

CONSOLIDATION AND SELF SUFFICIENCY OF AGRARIAN REFORM SETTLEMENTS

(BR-0274)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: Federal Republic of Brazil

EXECUTING AGENCY: Instituto Nacional de Colonização e Reforma Agrária (INCRA)

AMOUNT AND SOURCE: IDB: (OC in local currency)
US\$51 million
Local counterpart funding: US\$34 million
Total: US\$85 million

FINANCIAL TERMS AND CONDITIONS:
Amortization period: 25 years
Grace period: 5 years
Disbursement period: 5 years
Interest rate: 4%
Supervision and inspection: 1%
Credit fee: 0
Currency: N/A

OBJECTIVES: Past approaches for addressing problems of land distribution in Brazil have focused on land reform programs administered by the Government through its Instituto Nacional de Colonização e Reforma Agrária (INCRA). At the heart of INCRA's program is the acquisition of land and the support of organized rural settlements to enable them to reach self-sufficiency.

Any organized settlement residing on land for which it wants to secure title is in principle eligible for a package of assistance from INCRA. Most settlements requesting and receiving this support are squatters on large land-holdings. In many cases, their possession of the land has arisen as a result of conflict. INCRA's package of support includes land purchase and titling, infrastructure, highly subsidized credit, access to technical assistance and some social services.

When the program to support settlements was developed in the late 1960s, INCRA's support was intended to provide a bridge of assistance so that settlements would become self-sufficient by eventually graduating from INCRA's assistance. In practice, however, INCRA has lost sight of the self-sufficiency objective.

Although INCRA is supporting some 560,000 families residing in organized settlements (some of whom have been receiving support since 1970), only 48,000 families have graduated from INCRA support. Because funds utilized to support these settlements use an increasing share of INCRA's budget, fewer resources are available to incorporate new settlements into the land reform program thereby hindering the government's efforts to increase the pace of land distribution.

The program's objective is to develop a system for accelerating the process of graduating rural settlements from INCRA support. With 75 agrarian reform settlements (about 12,500 families) serving as its focus, this pilot program will develop and finance graduation packages for each of the participating settlements. These packages, which are designed so that settlements can reach self-sufficiency and graduate from the INCRA program, will provide social and productive infrastructure, technical assistance and training. By the end of the program, a decentralized model for a more organized and rapid graduation process for rural settlements will have been developed and tested. If successful, it is anticipated that the model will be replicated in a nation-wide graduation program.

DESCRIPTION:

The seven states selected for the program are: Maranhão, Rio Grande do Norte, Minas Gerais, Mato Grosso, Mato Grosso do Sul, Paraná, and Rio Grande do Sul.

The program has the following components: (i) graduation packages; (ii) program evaluation and studies; and (iii) project administration, graduation plan preparation, and external audit.

1. Graduation Packages (US\$64.6 million)

a. Infrastructure (US\$43.1 million)

Most of the project's resources will be used to finance community investments. These investments would be granted to participating settlements who would donate labor as an in-kind contribution. Investments fall broadly into three categories: (i) physical infrastructure; (ii) social infrastructure; and (iii) productive infrastructure. Those investments will include: improvement of existing and construction of new access roads, installation of electrical transmission lines, and construction of small water supply systems,

construction and equipping of primary schools and health posts, construction of on-farm storage facilities, soil recuperation (including terracing, decompacting, and reforestation), environmental protection, and community agro-industrial facilities to prepare products for market.

b. Technical assistance and training (US\$21.5 million)

Graduation packages will also include technical assistance and training for settlement associations. Technical assistance will support productive infrastructure projects in areas related to agricultural production, processing, marketing, and microenterprise development.

