, where appropriate, customary tenure arrangements within more formally defined frameworks. Countries in eastern Europe and the Commonwealth of Independent

States (CIS) face challenges of transition of the collective production structures that have failed to contribute to rural growth and, as a part of that, of the creation of viable systems for rights in land and their administration. In Latin America and parts of Asia, highly unequal land ownership and access to assets have made it difficult to establish patterns of growth that are truly inclusive of the poor, implying that economic growth may actually end up widening pre-existing inequalities. Despite such shortcomings, suboptimal and economically inefficient property rights arrangements often remain in place for long periods of time. In fact, far-reaching changes of land relations have generally been confined to major historical transitions.

#### **Desirable characteristics of rights in land**

Property rights in land need to have a time horizon long enough to provide investment incentives and to be defined in a way that makes them easy to identify, enforce and exchange. They need to be administered and enforced by institutions that are accessible and accountable and have both legal backing and social legitimacy. Even if property rights in land are assigned to a group, the rights and duties of individuals within this group, and the way in which these rights can be modified and will be enforced, have to be clear. Finally, as the physical and/or legal precision with which property rights are defined will generally increase in line with rising resource values, the institutions administering property rights need to be flexible enough to evolve over time in response to changing requirements.

As one of the main purposes of property rights in land is to provide the security necessary to facilitate investment, the duration for which such rights are awarded needs to be at least viable in relation to returns from possible investments or there needs to be adequate provision for compensation at expiry for the remaining value of improvements. Clearly the viable duration depends on the potential for

investment, which is generally higher in urban than in rural areas. Although perpetual rights in land are generally the most attractive option, systems based on long-term rights that can be renewed automatically are an alternative. Given the long time spans involved, attention to the way in which such rights can be inherited is particularly warranted and has, for instance, often proven to be critical in enhancing women's ability to control land on their own.

Property rights in land should be defined in a way that makes them easy to identify and exchange at a cost that is low but commensurate with the value of the underlying land. With limited land values, low-cost mechanisms of identifying boundaries, such as physical markers (hedges, rivers and trees) that are recognized by the community, will generally suffice. Higher resource values may require more precise and costly means of demarcation. Similarly, where land is relatively plentiful and transactions are infrequent, low-cost mechanisms to record transactions, such as witnessing by community elders, will be appropriate. More formal mechanisms will normally be adopted once transactions become more frequent and start to go across traditional boundaries of community and kinship.

The key advantage of formal, as compared with informal, property rights is that those holding formal rights can generally call on the power of the state to enforce their rights. For this to be feasible, the institutions involved need to be appropriately structured, have adequate resources and enjoy legal backing, as well as have social legitimacy, including accountability to and accessibility by the local population. Yet in many countries, especially in Africa, the gap between legality and legitimacy has been a major source of friction, something that is illustrated by the fact that in Africa overall more than 90 percent of land remains outside the existing legal system. Failure to ensure adequate resources and/or give legal backing to land administration institutions

that enjoy social legitimacy can undermine their ability to draw on anything more than informal mechanisms for enforcement. By contrast, institutions that are legal but do not enjoy social recognition may make little difference to the lives of ordinary people and have therefore often proven to be highly ineffective. Bringing legality and legitimacy together is a major challenge for land policy that cannot be solved in the abstract.

Whether it is more appropriate for property rights in land to be held by individuals or a group will depend on the nature of the resource and on existing social arrangements. Group rights will be useful in situations characterized by economies of scale in resource management or if externalities exist that can be managed at the level of the group but not the individual. The advantage of group, as compared with individual, land rights will generally decrease in the course of development. Technical progress reduces the risk of crop failure while at the same time increasing the potential pay-off from investments. Development of the non-farm economy reduces risk by providing the possibility of access to more diverse and predictable income streams. Greater accessibility resulting from improved physical infrastructure reduces not only the risk but also the cost of publicly providing property rights. Thus one would expect to see a move toward more individualized forms of property rights with economic development. At the same time, transformation of property toward increased individualization is not automatic. On the contrary, it will be affected by political and economic factors, and thus often coincides with major conflicts, upheavals or power struggles.

Exogenous demographic changes, even in the absence of economic development, can increase the scarcity and value of land. This can challenge traditional authorities and institutions that, earlier, had unquestioned authority over land allocation and resolution of disputes. Land conflicts can generate large, negative, external effects that may undermine the

state's authority and effectiveness, as illustrated by the fact that unresolved land conflicts have in some cases escalated into an important contributor to state failure. To avoid this, the institutions managing land rights will need to be able to interpret, or adapt changing traditions and social norms relating to land tenure authoritatively and in ways that protect the poor and vulnerable from abuse of their rights and provide them with improved access to land.

### **EVIDENCE ON THE IMPACT OF TENURE SECURITY**

In many countries of the developing world, insecure land tenure prevents large parts of the population from realizing economic and non-economic benefits that are normally associated with secure property rights in land. These include greater investment incentives, transferability of land, improved credit market access, more sustainable management of resources and independence from discretionary interference by bureaucrats. More than 50 percent of the peri-urban population in Africa and more than 40 percent in Asia live under informal tenure and generally have relatively insecure land rights. Although similar figures are not available for rural areas, many rural land users are reported to make considerable investments in land as a way to establish ownership and increase tenure security (Platteau, 2000; Otsuka, 2001), illustrating that tenure security is highly valued.

A first benefit from increased tenure security that can be measured is the increase in land users' investment incentives. Some studies report a doubling of investment on land with more secure tenure; land values in such cases are reported to be between 30 and 80 percent above those where there is a greater insecurity (Feder, 2002). Transferability of land will increase this effect and is important in situations where the scope for transacting land between less and more productive producers has increased, for example because of increased development of the non-agricultural economy and rural-

urban migration (Deininger *et al.*, 2003). Higher tenure security will also reduce the time and resources individuals need to spend on securing their land rights, allowing them to invest these resources elsewhere. Finally, where effective demand for credit exists, giving formal title to land can help producers gain access to credit and improve the functioning of financial markets. The impact of such credit access may be differentiated by size of landholdings and attention will therefore be required to the anticipated equity effects (Carter and Olinto, 2003).

In situations where these economic effects associated with secure tenures are likely to be muted in the near future, more gradual and lower-cost approaches to securing land rights and improving tenure security may be more appropriate, with the possibility of upgrading once the need arises. This will allow progressive provision of many, if not all, of the benefits from increased tenure security at lower cost.

Ensuring secure land tenure will be of particular relevance for groups who were traditionally discriminated against. Attention to women's rights will generally be warranted, particularly where women are the main cultivators, where many males migrate out in pursuit of non-farm activities, or where control of productive activities is differentiated by gender, and where adult mortality with unclear inheritance regulations may undermine women's livelihoods in the case of their husband's death, as in Africa in the context of HIV/AIDS (Deininger and Castagnini, 2002).

### **Ways to increase tenure security**

Even though formal title will increase tenure security in many situations, experience indicates that it is not always necessary, and is generally not a sufficient condition, for improving the use of the land resource. The goal of providing tenure security for the long term, administered in a cost-effective way through institutions that combine legality with social legitimacy, can be achieved in a variety of ways, depending on the situation.

In *customary systems*, legal recognition of existing rights and institutions, subject to minimum conditions, is often more effective than premature attempts at establishing formalized structures. Legally recognizing customary land rights subject to a determination of membership and the codification or establishment of internal rules and mechanisms for conflict resolution can greatly enhance occupants' security. Delimitation of the boundaries of community land can reduce the threat of encroachment by outsiders while leaving pre-existing procedures within the community to assign rights within the group. Conflicts historically often erupt first in conjunction with land transfers, especially to outsiders. Where such transfers occur and are socially accepted, the terms should be recorded in writing to avoid ambiguity that could subsequently lead to land-related conflict (Lavigne Delville *et al.*, 2002).

The legal occupation of *state land* will generally be best served by appropriate, transparent procedures instituted through a well-designed legal framework and administered by efficient institutions. Illegal occupants on state land have often made considerable efforts to increase their levels of security, in some cases through significant investments, but often remain vulnerable to eviction threats. Because of their limited land rights they often have no incentive to make full use of the land they occupy. Where appropriate, giving legal rights in land, regularizing possession and resolving conflicts that may arise in this process will tend to provide the security necessary to encourage investment. In many situations, political or other considerations may preclude the award of full private property rights. If existing institutions can credibly commit to lease contracts and have the capacity to manage these long-term leases, giving users secure, transferable, long-term lease rights will permit realization of most, if not all, the investment benefits associated with full ownership. In these cases, recognition of long-term peaceful occupation in good faith

and award of long-term land leases with provisions for automatic renewal may be the most desirable option. If the leases awarded by state institutions are not credible, full privatization may be a more valid option to give occupiers sufficient security of tenure and the associated benefits. An indicator for limited credibility of leases may be that, even where there is strong effective demand for credit, financial institutions will not accept long-term leases as collateral.

Where *individual title* is the option of choice, inefficiencies in the land administration institutions responsible for demarcation of boundaries, registration and record keeping, adjudication of rights, and resolution of conflict can still preclude the realization of many of the benefits of secure tenure. If these institutions are not working well, are poorly coordinated, inefficient or corrupt, transaction costs may increase substantially. This will tend to result in increasing proportions of transactions being conducted informally rather than formally, and may well disproportionately disadvantage the poor. Where this is the case, institutional reform, including improved coordination within the government and with the private sector, will be a precondition for the state's ability to deliver effectively property rights in land.

Even though most countries mandate in principle equality of men and women before the law, the procedures used by land administration institutions may discriminate against women, either explicitly or implicitly. In many instances, there are benefits to be obtained from a more proactive stance in favour of awarding land rights to women by governments, together with more rigorous evaluation of innovative approaches aiming to accomplish greater gender equality in control of conjugal land.

## LAND TRANSACTIONS

Rural dwellers normally access land through a wide variety of different channels (de Janvry *et al.*, 2001). Land markets can play an important role in this by allowing those who are productive, but are either

landless or own little land, to secure access to land. Land markets also facilitate the exchange of land as the off-farm economy develops and, where the conditions for doing so exist, provide a basis for the use of land as collateral in credit markets. Capital market imperfections, policy distortions and other factors, however, may often prevent land sales markets operating effectively in practice, and thus from contributing to increasing levels of productivity or reducing poverty. This has led some observers to take a negative stance on any type of land market activity and to support government intervention in land markets, despite the considerable scope of rental markets and the evidence of limited effectiveness of government intervention in such markets.

### **Conceptual foundations**

To understand why in some cases land sales markets may fail to contribute to improving productivity and equity, it is necessary to review the conceptual foundations that underlie the operation of land markets and how some of the market imperfections frequently encountered in rural areas of the developing world have a differential impact on land rentals and sales.

Imperfections in labour and credit markets, and the scope of economies of scale in production, will affect the way in which land markets function. A large body of literature has demonstrated that unmechanized agriculture generally does not exhibit economies of scale in production (Carter, 1984; Benjamin, 1995; Deininger and Feder, 2001), even though economies of scale from marketing may in some cases be transferred back to the production stage. At the same time, the need to supervise hired labourers closely implies that owner-operated farms are more efficient than those that rely predominantly on large numbers of permanent wage workers. However, where other markets do not work well or transaction costs are high, credit markets tend to favour farmers who own larger amounts of land. In environments where access to credit is

important, this can lead to the appearance of a positive relationship between farm size and productivity that may counteract the supervision cost advantage of small owner-operated farms. These factors will have different implications for land rental as compared with sales markets.