2. Program evaluation and studies (US\$3.7 million)

a. Impact study (US\$1 million)

This study, to be undertaken at the end of the third year of the project, will: (i) identify problems and issues in the design of the program (eg. unforeseen impediments to graduation); (ii) determine whether the approach in the pilot will be applied nationwide; (iii) evaluate INCRA's performance in program execution; (iv) develop benchmarks for acceptance of newly organized communities into the program with the goal of speeding the rate of graduation; (v) recommend new criteria, procedures, and measures to be taken to make the program more effective; and (vi) evaluate the socio-economic and fiscal impacts of the program at the local and regional level.

b. Phase II, preparation (US\$2 million)

The Program will finance the preparation of additional graduation plans in order to extend the program to the national level. Funds for phase II preparation will be utilized after the project's impact assessment.

c. Pilot studies of the Amazon (US\$0.7 million)

Given the complex social and environmental conditions in the North, the program will provide funds to study the special needs and conditions of agrarian reform settlements in the Amazon. Specifically, six case studies of different types of settlements (traditional settlements, extractivists, and colonies) in different sub-regions will be prepared. These case studies will examine infrastructure,

assistance received, organization, productive systems, future prospects, and make recommendations for future interventions.

3. Project administration, and graduation plan preparation (US\$8 million)

a. Administration (US\$3.25 million)

The program will finance the cost of operating the executing unit at the national level and special technical groups at the state level. The composition and function of these units are detailed in Chapter III.

b. Graduation plan preparation (US\$4.75 million)

The program will finance preparation of the remaining 62 graduation plans to be initiated in year two and three of this program. As detailed in Chapter III consulting firms will be hired to complete the remaining plans.

External auditing will be performed by the "Secretaria Nacional de Controle", which will perform annual audits of the project's financial statements.

Responsibility for overall coordination of the program will rest with INCRA. The project's executing unit at the national level will be located in the Office of the President of INCRA. At the local level State Technical Units (STUs) will be created in INCRA offices in the seven participating states.

The operational manual, developed in preparation for the program, establishes the major guidelines for project execution including organizational structure, selection criteria, eligible investments, procedures for developing plans, and environmental and procurement procedures.

**RELATIONSHIP OF
PROJECT IN BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The Government's poverty alleviation strategy is linked to an overall strategy for overcoming constraints to investment and productivity growth in the agricultural sector. The Bank's lending program is supporting Brazil in the following priority areas: (i) reform of the public sector and modernization of the state; (ii) opening up of the economy and modernization of the productive sectors; and (iii) improvement in equity and poverty alleviation through land distribution and job creation.

By more rapidly graduating rural settlements to speed up the process of land reform, the program contributes to all three of these priority areas. First, the program is reforming the public sector by improving INCRA's capacity to implement those procedures. Second, the program is contributing to modernization of the productive sectors by increasing the productivity of agriculture through the establishment of family farms and better land use. Third, the program is improving equity by freeing up fiscal resources to increase the momentum of Brazil's land reform program.

**ENVIRONMENTAL AND
SOCIAL REVIEW:**

Due to the limited scale of each investment plan, no significant negative environmental or social impacts are expected. The program's operational manual requires that each plan identify probable negative environmental impacts of its investments and propose and execute measures for mitigation (§ 5.10).

BENEFITS:

The beneficiaries, participating agrarian reform settlements, will receive the direct tangible project benefits of infrastructure and technical assistance. More significant, however, is the benefit of establishing a transparent system for rapid graduation of settlements from INCRA. A transparent system for graduation will more efficiently utilize INCRA's resources thereby enabling more communities to participate in the land reform program.

RISKS:

Only 47 settlements with 48,000 families have graduated from INCRA support. While graduating so few families in part reflects a lack of incentives, particularly in the credit program, it also reflects a resistance on the part of INCRA to developing a program for graduating settlements. Strong political will from the Government to dramatically increase the pace of the land reform program is putting considerable pressure on INCRA to develop such a program. At issue is whether this pressure will be sustained after project execution so that the INCRA bureaucracy actively supports applying the program nation-wide.

**SPECIAL
CONTRACTUAL
CLAUSES:**

Prior to first disbursement the contract will require the following:

- a. Evidence that the executing unit is fully staffed (§ 3.13);
- b. Evidence of the establishment and staffing of seven State Technical Units for project execution at state level (§ 2.5);

c. Implementation of the program's operational manual prepared according to version previously approved by the Bank (§ 2.7);

d. Signature of an agreement between the MDA and INCRA outlining the responsibilities of each in the program's execution (§ 3.3);

e. Bank approval of a model graduation contract (§ 2.13); and

f. Signature of a contract between the Banco do Brasil and INCRA under which the former agrees to serve as financial intermediary (§ 3.14).

Other special conditions to be included in the contract are:

a. Prior to financing of graduation packages for this program, submission to the Bank for approval of the indicators for the program's impact study (§ 2.24); and

b. Prior to transfer of resources to a settlement, evidence that the settlement has agreed to seek emancipation (§ 2.13).

It is recommended that up to US\$1.9 million in previous expenses be recognized as local counterpart. This request is for costs associated with preparing the 13 graduation plans in the sample and with creating the executing unit (§ 3.25).

**POVERTY TARGETING
AND SOCIAL SECTOR
CLASSIFICATION:**

This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (Document AB-1704). Furthermore, this operation qualifies as a Poverty Targeted Investment (PTI) according to sector-automatic, geographic and head-count criteria (§ 5.20). The borrowing country will be using the 10% points in additional financing.

**EXCEPTIONS TO
BANK POLICY:**

None.

PROCUREMENT:

Goods and services. In accordance with Bank policies, international competitive bidding will be used for contracts for works worth US\$5 million and over and for contracts for goods and related services worth US\$350,000 and over.

Consulting services. Consulting services will be selected and hired in accordance with Bank

procedures, as established in Annex C to the loan contract. International competitive bidding will be required for contracts worth more than US\$200,000 equivalent.

I. FRAME OF REFERENCE

A. Land distribution

- 1.1 With 3% of Brazil's population holding two-thirds of the country's 500,000,000 arable acres, Brazil's distribution of agricultural land is highly skewed. The result is a dualistic agricultural sector where farms are either medium to large commercial operations or small semi-subsistence farms. Unequal patterns of land distribution have been further exacerbated by a series of subsidies which pushed land prices well above the present value of agricultural returns, making land even more inaccessible to small farmers. Compounding this problem has been limited smallholder access to credit, creating a further bias in favor of large farms.

B. Rural poverty

- 1.2 Studies of Brazil's agricultural sector have shown that skewed land distribution limits agricultural production and employment and has contributed significantly to the country's rural poverty. In fact, most of Brazil's poverty is concentrated in the agricultural sector. The Instituto Brasileiro de Geografia e Estatísticas (IBGE) estimates that 74% of households in rural areas fall below the poverty line, while in the urban sector this share is 34% of families. Statistics from the 1995 Pesquisa Nacional de Amostra de Domicílios (PNAD) also confirm the prevalence of rural poverty. The PNAD found that 86% of rural households have a monthly income of US\$112, just above the minimum wage.
- 1.3 The existence of a huge rural poor sector, concentrated in the Northeast but distributed throughout the country, is widely recognized as a serious obstacle to the country's development. Rural poverty is viewed as: (i) a serious source of political unrest; (ii) a constraint to further expansion of the domestic market; and (iii) creating additional demographic pressure in big cities. For both socio-political and economic reasons, a new consensus is emerging that both rural poverty and inequality require government attention and a better allocation of resources at both the national and local levels.

C. The Land Reform Movement

- 1.4 It is this consensus which has fueled the development and rapid growth of Brazil's grass roots movements to support land reform. The two largest and most visible of these groups are the Movimento Sem Terra (MST) and the Confederação Nacional dos Trabalhadores na Agricultura (CONTAG). These organizations support rural workers in the forcible takeovers of land from large landowners.
- 1.5 The highly visible MST, founded in 1984, has gradually increased the pace of land takeovers and has now laid claim to over 17 million acres of agricultural land which account for about 12%

agrarian reform communities. For the year 1998 (through August), 56% of land takeovers (162 parcels of land) were MST sponsored.