Rental markets are characterized by relatively low transaction costs and, in most cases where rent is paid on an annual basis, require only a limited initial capital outlay. This, together with participants' ability to adjust contract terms so as to overcome failures in capital and other markets, implies that rental is a more flexible and versatile means of transferring land from less to more productive producers than are sales markets (Sadoulet, Murgai and de Janvry, 2001). Renting is thus more likely to improve overall productivity and, in addition, can provide a stepping stone for tenants to accumulate experience and possibly make the transition to land ownership at a later stage.

The importance of tenure security for rental markets is illustrated by the fact that, where land tenure is perceived to be insecure, long-term contracts are unlikely to be entered into. In fact, relatively insecure tenure has been claimed to be one of the key reasons for the virtual absence of long-term rental contracts in most Latin America countries (Jaramillo, 1998).

The literature has long pointed out that rental arrangements based on fixed rather than shared rent are more likely to maximize productivity (Cheung, 1969). Poor producers may, however, not be offered fixed-rent contracts at least in part because of the risk of default. In these circumstances, sharecropping has emerged as a second-best solution. Whether sharecropping contracts are associated with sizeable inefficiencies and whether government action could lead to an improvement have been subject to considerable discussion. In practice, the efficiency losses associated with sharecropping contracts are found to be relatively small, and improving on them through government intervention has

proven to be difficult, if not impossible. In view of the fact that the contracting parties have considerable flexibility to adjust contract parameters so as to avoid inefficiencies, for example by entering into long-term relationships or through close supervision, the general consensus is that prohibition of sharecropping or other forms of rental contracts is unlikely to improve productivity (Otsuka, Chuma and Hayami, 1992). The welfare impact of rental contracts depends on the terms of the contract, which in turn are affected by the outside options open particularly to the weaker party. Altering the balance of supply and demand through efforts to expand the range of options available to tenants, for example via access to infrastructure and non-agricultural labour markets, is likely to have a more beneficial impact on land rental market outcomes and rural productivity than is prohibition of certain options.

Transfers of land-use rights through rental markets can go a long way towards improving productivity and welfare in rural economies. At the same time, the ability to transfer ownership of land will be required to improve the potential for the use of land as collateral in credit markets, and thus to contribute towards the basis for effective development of financial markets in rural areas. It is important to note, however, that sales markets will tend to be more affected than rental markets by imperfections in credit markets as well as by other distortions such as subsidies to agriculture.

Activity in any market depends on participants' expectations regarding future price movements, creating a potential for asset price bubbles that are not justified by the underlying productive value as well as a tendency towards speculative acquisitions by the wealthy in anticipation of major capital gains. Land markets are no exception to this. Ample historical evidence shows that in risky environments distress sales will occur, with consequent negative impacts on livelihoods over time. The impact of such distress sales is magnified by the typically thin and volatile land sales

markets in most rural areas. The relatively high transaction costs associated with land sales, which are often further increased by government intervention, can exacerbate this problem. A further limitation on the prospects of land acquisition by the poor tends to be the segmentation of rural land markets, whereby certain socio-economic strata only deal with each other or where sales remain informal. All these factors imply that land acquisition by the poor through the land sales market will be difficult, and that as a consequence, the potential for productivity-enhancing land redistribution through sales markets is likely to be very limited.

### **Policy implications**

To realize the full benefits that can accrue from rental markets, governments need to ensure that tenure security is adequate to facilitate long-term contracts, and eliminate unjustified restrictions on the operation of such markets. Limitations on the operation of land sales markets may, in some cases, be justified on theoretical grounds. In practice, however, efforts to implement such restrictions have almost invariably weakened property rights with the result that often the unintended negative consequences of sales market restrictions have far outweighed the positive impacts they were intended to achieve. With few exceptions in the case of rapid structural change, there is little to recommend such restrictions as an effective tool for policy.

Short-term rental contracts will only provide limited incentives for users to undertake land-related investment. For longer-term contracts to be feasible, long duration of land rights and high levels of tenure security, coupled with enforceable provisions for a tenant's compensation for the unexpired value of improvements, are critical. Finding ways to ensure such tenure security is a key policy issue. Another constraint on land rental markets has been the imposition of rental ceilings coupled with the granting of statutorily secure status to tenants. Although such tenancy

regulation will benefit sitting tenants if effectively implemented, it may not be an efficient way of transferring resources to the poor, even in the short term. In the longer term, such restrictions will reduce the supply of land available to the rental market and undermine investment, directly hurting the poor. For example, in Mexico, temporary rental of a plot of land was a major means for coping with economic hardship and enabling participation in off-farm labour markets. Prohibitions against renting of land merely drove this market into informality, thereby creating a secondary market that was even more active than it would have been in the absence of such regulation, but greatly reducing the benefits from doing so for participants (Gordillo, de Janvry and Sadoulet, 1998). Evidence from countries that have eliminated such restrictions suggests that doing so can not only improve access to land via rental markets, but can also increase households' participation in the non-farm labour market and, by reducing the discretionary power of bureaucrats, improve governance (World Bank, 2002). Key policy issues are therefore how to sequence the elimination of such restrictions in a way that does not undermine equity and, in particular, protects sitting tenants, and how to promote and provide for appropriate and sustainable landowner-tenant relations (FAO, 2001).

Land ownership ceilings have generally been ineffective as a means to facilitate the break up of large farms, and instead have led to red tape, spurious subdivisions and corruption (Appu, 1997). Where these ceilings were low, they have apparently had a negative impact on investment and land owners' ability to access credit, as in the Philippines. The only situation where they can be justified is where high enough land ceilings may help to limit the speculative acquisition of land, something that may be relevant in some CIS countries. In the vast majority of cases, however, restrictions on land sales markets have undermined tenure security and ended up making things worse than they were at the outset.

Credit market imperfections will affect the functioning of sales markets and may lead to situations in which government intervention could, in a hypothetical world of perfect implementation, lead to outcomes that would improve efficiency and equity. Implementing such interventions has, however, proved to be exceedingly difficult in practice. Restrictions on the transferability of land imposed by a central authority have generally limited credit access and often only pushed such transactions into informality. Except in situations of rapid economic transition, they are unlikely to be justified. Local communities are more likely to be able to appreciate the costs of limiting the transferability of land to outsiders or the benefits of eliminating such restrictions than are central government bureaucrats. As long as such decisions are reached in a transparent way and can be enforced, it may be more effective to allow communities to decide on whether to maintain or drop restrictions on land transactions with outsiders. Particularly in the case of customary systems of land tenure this may be more effective than imposing central restrictions that cannot be enforced.

High levels of fragmentation are caused either by successive subdivision in the course of inheritance, a pattern that has been exacerbated in much of Central and Eastern Europe by the political imperative to reconstitute land to owners and their successors in title after half a century, or by the desire to award at least one plot of a specific quality or use type to each producer in the process of land privatization and distribution. Such microparcelled areas are often thought to lead to inefficiencies in agricultural production, with the magnitude and importance of such inefficiencies increasing as agricultural production becomes more mechanized. The levels of fragmentation in Central and Eastern Europe (CEE), coupled with the demographically ageing and contracting rural populations, mean that this issue has broad rural development ramifications. Dealing with fragmentation case by case

based on individual initiative may incur high costs of negotiation, something that has provided the justification for governments to adopt programmes to complement market mechanisms in an effort to facilitate more rapid consolidation of holdings at lower costs. Although positive benefits from such programmes are reported from Western Europe, implementation of the programmes has been slow. Evidence from China highlights that, in environments where administrative capacity is limited, programmes aiming at consolidation can run into great difficulties and fail to yield the expected benefits. Given that the cost of the classic Western European models of land consolidation is not a realistic option for Central and Eastern Europe, rigorous evaluation of the economic and social costs and benefits of different approaches to land consolidation in the circumstances of Central and Eastern Europe is very desirable in order to identify the most suitable approaches.

### **SOCIALLY DESIRABLE LAND USE**

Decentralized transactions based on secure land rights are likely to be more conducive to efficiency and equity than administrative intervention, offering less scope for corruption and other undesirable side-effects. This is especially the case as the number of exchanges increases and contractual details become more complex. Governments have a clear role to play in a number of respects. Governments need to help establish the legal and institutional framework within which land markets can function, and create a policy environment that rewards transactions that increase productivity and welfare.

Devolution of authority over state land has emerged as a critical issue in many contexts, although the need for this is particularly obvious in the case of farm restructuring in CEE and CIS countries. Where land distribution is highly unequal and large amounts of productive land are un- or underutilized, governments may find it necessary to deal with fundamental issues related to the distribution of asset

endowments that markets will not be able to address. Governments have fiscal and regulatory instruments at their disposal to provide incentives for land use that maximize social welfare, for example by helping to internalize effects external to individual land users. Many developing countries rely disproportionately on a regulatory approach to achieve such aims notwithstanding their lack of administrative capacity. This often encourages discretionary bureaucratic behaviour. In Mexico, for example, in the reformed sector state interventions developed strong secondary markets and suffocated peasants' initiatives (Gordillo, de Janvry and Sadoulet, 1998). Awareness of the rationales for specific initiatives and the different mechanisms and the most appropriate levels for potential interventions can help to promote approaches that are likely to produce more satisfactory outcomes: improving compliance, and reducing unnecessary red tape.

### **Farm restructuring**

The performance of production collectives, as opposed to service cooperatives for marketing, has been dismal worldwide and many of these production units in CIS and CEE countries were economically unviable long before the political changes of the 1990s. The process of reform was affected by a number of factors. First, many of the production units performed important social functions, and local governments have emerged only slowly to take over these functions. Second, it took time to establish the infrastructure and supporting institutions needed to facilitate the smooth operation of other critical markets. Finally, the sheer magnitude of the transition and the large number of interests affected made a smooth and direct procession towards a stable post-transition equilibrium less likely.

The specific modalities of farm restructuring were, in fact, determined by political processes rather than economic considerations. Most CEE countries adopted restitution of land, whereas the

majority of CIS countries and Albania opted for equal distribution of land to farm members. The various approaches to distribution of physically demarcated plots, as adopted in Albania, the Kyrgyz Republic and Moldova, were typically slower and caused considerable fragmentation, whereas in principle the distribution of land shares that could be taken out of the collective under specified procedures could have allowed quick privatization, but in practice generally led to limited changes in the structure of production. The malfunctioning of rural output and factor markets in a risky environment has in many cases prevented households from leaving former collectives. Improvements to the legal and institutional environment will therefore be critical for the development of rural markets, including those for land. To ensure that a gradual improvement in their functioning will take place, establishing a correspondence between land shares and physical property and eliminating inappropriate implicit and explicit restrictions on land rental will be important.

### **Land reform**

The fact that in many countries the current land ownership distribution has its origins in discriminatory policies rather than in market forces has long provided a justification for adopting policies aimed at land reform. The record of such policies is mixed. Land reforms have been very successful in Asia (Japan, the Republic of Korea, Taiwan, Province of China) and positive impacts have been reported from some African countries such as Kenya and Zimbabwe in the early phases of their postindependence land reforms (King, 1977; Gunning *et al.*, 2000; Jeon and Kim, 2000). At the same time, land reforms in Latin America failed to live up to their objectives and remain incomplete in many respects (de Janvry and Sadoulet, 1989). Key reasons for the limited impact were political resistance and institutional barriers that were often reinforced by the unequal land distribution. In addition, reforms were often guided by short-term political objectives,

and an “agrarian” emphasis on full-time farming increased their cost while reducing the number of potential beneficiaries and the reforms’ impact on poverty.