- 1.6 The MST has received broad support and increasing visibility in Brazil. After 19 MST activists were killed in 1996 in the state of Pará, four documentaries were filmed about the MST including "Rose's Dream" by award-winning director Tetê Moraes. In April 1998, Brazil's most popular composer, Chico Buarque da Holanda, released a CD about the landless movement, which was marketed with a book-length photo essay by renowned photographer Sebastião Salgado. The joint venture is expected to earn US\$1.4 million for the MST. With such high visibility, an annual budget now estimated at US\$15 million, MST financed land invasions are accelerating--maintaining the pressure to speed up the process of land reform.
- 1.7 CONTAG is older, less visible and not as controversial as the MST. Nonetheless, it is responsible for 70% of rural land takeovers which have occurred in the last ten years. Founded in 1964 as a labor organization representing rural laborers working on large land-holdings, CONTAG has gradually changed its objectives and tactics by shunning the traditional role of representing workers interests to actively supporting forcible land takeovers by landless workers. Though less active in the past several years than the MST, over half of INCRA's clients are CONTAG founded communities.

D. Government's approach to land reform

1. Acquisition phases

- 1.8 Past approaches to address problems of land distribution have fallen into three distinct phases. During the period from 1964-85 Government efforts focused on resettlement through colonization. Extensive road construction took place accompanied by a series of resettlement programs. During that period it is estimated that 100,000 families were resettled.
- 1.9 The years 1985 to 1989, a period which marked the return to civilian rule, were characterized generally by the planning and selection of areas for the orderly purchase of land (though in the later years pressure from social movements including CONTAG began to have an effect on areas selected for settlement). During this period, it is estimated that 82,000 families were resettled with over a million hectares of land purchased.
- 1.10 Land acquisition through invasion started in the late 1980's but became more intense by the mid-1990's. The period from 1994 is one in which virtually all land incorporated into the agrarian reform program is occurring through invasion, with the MST and CONTAG at the forefront.

2. INCRA's role

- 1.11 The Instituto Nacional de Colonização e Reforma Agrária (INCRA) was founded in 1973 to consolidated the functions of two predecessor agencies charged with managing the Governments land reform and development efforts. With some eighteen regional offices, 6,000 employees and a budget which in 1999 reached US\$1.3 billion, INCRA has grown into a large and highly politicized bureaucracy.
- 1.12 At the heart of INCRA's program has been the acquisition of land and the support of organized rural settlements to enable them to reach self-sufficiency. In principle, any settlement residing on land for which it wants to secure title is eligible for assistance from INCRA. Most settlements requesting and receiving this support are squatters on large land-holdings.
- 1.13 INCRA's package of support to settlements includes land purchase and titling, infrastructure, highly subsidized credit, access to technical assistance and some social services. Land and infrastructure are provided on a soft loan basis. Technical assistance and social services are provided on a grant basis.
- 1.14 The average cost of sustaining a family is US\$2,140/year (of which about 50% is grant), though the actual cost and provision of facilities varies widely within and between regions. Older settlements in the north, for example, frequently lack even the most basic infrastructure including access. By contrast, settlements in the south generally have a complete infrastructure package (road access, schools and health posts, and productive investments). Within regions, settlements in close proximity to municipal urban centers generally have more infrastructure than those in more isolated rural areas.
- 1.15 The most costly part of the package is credit provided through the INCRA administered Programa Especial de Crédito para a Reforma Agrária (PROCERA). Under this program, which is funded at a level of US\$300 million/year, borrowers repay only 50% of the amount lent. When initially established, PROCERA regulations were applied which limited eligibility for participation in the program to three years with a maximum loan per family of US\$2,140. ^{1/} This eligibility rule is not being applied, however, and settlements have participated in the program for 15 years or more. To overcome this problem, in January 2000, PROCERA was abolished and a special line of credit within PRONAF (PRONAF-A) was created, and further limitations were placed on eligibility. Due to continued pressure from MST, it is unclear whether they can be enforced.

^{1/} Since the creation of the program maximum limits have been raised to US\$5,360 per family with an additional US\$5,360 available for special projects for families who are members of cooperatives. The MST recently proposed raising the ceiling again to US\$12,500. Conditions for loans are a 50% subsidy with three years grace.

- 1.16 When the program to support settlements was developed in the late 1960s, INCRA's support to communities was intended to provide a bridge of assistance in what were primarily newly colonized areas so that communities would become self-sufficient (having a package of basic infrastructure and the means to generate sufficient family income) and eventually graduate ("emancipação" is the Brazilian term) from INCRA's assistance. In practice, however, INCRA has lost sight of the self-sufficiency objective and has neither fostered nor promoted the graduation of families from the program.

E. Financial/sustainability issues

- 1.17 Although INCRA is supporting some 560,000 families residing in organized settlements (some of whom have been receiving support since 1970), only 48,000 families have graduated from INCRA support. Because funds to support these settlements utilize an increasing share of INCRA's budget, fewer resources are available to incorporate new settlements thereby hindering the government's efforts to increase the pace of the land reform program.
- 1.18 Settlements have not graduated from ongoing INCRA support because: (i) there are no incentives to break away from heavily subsidized programs; (ii) they have received neither the technical assistance nor the infrastructure to which they feel they are entitled (INCRA estimates the infrastructure "deficit" to be over US\$3 billion dollars); (iii) land titles have not been regularized; (iv) accumulated community debt to INCRA is large and frequently exceeds the value of the land (payment on this debt begins at graduation); (v) there is no clear set of procedures and policies governing the graduation process; and (vi) land holdings are inadequate (in terms of size and/or land quality in relation to population) so that self-sufficiency on some existing lands may not be feasible.
- 1.19 The ongoing dependence of settlements on INCRA support has contributed significantly to the very high costs of administering the land reform program.
- 1.20 At present, nearly US\$1.2 billion 2/ is spent annually to sustain settlements which have not graduated. This represents nearly 50% of INCRA's annual budget.

F. The policy environment--a window of opportunity

- 1.21 As political pressure for land reform mounts and invasions accelerate, the Cardoso Government has demonstrated considerable political will to deal more substantially with the land tenure issue. Agricultural credit subsidies for larger farmers have been

2/ With the 1999 devaluation, this number has decreased in dollar terms to around US\$850 million in 2000.

drastically reduced and substantially higher property taxes on non-productive land holdings have made more land available at lower prices. Recent legislative changes in the titling process have also facilitated smallholder acquisition of land. Finally, within the cabinet, land tenure has been given greater visibility with the creation in 1996 of the position of "Ministro Extraordinário de Política Fundaria". In December 1999, this Office of the Minister was transformed into a Ministry, which is charged with developing new programs to speed up the pace of land reform, and family farming. ^{3/}

- 1.22 The pace of support to settlements has also been stepped up. From 1996 to 1999, 320,000 families have been incorporated into the INCRA land reform program, with plans to incorporate 80,000 additional families during the year 2000. The Government's goal is to incorporate two million families by the year 2010.
- 1.23 The financial implications of INCRA's ongoing support to large numbers of long-term settlements presents a significant constraint to achieving the Government's goal of rapidly expanding the land reform program. There is a need for a transparent program and an incentive scheme to rapidly graduate those potentially self-sufficient communities from INCRA support. To this end, the Government has requested the Bank's assistance in developing and financing this pilot program.

G. Experience of other donors and the Bank

- 1.24 In its effort to use resources allocated for support of communities more effectively, the Government is eager to experiment with alternative approaches to various elements of its land reform program. In April 1997, the World Bank approved a US\$150 million pilot project (for Bahia, Ceará, Maranhão, Minas Gerais, and Pernambuco) to test a market based approach to land acquisition. The project, whose land purchase component is proceeding ahead of schedule, is financing the direct purchase of properties by beneficiaries who negotiate directly with willing sellers. Although a second phase is being prepared by the World Bank, the project has been under heavy criticism from several fronts due to doubts about participants generating enough income to meet the commitments they have undertaken, and for the lack of transparency in the land selection and acquisition process. The project will also provide matching grants to rural community associations to finance small-scale infrastructure and productive sub-projects. This program eliminates INCRA from the land acquisition process for land with clear title and with a willing seller. This innovation will likely speed up the land purchase process for non-contentious acquisitions. However, it will not liberate settlements from depending on INCRA since settlements will be eligible for highly subsidized agricultural credit through the PRONAF-A program.

^{3/} For more detail see Chapter III.