Where extreme inequality in land distribution and underutilization of vast tracts of productive land coexist with deep rural poverty, a case for redistributive measures to increase access to land by the poor can be made, both politically and from an economic perspective. Even in such cases, a number of different instruments (ranging from expropriation with compensation to activation of rental markets) to encourage and effect the transfer of land will normally be appropriate. To ensure productive use of the land, land reform needs to be combined with other programmes at the government’s disposal. To ensure success, access to non-land assets and working capital and a conducive policy environment are essential (Deininger, 1999). Those benefiting from land reform need to be able to access output markets as well as credit, the selection of beneficiaries needs to be transparent and participatory, and attention needs to be paid to the fiscal viability of land reform efforts.

Governments are more likely to meet these challenges if they use the range of mechanisms at their disposal in concert and with the objective of maximizing synergies between them. This also implies a need to integrate land reform into the broader context of economic and social policies aimed at development and poverty reduction, and to implement programmes in a decentralized way with maximum participation by potential beneficiaries and at least some grant element. Given the continuing relevance of the issue, the often heated political debate surrounding it and the lack of quantitative evidence on some more recent approaches, rigorous, open and participatory evaluation of ongoing experiences is particularly important.

### **Land conflict**

Increasing scarcity of land in the presence of high rates of population growth, possibly along with a historical legacy of

discrimination and highly unequal land access, implies that many historical and contemporaneous conflicts have their roots in struggles over land. This suggests a special role for land policy in many postconflict settings. The ability to deal with land claims by women and refugees, to use land as part of a strategy to provide economic opportunities to demobilized soldiers, and to resolve conflicts and overlapping claims to land in a legitimate manner will greatly increase the scope for postconflict reconciliation. It will also encourage the speedy recovery of the productive sector, a key for subsequent economic growth. Failure to put in place the necessary mechanisms can keep conflicts simmering, either openly or under the surface, with high social and economic costs. These costs rise substantially over time as subsequent transactions will lead to a multiplication of the number of conflicts, which can result in generalized insecurity of land tenure.

Although discussion of the issue in the literature is still limited, even comparatively “minor” conflict over land can significantly reduce productivity and, as it is likely to affect the poor disproportionately, equity (Deininger and Castagnini, 2002). Such conflicts are particularly likely in situations of rapid demographic or economic transition. In such cases existing institutions need the authority and legitimacy to reinterpret rules in an authoritative fashion, thus providing scope for preventing relatively minor conflicts from evolving into large-scale confrontation. Instead of opening up parallel channels for conflict resolution, something that has often contributed to increasing rather than reducing the incidence of land-related conflict, building on informal institutions that have social legitimacy and can deal with conflicts at low cost may be preferable.

### **Land taxation**

Local governments’ lack of their own adequate sources of revenue may not only affect their financial viability, but also limit their responsiveness and accountability to

the local population. Land taxes have long been identified as an appropriate potential source of revenue for local governments that generates minimal distortions and at the same time can encourage more intensive land use and discourage speculative land accumulation. Even though the extent to which land taxes are used varies widely across countries, actual revenues are generally well below their potential. Reasons for this include deficient incentive structures and neglect of issues relating to assessment, tax administration and tax rate setting, in addition to the political difficulty of having significant land taxes (FAO, 2002).

The high visibility of land taxes implies that establishing them may be difficult politically, especially in settings where landowners still wield considerable political power. Democratic election of local governments and administrative support to the different aspects of tax collection can help to encourage the appropriate design and successful subsequent collection of land taxes. This may be further encouraged by schemes to encourage fiscal responsibility and tax collection at the local level, for example by matching of taxes collected locally with central funds. These taxes can therefore have a significant impact on incentives for effective land use, local government revenues, the type and level of public services provided, and governance.

### **State land ownership**

In both developed and developing countries, the state has generally proven not to have the capacity to bring land in its ownership and management to its best use. Nonetheless, large tracts of land in many countries continue to be under state ownership or management. In peri-urban areas, unoccupied state land of high potential often lacks investment and is subject to bureaucratic red tape, non-transparent processes of allocation and corruption. Experience demonstrates that privatization of such land could not only yield significant resources for local

governments, but also increase investment and the effectiveness of land use. If public land has been occupied by poor people for a long time and significant improvements have been made, such rights may be recognized and formalized at a nominal cost to avoid negative equity outcomes. In cases where state land of high potential, especially in urban areas, is unoccupied, auctioning it off to the highest bidder may be the option of choice. This may be particularly appealing if the proceeds can be used to compensate original land owners or to provide land and services to the poor at the urban fringes at lower cost.

Governments commonly have the right of compulsory land acquisition, with compensation, for broader public benefit. At the same time, the way in which many developing country governments exercise this right, especially for urban expansion, can undermine tenure security. As often little or no compensation is paid, this also has negative impacts on equity. In some cases anticipation of expropriation without compensation has led landowners to sell their land in informal markets at low prices. In effect they have been forced to part with key assets, possibly at a fraction of their real value. A negative side-effect of this is the encouragement of unplanned development and urban sprawl that will make subsequent provision of services by government harder and more costly.

In view of the fact that state ownership of land has yielded disappointing results, regulation of land use through appropriate forms of planning control is now agreed to be the most preferable option. Such planning is commonly implemented to reduce undesirable externalities, to help maintain availability of public goods such as landscapes and historical values, or to facilitate more effective provision of services by the government. Where externalities from land use arise, limits on landowners' discretion with respect to land use are justified. The questions that need to be answered in trying to deal with these are whether such measures should be imposed

by central or local authorities and how specific interventions should be designed.

In general, zoning and other land-use regulations should be established based on a clear assessment of the capacity needed to implement them, the costs of doing so, and the way in which both costs and benefits will be distributed. Failure to do so has often resulted in centrally imposed regulations that could either not be implemented with existing capacity, or doing so was associated with very high cost. Such costs are frequently borne by the poor, and are often evidenced by rent seeking. Often, too little thought has been given to providing mechanisms that would allow local communities to deal with such externalities in a more decentralized and therefore less costly way. Gradual devolution of responsibility for land-use regulation and participatory planning to local governments, if coupled with appropriate capacity building, could make a significant contribution to efforts towards more effective decentralization.

#### **CONCLUSION: PUTTING LAND INTO A BROADER POLICY CONTEXT**

Land policy addresses structural issues that, in the longer term, need to be addressed in order to ensure that the economic opportunities opened by other policy changes will benefit the broad majority of the poor. Measures to increase land tenure security, reduce transaction costs of transferring land rights and establish regulatory frameworks to prevent undesirable externalities typically cut across traditional ministerial boundaries, with institutional responsibilities dispersed among, for example, ministries of agriculture, land, environment, land reform and urban planning. It will be essential to have a long-term vision of a broadly backed development strategy that specifically includes land issues to overcome the compartmentalization and lack of coordination, coupled with limited capacity, that are normally the result of such arrangements. The extent to which broad development objectives and more

specific sectoral goals are achieved should be monitored independently and jointly with other government programmes aimed at poverty reduction and economic development.

In addition to cutting across institutional boundaries, issues of land policy are generally complex, country-specific, of a long-term nature and often controversial politically. This demands particular attention to the sequencing of reforms as well as their political economy. Even if land-related interventions will make society as a whole better off, they may be challenged by vested interests that derive considerable benefits from the status quo. Effective policy reform will be made more feasible by open and broadly based policy dialogue, carefully chosen and evaluated pilot projects and sharing of experience across countries. At the same time, this will be essential to help build local capacity for policy formulation and implementation. The papers assembled in this volume constitute an important step in this direction.

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# Brazil: land politics, poverty and rural development

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*This article puts into an historical context land reform issues in Brazil as related to sustainable economic development. Agrarian reform, rooted in the creation of social capital, provides a basis of growth within which we have framed this discussion. Although the economic and social costs of agrarian reforms are high and time negatively affects those beneficiaries who are not competitive because there is no regulated and accepted access to land (titling), it is necessary to incorporate in agrarian reform interventions the “new” approaches of rural development: regional growth (context) and economic incorporation of the poor (active).*

## HISTORICAL DESCRIPTIONS

One characteristic of Brazilian development has been its disregard for evidence that suggests that sustainable economic development is intimately connected with the issue of land distribution. This oversight is symptomatic of the conservative nature of the development process in Brazil. For many years, the question of agrarian reform, and specifically market-based land reform, has been presented in diverse forms and with varied intensity; and although the resultant policies have not always been coherent, rational dissention has been largely absent.

In Brazil, an archaic system of property (i.e. land) rights supports one of the world’s most iniquitous and inefficient land distribution systems. However, the issues are substantively different today than they were at the end of the nineteenth century or even in the 1950s. Growth of the Brazilian economy in the last decade(s) begs the question of whether the agrarian structure was in fact an obstacle to the country’s economic development. Enlargement of the domestic

market<sup>1</sup> and globalization may well have facilitated analysis that overlooked the fundamental question of capital accumulation based on property rights.

The question of food safety – another historical argument in favour of agrarian reform – has also been redefined through the process of economic integration and globalization: the correlation between food safety and self-sufficiency that guided some agricultural policies in the past has been replaced by a concept of self-reliance, which emphasizes the capacity to obtain food, rather than to produce it.

A number of factors seem to suggest that the agricultural sector has in fact been modernized: today, agribusiness is responsible for a significant percentage

<sup>1</sup> The Brazilian development model, mostly after the 1970s, was based on the expansion of the internal market for durable goods, present in the consumer products of social classes A and B, and in basic investments. This model has been seen as excluding part of the population, because, although there has been a reduction in poverty levels, a substantial part of the population was marginalized from the benefits of economic progress.

of the country's farming production; part of the *latifundia* farms have acquired an entrepreneurial character that has resulted in increased levels of productivity; the old system had been replaced by a modern one, the caveat being that even this modern system falls short of the standards reached by Organisation for Economic Co-operation and Development (OECD) countries; and finally, Brazil has become a producer and exporter of non-traditional agro-industrial products. Despite the negative effects of the "Eighties' crisis", the farming sector has been modernized and today is considered an efficient and competitive sector of the economy.

Despite this progress, gaps remain in its modernization that seem to have been facilitated by a closed trading regime, which artificially protected the sector, and resulted in concentration of wealth during periods of monetary instability. Thus, the productive transformation, far from alleviating rural problems, has facilitated their continuation and has even aggravated the situation.

The conservative modernization of the *latifundia* farms reinforced concentrated land ownership and the exclusionary character of the "farming development model"; in general, the old system was replaced by a system characterized by temporary employment, which in many regions offers no legal protection to the workers. In some areas, forced labour still exists in an obscure form similar to slavery, where child labour and deplorable conditions are the norm. Subsistence farming has been largely eliminated, leading to increased migration to urban areas. Many of the existing small farms today serve as homes, rather than as units of production; the rural population is increasingly migrating to large- and medium-sized urban centres that struggle to accommodate them.

Recently, the magnitude and visibility of the agrarian problem, in large part a continuation of the drawn-out crisis that has affected Brazilian agriculture since the end of the 1980s, has become even more

evident as displaced rural populations without land or work search for other means of survival. It is in this context that violence and conflict in rural areas has grown, further necessitating societal intervention.