- 1.25 The Bank financed a US\$70 million Land Acquisition and Titling Program (BR-0174) with INCRA as the executing agency. The program, which was approved in 1981 and completed in 1988, financed surveying, titling, purchase of land, and institutional strengthening for five states in Northeast region. The Project Completion Report indicates that the execution of the loan was considered satisfactory exceeding targets in surveying and titling. Land acquisition targets, however, were not met largely because certain legal obstacles, which existed at the time, hampered land expropriation.
- 1.26 Other Bank involvement in the agricultural sector has been directed to agricultural research. Beginning in the late 1970s three loans were made to strengthen the research program of the Empresa Brasileira de Pesquisa Agropecuaria (EMBRAPA) in the country's central south. The most recent, a loan for US\$76.5 million Modernization of Agricultural Technology in the Central South of Brazil, was approved in 1991 and was scheduled to be completed in 1998.
- 1.27 All three programs have been highly successful both in producing significant research results of important benefit to agricultural producers and in establishing EMBRAPA's extensive research network.

H. Strategy of the country and the Bank

- 1.28 The Government's poverty alleviation strategy is linked to an overall strategy for overcoming constraints to investment and productivity growth in the agricultural sector. The Bank's lending program is supporting Brazil in the following priority areas: (i) reform of the public sector and modernization of the state; (ii) opening up of the economy and modernization of the productive sectors; and (iii) improvement in equity and poverty alleviation through land distribution and job creation.
- 1.29 By more rapidly graduating rural communities to speed the process of land reform, the program contributes to all three of these priority areas. First, the program is reforming the public sector by developing transparent procedures for graduating communities and by improving INCRA's capacity to implement those procedures. Second, the program is contributing to modernization of the productive sectors by increasing the productivity of agriculture through the establishment of family farms and better land use. Third, the program is improving equity by freeing up financing to increase the momentum of Brazil's land reform program.

II. THE PROGRAM

A. Objectives

- 2.1 The program's objective is to develop a system for accelerating the process of graduating rural settlements from INCRA support. With a minimum of 75 agrarian reform settlements (about 12,500 families) serving as its focus, ^{4/} this pilot program will develop and finance graduation packages for each of the 75 participating settlements. These packages, which are designed so that settlements can reach self sufficiency and graduate from the INCRA program, ^{5/} will provide social and productive infrastructure, technical assistance, and training. By the end of the project a decentralized model for a more organized and rapid graduation process for rural settlements will have been developed and tested. If successful, it is anticipated that the model will be replicated in a nation-wide graduation program.

B. Geographic focus

- 2.2 The seven states selected for the program are: Maranhão, Rio Grande do Norte, Minas Gerais, Mato Grosso, Mato Grosso do Sul, Paraná, and Rio Grande do Sul. These states were selected because they: (i) represent all of Brazil's regions (except the Amazon); (ii) account for over 60% of INCRA supported families; and (iii) have the highest concentration of INCRA supported families at the municipal level.

C. Benefits

- 2.3 The beneficiaries, participating agrarian reform settlements, will receive the direct tangible project benefits of infrastructure and technical assistance. More significant, however, is the benefit of establishing a transparent system for rapid graduation of communities from INCRA support. A transparent system for graduation will more efficiently utilize INCRA's resources thereby enabling more communities to participate in the land reform program.

D. The borrower and local counterpart financing

- 2.4 The Federal Government of Brazil will be the borrower. Counterpart financing will come primarily from the Federal Government and participating communities. Municipalities will provide limited counterpart financing for the operation and maintenance of some social and physical infrastructure.

^{4/} The Portuguese term for graduation package is "plano de consolidação de assentamento".

^{5/} The Portuguese term for graduating (from INCRA) is "emancipação".

E. Project strategy

- 2.5 The strategy for project execution will be to minimize INCRA's involvement at the national level and focus the operation on the communities with the support of local municipalities and local INCRA offices. At the national level, a small executing unit has been established for overall coordination of the program including overseeing application of selection criteria, establishing annual goals, and developing graduation packages for the first year of the program. This unit reports to and is located in the Office of INCRA's President. At the local level, State Technical Units (STUs) will be established in each of INCRA's seven state offices (details see Chapter III). Establishment of the STUs will be a condition prior to first disbursement in the loan contract.
- 2.6 Settlement Associations will take the lead in preparing graduation plans, bidding works, and supervising their execution. STGs will work with communities in developing and executing plans and bid larger works (See Chapter III).