### **Different views on the agrarian question in Brazil**

During the 1960s the question of agrarian reform in Brazil was a relevant issue in both political and academic circles. Rural land concentration, a heterogeneous production system, labour relations, the existence of precapitalist structures such as communes, and the poor quality of life for agricultural employees were the main subjects to be tackled. Among the classic interpreters of the origins of and solutions to the Brazilian question of land reform are Ignácio Rangel, Alberto Passos Guimarães and Caio Prado Jr. For Ignácio Rangel and Alberto Passos Guimarães, the question of land reform is a function of the difficulty inherent in attempting to adapt a capitalist system to rural areas characterized by archaic and often feudal agricultural structures inherited from the colonial system. Thus, they believe the solution requires overcoming the obstacles to the development of a market-based system. For Caio Prado Jr the question of land reform derives from the process of capitalist development (Kageyama, 1993).

For Ignácio Rangel (1962), the resolution of the land reform question requires the transformation from a self-sufficient agricultural model to a set of superior forms of organization based on free market ideals (private companies and individual entrepreneurs). The result of this transformation, however, was disequilibria and a subsequent crisis of overproduction and overpopulation. The excess labour in rural areas and urban peripheries could not be absorbed by the market economy. Therefore, Rangel's proposed solution was to reconstitute the natural economy on a small scale, with the objective of guaranteeing the subsistence of this excess

population. This would be achieved through the creation of small family plots in both rural and peri-urban areas (Rangel, 1962, pp. 23–27).

Rangel discourages any attempt to change the agrarian structure through governmental land purchase. By contrast, the state must supply the land, using its own land or inducing the private sector to make land available. In contemporary Brazil, the land problem is essentially an economic rather than a legal problem. Intervention by the state as the buyer would distort price adjustment and cause other distortions in the economy, for example through the tax system, that would hinder structural change (Rangel, 1962, p. 26).

Alberto Passos Guimarães concentrates his arguments on the inheritance of the colonial *latifundia* farms, which he sees as having left a legacy of obstacles including archaic labour relations characterized by extra-economic coercion and personal dependence. He believes the need for agrarian reform emerges from the incompatibility between archaic agrarian structures and the capitalist system. His proposal to overcome those obstacles includes the elimination of the inefficient and “old-fashioned” *latifundia* system (Kageyama, 1993, pp. 7–8).

For Caio Prado Jr the question of land reform and its problems are a consequence of the imposition of a capitalism system, which has reduced the system’s ability to interpret and address its internal problems. His approach subsequently becomes a Marxist analysis, which focuses on labour relations in Brazil’s rural economy. For Prado, the question of land reform is embodied in the rural population’s lack of material possessions and their lack of legal rights. It is not a result of the colonial feudal legacy, but rather of the existing capitalist structures that have characterized Brazil’s economic development. The solution should therefore be predicated upon the available instruments and institutions, with all of their shortcomings (limited property rights, labour laws, minimum wage, etc.) and only in a second phase should there be

an attempt to replace the system entirely (Kageyama, 1993, pp. 8–11).

It is important to point out that these authors’ analyses of land reform are not analogous to analyses of ownership concentration. Although property rights and the historical forms of its occupation have been reflected in Brazil’s agrarian problems, the expression of these problems is related to the population, either in terms of excessive structural unemployment (exceeding population, of Rangel), worker exploitation (Guimarães) or lack of legal protection, all of which perpetuate agricultural poverty (Prado).

The analysis of the agrarian question based on income from property does not take into account that, in a capitalist economy, land is legally defined as private property, and as such is subject to the price mechanism and market forces. Although “land” was not an economic good as such, it became one during the dramatic nineteenth century transformation in which economic activity was isolated and the distinct economic motivation of the feudal system was usurped. This transformation allowed economic activities to be controlled, regulated and directed by market forces, whereby supply and demand were coordinated by the price mechanism. In this sense, a market for land was developing (Plata, 2001).

#### THE RECENT BRAZILIAN EXPERIENCE

At the end of 1994, 30 years had passed since the promulgation of the Land Statute. Representing a period of more than a generation, this should have been more than enough time for social transformation to have taken hold, given the experiences of other countries. However, the Brazilian land reform issue had still not been adequately addressed. The results of the agrarian reform programme up until 1994 had done little to ameliorate the miserable living conditions of millions of Brazilians who had little or no land of their own. Up to 1994, around 300 000 families had benefited from federal aid and state land agency agrarian reform and settlement projects. However, an

TABLE 1

**Goals reached by the government in the agrarian reform project (1995–2001)**

|       | No. of settled families | Total area (1000 ha) | Cost per family (R\$) | Price per hectare (R\$) |
|-------|-------------------------|----------------------|-----------------------|-------------------------|
| 1995  | 42 827                  | 1 313.5              | 19 412.74             | 382.67                  |
| 1996  | 61 674                  | 4 451.9              | 16 385.04             | 343.21                  |
| 1997  | 81 944                  | 4 394.5              | 14 614.59             | 292.23                  |
| 1998  | 101 094                 | 2 540.6              | 10 116.34             | 287.49                  |
| 1999  | 85 327                  | 1 478.5              | 8 294.83              | 264.75                  |
| 2000  | 108 986                 | 3 861.3              | 9 094.91              | 256.70                  |
| 2001  | 102 449                 | 1 697.0              | 9 701.00              |                         |
| Total | 584 301                 | 18 737.3             |                       |                         |

Source: INCRA (2002). Balanço da Reforma Agrária e da Agricultura Familiar.

estimated 4 million families did not benefit from these programmes.<sup>2</sup>

The agrarian situation after 1994 deteriorated as a result of land occupation and land seizure by the Instituto Nacional de Colonização e Reforma Agrária (INCRA), both of which resulted in increased conflict, which culminated in the slaughter of 19 rural workers in “Eldorado de Carajás”. This grave situation provoked national outrage and forced the federal government to accelerate the processes of land distribution as well as directly address the plight of landless agricultural workers. After 1994, a favourable political climate facilitated modification of the land market, which increased its efficiency. This was in large part a result of the effective commitment of the Executive to institute policy change in response to the strong social pressure created by the “Marcha dos Sem Terra” (Landless March) in April 1997.

Land conflict and the lack of more aggressive land policies encouraged important social movements to employ land occupation as a third way.<sup>3</sup> This process,

<sup>2</sup> The social demand for land in Brazil is about 4 million families within the social movement. That number includes approximately 2.5 million small producers, employees and partners. A more accurate number would probably be 2 million families (considering that not all the small producers and employees are in a true sense proprietors of the land). Up to 2002, and including the past 15 years, 1 million families will have benefited.

<sup>3</sup> According to the Secretaria Nacional da Comissão Pastoral da Terra, conflicts resulting from land dispute have been estimated as follows: 185 996 people suffered from some kind of violence; the houses of more than 700 families and the properties of another 1 040 were destroyed and more than 1 600 people were arbitrarily expelled (Cadernos CEAS, no. 148, 1994).

led by the “Movimento dos Sem-Terras” (MST; Movement of the Landless) gained social support in its initial phase. This forced the federal government to renounce its previous policy and institute a land redistribution process never before seen.

Between 1995 and 2001, the federal government distributed 18 737 000 ha of land, which benefited 584 301 families. The cost per family decreased from \$R19 412 to \$R8 294 from 1995 to 2001, and the average price per hectare decreased from \$R382 to \$R264 during the same period (Table 1). After 2000, the process suffered a slight reversal.

The data in Table 2 are based on a sample from agricultural studies that evaluated INCRA land distribution policies in the period between 1997 and May 1999. The data seem to indicate the following results from the agrarian reform measures instituted by Fernando Henrique Cardoso’s government: of total land distributed, only 21.1 percent had been in use, 54.0 percent was non-utilized land, another 24.9 percent of land was set aside for permanent preservation, legal reserves or was inappropriate for farming, meaning that only 75 percent of the land initially allotted could be used for purposes of land reform. These unused lands were either of very low quality or would have required a prohibitively high investment to make them productive. Distribution of this land would have been untenable either from the standpoint of the beneficiaries or the government as it would have required a huge investment in rural credit to do so. On average, the lands that might present simple conservation problems but that could still be cultivated (Types I and II) represented 13.66 percent of the total; land with conservation problems of medium complexity (Type III) 41.56 percent, and lands with complex conservation problems but still cultivatable (Type IV) 22.38 percent of the total. Lands unsuitable for intensive use, but still adaptable for pastures and/or deforestation and/or wildlife (Type V), represent 7.28 percent of the land. Therefore, a great number of the beneficiaries who receive these lands will

TABLE 2

**Brazil – Average indexes in the process of land evaluation for land distributed as a function of agrarian reform (implemented by INCRA)**

|   |           | Percentage |
|---|-----------|------------|
| No. of processes                                | 847       |            |
| Evaluation period                               | 1997–99   |            |
| Area studied (ha)                               | 2 284 518 |            |
| Property use (ha)                               |           |            |
| • Permanent preservation                        | 137 553   | 6.16       |
| • Legal reserve                                 | 328 477   | 14.70      |
| • Utilized                                      | 471 550   | 21.10      |
| • Not utilized                                  | 1 207 449 | 54.03      |
| • Inappropriate                                 | 89 743    | 4.02       |
| Soil capacity (ha)                              |           |            |
| • Type I  | 8 734     | 0.39       |
| • Type II                                       | 298 908   | 13.27      |
| • Type III                                      | 936 540   | 41.56      |
| • Type IV                                       | 504 362   | 22.38      |
| • Type V  | 148 281   | 6.58       |
| • Type VI                                       | 127 223   | 5.65       |
| • Type VII                                      | 36 642    | 1.63       |
| • Type VIII                                     | 192 535   | 8.54       |
| Access conditions                               | 3.11      |            |
| Agronomic note                                  | 0.56      |            |
| Average price in the evaluation                 |           |            |
| • Average price per hectare                     | \$R285    |            |
| • Average price of the improvements per hectare | \$R71     |            |
| • Average price of land (only) per hectare      | \$R215    |            |
| Estimated expenses per family                   | \$R9782   |            |

Source: Ficha Agrônômica de Desapropriação, INCRA. July 1999.

require significant investment in technology and credit to make these lands productive. The average agronomic note attached to distributed lands (0.56) confirms these findings.

The price per hectare of land designated for distribution, \$R21 500, is considered low in comparison with the prices shown in Table 1. However, taking into account that the average type of land distributed is Type V, this price is not as low as one might expect.

The average expense per family in the distributed areas, \$R9 782.00, indicates only the value of the land parcel, whereas the state must account for the entire economic value embodied in both the land and those squatting on it.

Finally, these data bring into focus the severity of the problems that both the beneficiaries of the agrarian reform and the state will need to confront. Property rights are just one constraint on agricultural productivity. The state must ensure

through its policies that the squatters have access to other markets, including credit, products, inputs and technology markets. Land distribution is only the first step in the process of increasing opportunity for and improving the lives of the rural poor.

### Regional impacts of the settlements

A recent study promoted by the Núcleo de Estudos Agrários e de Desenvolvimento Rural (NEAD) (Heredia *et al.*, 2001) brings to light valuable information on the regional impact caused by agrarian reform and its resettlement policies in Brazil.<sup>4</sup> The strong concentration of settlements in these regions has its origin in the crisis of the local agrarian systems, characterized by extreme poverty, a rising number of endemic social conflicts, and the emergence of social movements and social organizations. From the statistical sample, in 95 percent of the cases, extrajudicial land dispute resolution was the basis for current claims. Notable examples of this phenomenon can be found in the northeast sugar cane region where there is a crisis in the sugar cane system, in the cacao zone in the south of Bahia where there is a crisis in the *latifundia* cacao farm system and in the Ceará hinterland where there has been a drawn-out crisis in the cotton industry in addition to droughts and a farming crisis. Data on the origin and locale of squatters' previous residences corroborate these findings: 68 percent of the sample group previously inhabited agricultural areas, 70 percent inhabited the same city or cities in the same region as before and 68 percent were born in the same city or cities in the same region in which they remained. Added to the fact that about 15 percent of the sampled settled population was born after the settlement agreements, we can conclude that local populations with

<sup>4</sup> This study, sponsored by NEAD (related to the Ministry of Agrarian Development) was realized in 92 settlements in six regions of high concentration of settlements in Brazil: South of Bahia, Sertão do Ceará (hinterland), Entorno do Distrito Federal (DF region), Southeast of Pará, West of Santa Catarina and Northeast of Zona Canavieira (sugar cane region).

historic attachment to their land is in the range of about 84 percent.

Although variable with respect to region, the demographic impact of the settlements cannot be disputed. In the region of Distrito Federal (DF), for example, the population displacement caused by the settlements seems to be diluted by the greater regional migratory trends into the capital and its surrounding areas.<sup>5</sup> However, “the population in the rural settlements is equivalent to 23.73% of the total rural population (...)”. This proportion reaches 80 percent in Natailândia, MG, 65 percent in São João d’Aliança, GO, and 63 percent in Riachinho, MG. In Riachinho the population of the settlements is equivalent to 68 percent of the urban population and in Flores de Goiás it is greater than the urban population, which represents 49 percent (Heredia *et al.*, 2001, pp. 225–226).

In some regions, the settlements have absorbed part of the marginalized urban population: in the region of DF, 34 percent of the settlements’ population previously lives in the urban area; 22 percent in the Southeast of Pará, and 28 percent in the South of Bahia. In some cities, as in the west of Santa Catarina, the settlements resulted, in the latter half of the 1990s, in a migration from urban to rural areas – a reversal of the earlier trend. The rural population of Abelardo Luz, which decreased between 1990 and 1996, started to increase by approximately 6 percent annually between 1996 and 2000.<sup>6</sup> In Passos Maia, in the same region, after a reduction of more than 21 percent of the total population and 25 percent of the agricultural population during the 1980s, the trend was reversed, in large part as a result of the settlements. The agricultural population experienced an increase of 30 percent and the total population an increase of approximately 35 percent.<sup>7</sup>

<sup>5</sup> The same seems to have occurred in the South of Bahia, where the migration had been into the regional urban centres of Itabuna and Ilheus.

<sup>6</sup> Between 1980 and 2000 the rural population grew by approximately 36 percent.

<sup>7</sup> The emancipation of the city also contributed to urban population growth during this period.

## Social pressures

The consequences of this phenomenon are important. Previously, the vast majority of public investment in infrastructure (roads, electrification, water supply, etc.) was directed towards urban areas and their enormous populations. Indeed, as most of the settlements had their origins in conflicts, it was to be expected that initially part of the local society considered inhabitants of the settlements as outsiders or potential intruders.

However, in many regions, the settlements had gradually produced population conglomerates<sup>8</sup> that attracted the attention of local public agencies, and in some cases the majority of their investment. Thus, as the authors of the study point out, “in many cases, the creation of the settlements results in the amplification of the infrastructure demands and pressure on the city halls, responsible for the installment of several, as well as on the state government.” (Heredia *et al.*, 2001, p. 218).

Some data highlight this phenomenon. In 86 percent of the settlements there is a school, most of which (75 percent) were created after the settlements and from claims of the squatters (71 percent).<sup>9</sup> More than 90 percent of the children between 7 and 14 years go to school, 63 percent of the young between 15 and 19 years, and 19 percent of those between 20 and 29 years. This compared with the previous situation in which 32 percent of those over 30 years of age have never regularly attended school.

In addition, in 64 percent of the settlements there are educational projects

<sup>8</sup> In 71 percent of the cases the settlements have conglomerates or special divisions similar to those found in districts, villages or rural neighbourhoods. The most radical case mentioned in the survey was the city of Floresta, in Pará, created largely as a result of population increase.

<sup>9</sup> It is important to mention that in 73 percent of the cases, these schools offer education only to fundamental years and 77 percent have mixed years. The squatters’ level of education varies according to region, but higher levels are in the West of Santa Catarina, in the region of Distrito Federal and in the Southeast.

for young adults in progress, in particular projects of the Programa Nacional de Educação na Reforma Agrária (PRONERA; National Programme of Education in Agrarian Reform), sponsored by the Rural Development Ministry and non-governmental organizations (NGOs). More than 20 percent of the squatters had taken technical courses after the establishment of the settlements (fewer than 4 percent had taken them before). As in most rural areas of Brazil, few settlements have health care systems, and even where this is the case, the daily presence of health professionals is rare (only four settlements). Therefore, the squatters seek medical attention in urban areas, increasing the pressure on urban services. However, in 78 percent of the areas covered by the project there are health agents who are subsidized in large part by local governments.

For the majority of families, the settlement also represents the first chance for access to credit, the banking system and the financial market: previously, 93 percent of the population interviewed had no access to the credit system; in 1998/99, 66 percent had some form of credit.<sup>10</sup>

Access to the settlements remains poor,<sup>11</sup> because a considerable part of the investment in infrastructure still remains to be made. However, in 66 percent of the cases there is collective transport inside the settlement at least once a week (and in 42 percent of the cases this is many times a day). One particular case is of several cities on the northeast of Zona da Mata, where old roads have been abandoned and new ones constructed by the local government to facilitate access to the settlements.

Living conditions in the settlements have also improved significantly: 74 percent of

the squatters live in masonry residences (against only 39 percent previously), and 78 percent of the settlements have electricity (in 53 percent of the cases, in most or all of the plots).

For 59 percent of the families, the communal spaces are important meeting places, followed by residences (53 percent) and religious areas (only 18 percent of the cases). The settlements also provided the impetus for new organizations (associations, cooperatives, nuclei, etc.) and have contributed to strengthening organizations and social movements involved in political mediation. In all the studied regions, there are cities in which the squatters participate in the city councils responsible for rural development, agriculture, etc. In many cases, squatters have stood for public office (council members, member of the House of Representatives) and, in some cases, had even been elected mayor.

This inclusion presents two important achievements in terms of citizenship and human development. On the one hand, this population, marginalized before establishment of the settlements, began to have access to public politics and gained social and political recognition. On the other hand, the settlements and their organizations have gradually been taken into account by the cities, business interests and local political forces and they have started to exercise an active role in the definition of politics and public investments. In many cases, the local government has redefined its priorities. In the city of Abelardo Luz, in Santa Catarina, "municipal controllers affirm that, today, 41% of health and social assistance and 55% of funds pertaining to school transportation have been targeted at squatters." (Heredia *et al.*, 2001, p. 218).

### **The remodelling of the agrarian system and the dynamic process of economic life**

The impact of the settlements in the concentration of land property is variable, according to the specificities of each region. Available tax data do not yet permit us

<sup>10</sup> Eighty percent of the squatters have investment credit, 72.2 percent credit for housing, 74.6 percent food credit. Fifty-nine percent of those who took credit mentioned difficulties in receiving finance as a result of delays in processing (78 percent).

<sup>11</sup> More than 50 percent of the roads that lead to the settlements cannot be utilized during the wet season. In 30 percent of the cases, there are plots with difficult access or completely without access; in 37 percent of the settlements there are traffic problems during the wet season.

TABLE 3

## Proportion of the area of a settlement in the total area of the regions

| Region                           | Sample considered (area ha) | Percentage of squatters' plots in the considered sample (%) | Area of the plots on the sample (created up to 1997) compared with the total area of the establishments of the sample (%) |
|----------------------------------|-----------------------------|---|---|
| South of Bahia                   | 0-50                        | 70  | 5.5   |
| Ceará (hinterland)               | 0-50                        | 90  | 113.2   |
| DF Region                        | 0-100                       | 98  | 57.6  |
| Southeast of Pará                | 0-100                       | 79  | 119.5   |
| West of Santa Catarina           | 0-50                        | 90  | 18.8  |
| Sugar cane zone of the northeast | 0-20                        | 100   | 142.7   |
| Total                            | -                           | -   | 62.0  |

to measure the observed changes with accuracy.<sup>12</sup> However, the study brings to light some interesting comparisons. In the studied regions, the settlements have accumulated less than 12 percent of the total area of farming establishments. This percentage is smaller in the South of Bahia and in the area of Distrito Federal (3 and 5 percent, respectively), but reaches 23 percent in the hinterland of Ceará and 40 percent in the Southeast of Pará. This gives some perspective of the incorporated territory in terms of the agrarian reforms in those regions.

Dismemberment of large properties (more than 500 ha, in 76 percent of the cases) also resulted in extension of and greater weight given to family farms in the local rural system. In some regions, the area occupied by settlements, with their characteristic family-based agriculture, represents up to 100 percent of the total area examined, as Table 3 demonstrates.

In extreme cases, as in some cities of the sugar cane zone of the northeast, the area comprising establishments was increased by a factor of 4 (Pedras de Fogo, Cruz Espirito Santo), 5 (Água Preta) or 6 (Maragogi).

By contrast, the study also found evidence that only a small percentage of plots change hands: in 91 percent of cases, the families

who originally established the plot are still responsible; and in 96 percent they alone manage their own plot.

One of the first consequences of the transformation from *latifundia* farms into family-owned plots is the productive reorientation of the local rural system. In some regions, cultivation predominated in the *latifundia* farms. In the settlements, by contrast, there is greater variation in terms of production.

Aggregate data of areas affected by land reform confirm this finding. Six groups of products characteristic of family agriculture represent more than 70 percent of the gross of value product (GVP), excluding livestock and meat: milk and derivatives; cassava and flour; maize; beans; eggs; and rice. Some products of regional importance represent about 20 percent of the GVP: pineapple, soy, sugar cane, tobacco, passion-fruit, potato, pumpkin, sweet potato and cotton. More than 70 other products comprise the remaining production of the settlements.

Farm products are also diversified. Dairy cows are present in 52 percent of the settlements; poultry in 80 percent; swine in 34 percent; and goat and sheep in 21 percent (in 74 percent of Ceará State settlements). One IBGE research project in the studied area in 1999 found that dairy cows represent 8 percent, swine 9 percent, poultry 14 percent, and goat and sheep 25 percent.

Many of these products are destined for agro-industrial processing. A part of this processing is carried through by agro-industries (such as cotton, in Ceará, or milk, in almost all of the regions), but a

<sup>12</sup>The last census was taken in 1996; most of the studied settlements originated in the second half of the 1990s (settlements established after 1995 represent three-quarters of the national total). By contrast, the settlements are not considered in the census, a factor that creates difficulties in measuring their direct impact.

relevant part is performed in the settlement or in its closest neighbouring regions (cassava, cheese and flour, in the area of the Distrito Federal; cassava, honey and flour, in the South of Bahia; cassava and flour in the Southeast of Pará and in the northeast sugar cane zone). This has immediate consequences for the economic activities related to rural production, inside and outside the settlements.

The importance of having a free market and increased supply for local consumers is clear. In the southeastern section of Pará, this transformation to a market system has resulted in greater food security. Consumers interviewed in the free markets of Pedras de Fogo, Paraíba, affirmed that the settlements had resulted in increased supply (and choice) of, and lower prices for, food. Thus, diversified production translates into improvements in food safety and supply and increased choice not only for the squatters but also for the urban population.

Evidently, the use of primary input is not always a good indicator of the sustainability of production systems,<sup>13</sup> but it can be an indicator of the secondary markets created by the settlements in terms of industry and services. Only 18 percent of people interviewed said they had not used any type of agricultural input. In approximately 53 percent of the plots, seeds supplied externally were used; in 42 percent, veterinary help; in 40 percent, insecticides/pesticides; in 37 percent, farm chemicals; and in 18 percent, organic fertilizers.

Squatters are increasing their stake also in the financial markets. Financing provided to them in 1998/99 represented 12.5 percent of the total provided to agriculture in the studied cities. This percentage is lower in the South of Bahia (4 percent) and in the zone of Distrito Federal (6 percent), but reaches 58 percent in the Southeast of Pará and 81 percent in the northeastern Zona da Mata.

<sup>13</sup> In 49 percent of the plots, the technological standard was characterized by the survey as "intensive-chemical". In 64 percent of the plots, however, the intensity of the input was considered "low or non-existent" (Heredia *et al.*, 2001, p. 370).

### The creation of jobs and improved income

Before establishment of the settlements, 30 percent of squatters had no access to land: 5 percent were unemployed, 11 percent temporary employees and 14 percent permanent employees. Fifty percent had only precarious access to land: 18 percent were partners or leaseholders, 17 percent were non-remunerated members of the family, 3 percent were small proprietors, and 12 percent had both precarious accesses to land and/or any type of job (permanent or temporary).

This situation changed radically with the emergence of the settlements: 84 percent of those interviewed confirm that work conditions have improved. In the 1 568 plots studied there are more than 4 765 people over 14 years of age who work, translating into an average of three people working per plot. If we consider all ages, there is an average of 3.57 workers per plot. Of these, almost 80 percent work exclusively in the plots (average of 2.6 jobs per plot). Only 1 percent of them work exclusively outside their plot. More than half of the squatters working outside their plot work in the settlement, and a significant part of them are in non-agricultural activities (50 percent in the South of Bahia and about 20 percent in Santa Catarina and Zona da Mata in Paraíba). Only 25 percent of those who work outside the settlement have only one job.<sup>14</sup> Moreover, the squatters have created jobs for non-family members: in 36 percent of the plots people from outside the settlements were hired.

We are interested in jobs created directly by the settlement and inside the settlement.<sup>15</sup> In less than 12 percent of the plots was there a loss of members as a result of work-related problems. By contrast, in 23 percent of the plots there

<sup>14</sup> The authors of the survey caution use of these data, because they consider that "the squatters fear revealing their insertion in other kinds of work, once this proceeding is disapproved by INCRA, as well as by those who represent them (Unions, MST, Church)." (Heredia *et al.*, 2001, p. 412).

<sup>15</sup> We are thus dealing with 43 000 direct jobs in the settlements.

TABLE 4

## Average family annual income and gross income 1999/2000 (\*)

|   | South of Bahia |       | Ceará (hinterland) |       | Region of Distrito Federal |       | Southeast of Pará |       | West of Santa Catarina |       | Sugar cane zone |       | Total |       |
|---|----------------|-------|--------------------|-------|----------------------------|-------|-------------------|-------|------------------------|-------|-----------------|-------|-------|-------|
|   | \$R            | %     | \$R                | %     | \$R                        | %     | \$R               | %     | \$R                    | %     | \$R             | %     | \$R   | %     |
| Gross average family income on the settlement (A) | 2 872          | 70.3  | 576                | 41.1  | 3 712                      | 71.3  | 3 416             | 70.7  | 4 291                  | 81.5  | 1 750           | 60.8  | 2 568 | 68.6  |
| Average income (family) outside the plot (B)      |                |       |                    |       |                            |       |                   |       |                        |       |                 |       |       |       |
| •Rural workers                                    | 154            | 3.8   | 115                | 8.2   | 372                        | 7.1   | 323               | 6.7   | 332                    | 6.3   | 111             | 3.8   | 229   | 6.1   |
| •Urban workers                                    | 321            | 7.9   | 48                 | 3.4   | 192                        | 3.7   | 189               | 3.9   | 164                    | 3.1   | 233             | 8.1   | 177   | 4.7   |
| •Autonomous                                       | 123            | 3.0   | 30                 | 2.1   | 40                         | 0.8   | 247               | 5.1   | 63                     | 1.2   | 45              | 1.6   | 95    | 2.5   |
| •Others   | 0              | 0.0   | 1                  | 0.1   | 3                          | 0.1   | 1                 | 0.0   | 4                      | 0.1   | 1               | 0.0   | 2     | 0.0   |
| •W/o info W/o activity                            | 30             | 0.7   | 7                  | 0.5   | 0                          | 0.0   | 11                | 0.2   | 30                     | 0.6   | 71              | 2.5   | 27    | 0.7   |
| Other incomes                                     |                |       |                    |       |                            |       |                   |       |                        |       |                 |       |       |       |
| Average of external relatives (C)                 |                |       |                    |       |                            |       |                   |       |                        |       |                 |       |       |       |
| •Retired pension                                  | 587            | 14.4  | 621                | 43.3  | 877                        | 16.9  | 642               | 13.3  | 375                    | 7.1   | 653             | 22.7  | 641   | 17.1  |
| •Financial aids                                   | 0              | 0.0   | 4                  | 0.3   | 7                          | 0.1   | 7                 | 0.2   | 7                      | 0.1   | 13              | 0.4   | 7     | 0.2   |
| Annual gross familiar income annual total (A+B+C) | 4.088          | 100.0 | 1.401              | 100.0 | 5.203                      | 100.0 | 4.835             | 100.0 | 5.265                  | 100.0 | 2.876           | 100.0 | 3.746 | 100.0 |

Source: Heredia *et al.* (2001, p. 435).

\*Average income, considering the number of interviewed, including those without any income. To facilitate ease of analysis we eliminated fractions of a dollar. Family gross average income, according to the sample, is \$R31 200 per month, slightly higher than two minimum wages, varying from \$R11 674 in Ceará to \$R43 872 in the southeast of Pará. Although there are strong regional variations, most of the studied population is above the poverty level, as demonstrated in Table 5 (the data concerning external jobs may be underestimated).

was incorporation of new members of the family (first-degree relatives of the family head), resulting in an average of 2.4 relatives per plot (Heredia *et al.*, 2001, pp. 235 and 236).<sup>16</sup> We need to add to these direct jobs the non-agricultural jobs created or stabilized by the settlements (industries resulting from and for the settlements, public infrastructure implantation, services, commerce). Although, it was not part of the research objectives to measure with precision farming income and the total income of the families, we were able to assess the settlements' capacity to generate income. The following data were considered: "income from the work realized outside the plot; income from farming products, commercialization and other incomes or financial aid received." (Heredia *et al.*, 2001, p. 426).

<sup>16</sup>This incorporation of family members, taking into account that almost 40 percent of the squatters have relatives outside the settlements (Heredia *et al.*, 2001, p. 235), contributes to family relationships being re-established, if they had been fragile or if the members had moved apart (the need to move and find survival alternatives).

It is important to mention that the income from the commercialization considered here is an estimate of the potential monetary income of the plot and that the products for exclusive consumption have not been considered.<sup>17</sup>

It is important also to note that, in particular in Ceará, but also in part of the northeastern Zona da Mata, agriculture had been affected by a long period of drought. Table 4 demonstrates that almost 70 percent of the gross income of the families comes from the plot. Retirement income is the second largest source of income for settled families (17 percent), something reported in previous studies of family farming and social welfare provision in rural areas.

Plot capitalization, as an indirect indicator of the income level of farming families, confirms these findings. Indeed, the capitalization occurs either through

<sup>17</sup>The estimated income considered only products entirely or partially commercialized, according to the information provided by the squatters. The total was multiplied by the average local income in the period 1998/99.

credit or when family income exceeds bare subsistence levels. The majority (67 percent) of productive installations had been constructed with squatter resources and 55 percent of the machines and individual equipment had been financed by them.

### **The settlements as a factor in development**

The settlements have diversified their productive system and distribution networks, increasing food supply and the consumption of agricultural and non-agricultural goods and services, as well as of durable goods.<sup>18</sup> This process has created a considerable number of direct and indirect jobs, both agricultural and non-agricultural, which has increased the demand for and the investments in infrastructure and basic services (health, education, transportation), resulting in the diversification and transformation of the economic life of the cities.

Created during a crisis within the local agrarian systems, the settlements diversified and transformed the local economy and extended the chances of economic and social inclusion, not only for the settled families. The settlements became a development factor.

### **NEGOTIATED AGRARIAN REFORM: RECENT EXPERIENCES**

Recently, some agrarian credit programmes have aimed to facilitate land access for those without land or with little land. Their objective is to provide credit for the small buyers, who normally would not have access to financial markets. The World Bank has been stimulating this kind of agrarian reform programme, and intends to grant long-term credit (for acquisition of the land) and partial subsidies (for investments in infrastructure and productive projects) to low-income beneficiaries.

<sup>18</sup> Some data demonstrate that the number of families that have domestic electronic products, such as a refrigerator, television, satellite dish and dishwasher, increased considerably after the settlement. The number of families with other means of transport (bicycle, animals, motorcycle, car or any other) increased three-fold.

According to some researchers, the supporting reasons of these programmes are:

- flow of information between buyers and sellers,
- competition between sellers,
- competition between potential buyers in the financing of productive projects,
- voluntary negotiation of the land price among groups of sellers and buyers,
- technical assistance to poor workers in the design of projects,
- subsidies to obtain partial financing of projects, including land purchase, and
- monitoring system.

These programmes had been designed to complement and eliminate some gaps in the agrarian reform process. The advantages of these programmes are explicit:

- in the higher freedom of the beneficiaries, because they can choose the land they prefer and negotiate its price;
- in the suppression of the state agency intervention in land selection and negotiation – surpassing the bureaucracy; and
- in the reduction of administrative costs and possibility of transference of functions from the governmental agencies to the private sector, especially in the areas of project preparation and technical assistance to beneficiaries.

But they also include some risks, which might increase costs, such as:

- inequality in negotiation influence,
- non-flexibility in land offers, and
- difficulties recovering credit.<sup>19</sup>

In Brazil, the programme began in Ceará, in 1996, through a project of the state government entitled Programme to Combat Agricultural Poverty, financed by

<sup>19</sup> Ethically, the main problem is that the squatters have not yet paid for their lands, and there is no evidence that they will do so in the short term. It is, however, not that those who obtain the land by purchasing it have to pay for that land, whereas the squatters do not; economically, the problem is learning whether the new owners have means to pay their debt associated with acquisition of the land, even if via subsidies (Reydon and Plata, 1998).

the World Bank (Project São José – the Solidarity agrarian reform). In 1997, the federal government adopted the idea and initiated the implementation of a new similar project in five states: Bahia, Pernambuco, Ceará, Maranhão and Minas Gerais. Federal government resources<sup>20</sup> assure the beneficiary associations of the recovery of long-term financing (20 years) for land purchase. After a grace period of 3 years for the first reimbursement, the loan has negative real interest (6 percent per year, reduced to 3 percent for timely repayment).<sup>21</sup> A Loan Agreement with the World Bank assures the non-reimbursable financing of projects, productive investments or basic infrastructure, so that the communities can design the property and begin its development. Resources for the installation of families (“initial allowance for expenses”) and the technical expertise contracted by the community are examples of these projects.<sup>22</sup>

The project, decentralized and the responsibility of the states, allowed the settlement of more than 14 000 families, who acquired 370 000 ha. At the end of the project, in 2002, the goal of 15 000 settled families has been exceeded. To improve on this experience, the Ministry of Agrarian Reform created in 2001 the Crédito Fundiário (Project of Agrarian Credit and Combat to the Agricultural Poverty), with the participation of the Confederação Nacional dos Trabalhadores na Agricultura (CONTAG; National Confederation of Workers in Agriculture), the goal of which is, in the first phase of the project, to settle 50 000 families in 3 years.<sup>23</sup> The area covered by this project was extended to

allow the incorporation of all the northeast states, Espírito Santo (southeastern region) and, experimentally, three states in the south (Rio Grande do Sul, Santa Catarina and Paraná).

In 1998, the federal government also created the Banco da Terra. Although its execution is decentralized and its actions are based on the principle of financing property acquisition, Banco da Terra has significant differences with the Project Cédula da Terra. One of the main differences is that the Banco da Terra does not have the express purpose of combating poverty, because it foresees the reimbursable financing of all its investments, including infrastructure, and does not limit beneficiaries to the poor. Whereas the projects Cédula da Terra and Crédito Agrário had fixed the maximum financing and subsidies to \$R15 000, Banco da Terra allows financings of up to \$R40 000. Some of the resources of the Banco da Terra had been applied in the three states of the south and the average values of the transactions exceed considerably those verified in the Project Cédula da Terra.

However, these three land acquisition financing programmes allow lands that cannot be dispossessed in the traditional way to be incorporated into the process of agrarian reorganization (properties of less than 15 fiscal modules or productive properties of more than 15 modules). This represents about 40 million hectares in Brazil.

#### **Preliminary results of the Project Cédula da Terra**

It is still too early to give a thorough evaluation of the results of Cédula da Terra. A preliminary evaluation of its impacts was carried through by a team of researchers, led by A.M. Buainain between 1999 and 2000, which allowed them to determine the profile of the beneficiaries and to evaluate some aspects related to the strategy of action of the project.

The impacts relating to improvement in the quality of life are comparable with those verified in the settlements of the INCRA.

<sup>20</sup> INCRA provided the initial resources. Currently, they are provided by the Fundo da Terra and Banco da Terra.

<sup>21</sup> The financing incentives were less favourable at the beginning of the project (monetary correction after ten years); criticism of the project was on the assumption that the new land owners would not pay off their debts.

<sup>22</sup> See Buainain, Silveira and Teófilo (1998) for a discussion on the advantages and disadvantages of the Programme Cédula da Terra.

<sup>23</sup> The aim of the project is to settle 15 000 families, in both phases of the project, in nine years.

TABLE 5

## Average of annual gross family income according to the range of minimum wage 1999/2000

|                           | South of Bahia | Ceará (hinterland) | Region of Distrito Federal | Southeast of Pará | West of Santa Catarina | Sugar cane zone | Total |
|---------------------------|----------------|--------------------|----------------------------|-------------------|------------------------|-----------------|-------|
| No income                 | 1.15           | 3.92               | 5.49                       | 3.55              | 0.00                   | 2.58            | 3.12  |
| Up to 1 minimum wage (MW) | 22.99          | 63.40              | 29.96                      | 30.33             | 15.68                  | 46.65           | 38.62 |
| 1–2 MW                    | 33.33          | 22.88              | 20.25                      | 24.86             | 26.49                  | 25.52           | 24.60 |
| 2–3 MW                    | 16.09          | 7.84               | 13.08                      | 12.30             | 16.76                  | 12.63           | 12.36 |
| 3–5 MW                    | 17.24          | 1.63               | 15.61                      | 16.67             | 26.49                  | 6.70            | 12.30 |
| > 5 MW                    | 9.20           | 0.33               | 15.61                      | 12.30             | 14.59                  | 5.93            | 8.99  |
| Total                     | 100.0          | 100.0              | 100.0                      | 100.0             | 100.0                  | 100.0           | 100.0 |

Source: Heredia *et al.* (2001, p. 435).

The minimum wage was, for the period of the survey, \$R15 100.

TABLE 6

## Prices of farmland from FGV, hectare cost on Cédula da Terra and dispossession cost from INCRA

|            | FGV price, 1998 (a) | Cost per hectare Cédula da Terra (b) | Dispossession cost, INCRA (c) |
|------------|---------------------|--------------------------------------|-------------------------------|
| Northeast  | 396                 | 181                                  | 539                           |
| Maranhão   | 189                 | 118                                  | 245                           |
| Ceará      | 171                 | 141                                  | 386                           |
| Pernambuco | 660                 | 367                                  | 688                           |
| Bahia      | 572                 | 230                                  | 334                           |
| M. Gerais  | 979                 | 204                                  | 605                           |

Source: Reydon and Plata, 1998a.

(a) Real price of farmland, *Boletim Estatist. do Centro de Estudos Agrícolas IBRE/FGV* (June 1998 = 100).

(b) Average cost per hectare, according to the database of Cédula da Terra, February 2000, NEAD.

(c) Average price of the land dispossessed by INCRA, per hectare, 1996–1998, Departamento de Finanças – INCRA. In Gasques, J. and Conceição, J. *Demanda de Terra para a Reforma Agrária no Brasil* Box 5, p. 38, Brasília, November 1998.

In Pernambuco, for example, 89 percent of the beneficiary families live in masonry houses, versus 78 percent before the project (Vital *et al.*, 2001). The consumption of durable goods was small (\$R140 per family on average), but reasonable, if we take into account the short period since the beginning of the project versus their initial situation.

Production was affected by a severe drought in the area (including the state of Minas Gerais, where the project was implemented). Moreover, at the start of the project (until the middle of 2000), there was a delay between the acquisition of lands and the release of resources for the community investments, either by the project or the Programa Nacional de Fortalecimento da Agricultura Familiar (PRONAF).

Even so, the monthly average income of the families interviewed in Pernambuco increased from \$R11 300 to \$R20 600 in 1999/2000 (Table 5). Families' gross income increased from \$R1 361 to \$R2 474 per year, an increase of more than 80 percent. A significant part of this income is still derived from activities outside the plots, as was the case before settlement, because 35 percent of those interviewed still worked outside the settlement. On average, income acquired from external activities represents 28 percent of the total family income, whereas income derived directly from farming activities represents 15 percent of the total.

## The impact of the project in the land market

Table 6 indicates the costs per hectare of land redistribution under agrarian reform, the cost per hectare of the Project Cédula da Terra (PCT) and the value of the farmland estimated by the Fundação Getúlio Vargas (FGV). We conclude that the Project Cédula da Terra did not cause overvaluation of the lands, nor established prices to be greater than market standards (inferior indexes to those used by the FGV) or those established by INCRA. On average, these are 62 percent less in Maranhão, 66 percent in Ceará, 14 percent in Pernambuco, 43 percent in Bahia and 49 percent in Minas Gerais.<sup>24</sup> These data seem to confirm some of the hypotheses that justify projects such as the Cédula da Terra. These programmes,

<sup>24</sup> See Reydon and Plata (1998b) for an accurate analysis of the land prices paid by PCT, INCRA and FGV.

when restoring direct negotiation and single payment, with no resource to justice:

- allow the reduction of transactions and, therefore, the sum of resources owned by the proprietors;
- make it possible to understand movements in the price (falling) of the land in the short term; and
- reduce the time between identification of the property and the settlement of the families.

By contrast, these projects do not depend on the capacity of direct state action in all the phases of the process. This allows these programmes to speed up the productive development of the settlements, reduce the cost of the investments in infrastructure and accommodate higher numbers of beneficiaries.

### THE AGRARIAN REFORM AND SOCIAL CAPITAL FORMATION

Social capital is a basic condition for the viability of economic and social development of marginalized populations. This has become a commonly accepted principle through the endorsement of internationally well-known researchers. We aim to add to this an understanding of the effectiveness of social capital for the process of social development in the context of the settlements resulting from agrarian reform.

We use the definition of social capital as used by Bourdieu (1998: 65):

*“Social capital is the set of current or potential resources related to the ownership of a durable net of relations more or less institutionalized of cognition and inter-recognition or, in other terms, the entailing to a group, as a set of agents who, are not only endowed with common properties (that can be perceived by an observer, other than themselves), but are also joined by permanent and useful linking. These relations are irreducible to objective relations of proximity in the physical space (geographic) or in the economic and social environment because they are established in exchanges both material and symbolic which establish and perpetually assume the recognition of this proximity.”*

In this definition, Bourdieu strengthens

two basic fundamental approaches to our investigation: first, it isolates the group identity, as base of the formation, appropriation and durable ownership of the social relations that form the essence of social capital; second, the appropriation concept works as the process “to concentrate in the hands of a single agent the totality of the social capital that establishes the existence of the group”, establishing the dialectic contradiction in the interior of the organizational process.

### Contradiction between coordination and base in the social organizations

Although we recognize that the more organized rural workers are, the larger their access to institutional resources, the better use they make of these resources and the more rational and effective is their capacity for production and social inclusion, it is indispensable to analyse some contradictory aspects of how social capital is organized between workers. For this we consider the importance of the autonomy of base organizations, related to the hierarchical structures of coordination on the state, regional and national levels, as the basis for the construction of democracy and the citizenship of the local participants.

In our analysis of the settlements of agrarian reform, the fragility of the social organization of squatters is evident where social capital could provide an important differential in economic and social development, as evidenced in a recent study on the factors of success and failure of the settlements (Bittencourt *et al.*, 1998). The power and the capacity of organization of the rural workers at the state, regional and national levels do not correspond to the settlements. The broader the scope of the organization, the stronger its structure.

In that sense, autonomy as related to the base organizations cannot be surpassed by the maniqueistic speech that equates local singularities to collectivist equality and associates the universal right to individuality with the individualism and social isolation of the elites. We cannot accept the development of rural settlements

without considering the construction of this autonomy and how it relates to the characteristics of each situation and to individual differences. At the same time, there is no way to increase the power resulting from worker coordination without the reinforcement of this base autonomy rooted in the democratic process. As seen in practice, the strengthening of local autonomy is fundamental both to communitarian development and to the reinforcement of workers' social organization in broader terms.

#### **AGRARIAN REFORM TO AGRICULTURAL DEVELOPMENT: A NECESSARY EVOLUTION**

In Brazil the vision that agrarian reform "annihilates" the old order (as though Brazilian capitalism were dominated by agrarian oligarchies, still prevalent in academic sectors, in part of the catholic church and in important social movements) has failed since its inception. Its doctrine would be to eliminate the *latifundia* farms and consequently to establish a new socialist order (not democratic). It is intellectually important for the progressive political parties to try and change this vision, even without success, because otherwise they suffer a type of "blackmail" from the most radical sectors, obliging them not to voice a new position, and relegating their argument to purely academic discussions.

Recent evidence shows a notable growth in non-agricultural occupations in Brazil, a phenomenon observed in the majority of Latin American economies. Rural Brazil comprises about 4 500 cities, with a population of 50 million inhabitants, with new and dynamic economic possibilities for both agricultural and non-agricultural pursuits. Together with the almost innate entrepreneurship of Brazilians, especially the poor, we have ahead the unique opportunity to create millions of productive occupations. The old notion of agrarian reform has to give way to one that, still respecting the importance of land redistribution, may instigate rural development in a broader territorial

approach that not only fights poverty, but also builds citizenship.

#### **The territorial focus of rural development**

The problematic issue of territorial development demands that three main subjects are taken separately: resetting local territories, local productive systems and the environment. In practice, it is impossible to deal with each of these in isolation. However, it is in trying to separate them that we can explicitly understand what is meant by territorial development.

Many nations adopted their current territorial structures long ago and, as such, these structures do not address the real necessities of modern economic growth, or of sustainable development. In this context, urban/rural relations no longer correspond to the obsolete dichotomy between the city and rural areas. During the twentieth century, the development process simplified this dichotomy, substituting it for a variable geometry in which the agglomerations and the microregions began to be more and more crucial. These two categories can be combined in the metropolitan regions, but can have different relations in other areas. Microregions that involve a non-metropolitan agglomeration tend to be essentially urban. But microregions that only involve urban centres and/or "rurban" villages can be relatively rural, or even essentially rural, when less artificial systems predominate.

The expression "resetting of the territories" therefore means the necessity of new institutional forms of coordination, management or governing, of the agglomerations and the microregions. This is a challenge that in many countries has been called "intercommonality". In Brazil this corresponds to the promotion of intermunicipal microregional unions, as for example with the associations of Santa Catarina, or the diverse types of trusts existing in the country. When an agglomeration or a microregion achieves a high enough degree of cohesion and organization that it is capable of formulating and adopting a plan of

local development, it is inevitable that it perceives the strategic importance of two decisive factors: the local productive system and the environment (Veiga, 2002).

A less aggregated approach to territorial configuration in Brazil reveals a trend that should not be ignored by policy-makers. If we add to the urban classification all of the intermediate cities those villages of “rurban” type that might become urban centres, we obtain a total of 1 022 cities, in which almost 118 million people lived in 2000. In this expanded subgroup, population growth between 1991 and 2000 was approximately 20 percent, perhaps stemming most notably in increases from non-metropolitan agglomerations and urban centres. However, this does not mean that in all the remaining cities – small and essentially agricultural – there has been a population leakage. This, in fact, has happened in half of these cities, whereas in a quarter there has been an increase in the population of 31.3 percent; this is greater than for urban Brazil, which grew by 18.8 million (19 percent) between 1991 and 2000 and more than double the population growth of Brazil as a whole, which was of 15.5 percent over the same period. The factors that attracted people to these 1 109 cities with rural characteristics and led to the 31.3 percent increase in population from 1991 to 2000 are largely unknown. It is not possible for us to consider more than 90 percent of Brazilian territory as a whole, 80 percent of its cities and 30 percent of its population as the rest comprise residue from the urban–industrial revolution of the second half of twentieth century. It is not possible to treat the country as if there were 4 500/5 000 imaginary cities.

However, what matters is not a comparison between the demographics of urban, agricultural or intermediate localities, but rather to understand that the future of these populations will vary according to their interconnectedness, and to identify the vocations of the territory they share, to formulate a plan of local development, and to make possible its financing with the essential support of

the national government. It is clear that the microregions that do not form part of an agglomeration will be less prepared to face this challenge. We can conclude it is important to develop the federal programme tuned in particular to the promotion of connections between microregional cities with small populations, i.e. the programme that has especially focused on the sustainable development of rural Brazil (Veiga, 2002).

### **Strategic recommendations for land policy**

Our experience with the reforms of the 1960s has shown the necessity of functioning public institutions, and that not enough has been done with this in mind.

In order to transform any society, the entire population must be involved. Institutions deriving their legitimacy from participation and becoming involved in the development process are necessary as legitimacy and participation will enable the development strategy to be adapted to a particular country and will ensure commitment and involvement in the long term, in turn increasing the prospect of sustainability (Stiglitz, 1998).

With regard to land policies, participation is even more important. Access to land for poor workers constitutes a unique opportunity for the social trajectory of these groups in Brazil. Some recommendations to improve the efficiency and the effectiveness of land policies in the country are as follows.

#### ***Update the legal system***

Land redistribution and registry mechanisms still result in incorrect land pricing. This constitutes an abusive transference of wealth from landowners and intermediaries and results in difficulties for the beneficiaries in terms of repayment for lands.

#### ***Flexibility in obtaining and transferring land***

This means regulating: both land redistribution and the recovery of illegally taken public lands (according to pre-

agreed requirements); the use of direct financing for purchase by interested parties, including incentives for lower prices offered in the negotiation process; leases with minimum limits on repayment deadlines and incentives for longer-term contracts (for example, the exemption of the territorial income tax and/or territorial for payback dates greater than ten years, with privilege rights); fast and simplified administrative titling for ownerships of more than five years and a fixed limited area of family-owned property.

### **Local governments**

There are important omissions regarding territorial organization in legislative systems. Despite restrictions for environmental concerns, there are no mechanisms that would give rural workers the incentive to value their environment.

### **Modernization of registration systems and taxation**

Deficiencies in the rural registration systems have led to difficulties in the collection of taxes, imprecision in public registry, and fraud and illegal seizure of lands. Accurate registry mapping has been prohibitively expensive. Therefore, only rich countries have been able to develop these systems; generating information that allows the creation of necessary legal security for the development of the land market is necessary. The availability of registry information in the cartographic plan would allow infrastructure planning that could support regional development.

Currently, as a result of technological advances and the use of satellite data, it is possible to make measurements and identify landmarks at much lower costs than previously. It is possible, for example, to make a topographical perimeter survey, utilizing GPS data in a fast and cheap manner. This digital information can be transmitted to a small central collection point, enabling the construction of a digital database that with complementary field and office surveys will allow the creation of a multipurpose Space Information System.

Modernization of the rural registration cadastres, together with agricultural regularization programmes, will allow consolidation of information and provide conditions necessary for a better functioning land market.

For land taxation, if the cadastral modernization is adopted, Venezuelan law should be taken as a guideline towards a system based on the potential use of the land (Venezuela has been investing in a digitalized system for many years).

This will work as a parallel incentive for better use of land. Decentralization to an exclusive municipal government is another recommendation based on historical experience and arguments that proximity and interest will result in better administration

### **Instruments adapted to circumstance<sup>25</sup>**

Land access can be an effective strategy to alleviate poverty; however, its success requires particular conditions.

Land access does not ensure release from poverty (it is necessary but insufficient alone). Other conditions are necessary, such as market competition, remuneration higher than the cost of labour, and cheaper food than could be bought on the open market.

The requirements of land, infrastructure and access to proper financing are factors that will make the process of land redistribution viable, the objective being to extend family-unit agricultural production.

### **Poverty alleviation and subsistence farming**

The idea that rural workers would provide for their subsistence only through farming activities led to the creation of land policies *sensu stricto*. The reality is that

<sup>25</sup> These proposals were suggested to the author, in part, by Professor Alain de Janvry, while commenting on the first version of a document prepared for the Inter-American Development Bank (IDB), presented in the Rural Economies in America Latina Conference, held in Fortaleza, March 2002, during the IDB Governors' Assembly.

farm and off-farm activities depend on the availability of assets and the context (work opportunities inside and outside the property). In this sense, land redistribution in subfamilial units must be a part of the strategy for rural development programmes and projects, and in particular for land access policies.

### ***Multiple forms of land access***

Inheritance or legacy, purchase and sell, illegal taking of public or private lands, lease and partnership, agrarian reform, fruition, etc. can each be improved and made more effective, with specific policies and programmes; agrarian reform is one means to achieve this.

### ***Multiple types of agrarian reform***

The different types of agrarian reform should be understood as complementary.

Four conditions of success for the implementation of a strategy of land access for the rural poor are *on the supply side*: political factualism (an excellent measurement parameter), and fiscal viability (the lowest costs and subsidies to obtain a broad coverage of the social demand); *on the demand side*: incorporation of those who are poor (who have access to a minimum of assets necessary to participate in the programme), and competitiveness of beneficiaries (economic sustainability with their insertion into the market).

### ***Expropriations based on the social function of the property***

This requires workable policies and strong social movements. It is important where land distribution is highly unequal, there is unused land and there are many people who own no land. Government action is essential to prevent violence and reduce the costs of dispossession. As expropriation is still the main instrument of land redistribution practised in Brazil, its use can be improved by the introduction of mechanisms that control the value of the financial indemnities. The combination of public payment in money and public shares can introduce

a bargaining element for administrative agreements. Judicial arbitration should be used only in exceptional cases. This obviously demands transparency and ample social control.

### ***Redistribution through land market mechanisms***

Innovative aspects: community participation; incentives for the promotion of bargaining; self-election processes of the beneficiaries; smaller groups and greater availability of social capital; lack of conflict; better insertion in the local society. Risks: local power, increase in the land price. The Brazilian experience already shows the risk reduction that arises from greater transparency and social control. Restricting use of this instrument only to non-dispossessed land can be a limiting factor in the near future given some situations, and defined regions may be the best solution.<sup>26</sup>

The leasing market has been known as an option for increasing land access in Latin America and Brazil. Lack of regulation and control over contracts explains why this avenue has not been pursued more often. This can be observed mainly in countries with evident inequalities in wealth distribution (land) and income. Even then, the historical experience of (now) developed countries suggests that this instrument can be a step towards land access (property), if the conditions identified in this document are met.

### ***What to do***

#### ***To complete the initiated agenda***

The economic and social costs of agrarian reforms are high. Time negatively affects those beneficiaries who cannot be

<sup>26</sup> There are well-defined regions of occupation and structure in Brazil, with a familial agricultural base instituted and, sometimes, even consolidated, in which the redistribution of land will not be as important as in other regions of the country with higher concentration of poverty, such as the Northeast and the North. However, the use of instruments to regulate the market and the financing system in order to maintain the familiar structure can be a strategic element and dynamically influence local economies.

competitive if there is no regulated and accepted access to land (titling). In Brazil, despite some improvements, there is a “deficit” of infrastructure in the settlements that hampers development and the consolidation of productive activities. It is necessary to overcome the preconception that the workers, if they become the owners, will sell their lands. Actually, whatever the restrictions might be, there will always be a market (formal or informal). Its intensity should be the concern of public authorities, because they can demonstrate the lack of sustainable conditions (economic, environmental, etc.).

### **Land access and competitiveness**

It is necessary to incorporate in agrarian reform interventions the “new” approaches of rural development: regional growth (context) and economic incorporation of the poor (active). Beneficiaries need to control the minimum levels of productive assets: experience; machinery, livestock; access to support institutions and markets.

### **Capitalize urban interests in environmental issues to negotiate land access**

Water quality, combating atmospheric pollution, biodiversity and recreation are subjects related to environmental services that may affect land payment, depending on the Rural Development Plan in a particular locality. In the case of poor environmental use, possible expropriation should be examined.

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