F. Execution

- 2.7 The Program's operational manual establishes the major guidelines for execution including organizational structure, selection criteria, eligible investments, procedures for developing settlement plans, debt forgiveness, and environmental and procurement procedures. A draft of this manual is included in the technical files and the principal elements of this manual are described in Chapter III. The loan contract will require the Bank's approval of the final version of this manual as a condition to first disbursement.

G. Selection

- 2.8 The target group are those agrarian reform settlements which have received relatively few INCRA benefits to date and thus have an incentive to trade off the immediate tangible benefits offered by the Program for a phase out of large credit subsidies after graduating.
- 2.9 Settlement participation in the program will be voluntary. To date, interest in the program among eligible settlements in the seven participating states has been high. It is anticipated that providing a minimum infrastructure package on a grant basis combined with the rescheduling of all INCRA debts (an additional 5 years grace), will be sufficient incentives so that the number of volunteer communities will exceed resources available.
- 2.10 Selection criteria have been developed which targets more established settlements still lacking some essential infrastructure, having economic potential, and where there exists substantial municipal involvement in maintaining infrastructure and

providing social services. Should more settlements volunteer for the program than space available, a point system has been developed to prioritize settlements. 6/ Additionally, land will need to be without substantial titling problems so that it can be deeded within a short period of time. All requests for participation will be made via the settlement associations.

H. Approach

- 2.11 With the assistance of the STUs, an eligible settlement association develops a final graduation package of investments and project financed technical assistance. These investments would be those which are critical to long-run sustainability of the settlement.
- 2.12 Through early and continued consultation with settlements, the project will foster a high level of participation in identifying priority investments and services. A methodology for rapid participatory assessment (diagnóstico rápido participativo (DRP)) was developed and field tested by INCRA's working group. 7/ This methodology, which will be applied for each participating community, leads directly to a negotiated list of priority investments and services and ultimately to the settlement graduation package. Investments and services eligible for financing are detailed in Chapter III and in the program's operational manual. The period of execution for a graduation package cannot exceed three years.
- 2.13 Once the investment package has been developed and agreed upon with the settlement, a contract is signed between INCRA, the settlement, and the local municipality. The contract details the elements of the investment plan, the responsibilities of INCRA and the settlement in its execution, INCRA's responsibility to obtain land titles, and the municipality's obligation to maintain public works and provide teaching and health personnel as necessary. The contract also establishes that the settlement will "graduate" from INCRA support on an established date (not to exceed three years from signature of the agreement) when infrastructure is completed. At graduation, land titles are transferred to the community, and the community then loses eligibility to participate in the PRONAF-A credit program. 8/ The loan contract requires Bank approval of a model graduation contract as a condition to first disbursement.

6/ These are detailed in Section 5.5 and 5.6 of the Operating Manual

7/ This methodology is discussed in detail in Chapter V.

8/ Communities will continue to have access to credit through the other lines offered through the Programa Nacional de Fortalecimento da Agricultura Familiar (PRONAF).

I. Components

- 2.14 The proposed program has the following components ^{9/}: (i) the financing of approximately 75 graduation packages which include infrastructure, technical assistance, and training (US\$64.6 million); (ii) program evaluation and studies (US\$3.7 million) which includes the impact evaluation, Amazon pilot studies, and preparation of the second phase; and (iii) project administration, and graduation plan preparation (US\$8 million).

1. Graduation packages (US\$64.6 million)

a. Infrastructure (US\$43.1 million)

- 2.15 Most of the project's resources will be used to finance community investments. These investments would be granted to participating communities who would donate labor as an in-kind contribution. Investments fall broadly into three categories: (i) physical infrastructure; (ii) social infrastructure; and (iii) productive infrastructure. Those investments are: improvement of existing and construction of new access roads, installation of electrical systems, construction and equipping of primary schools, sanitation and water, and health posts, construction and equipping of community on-farm storage, soil recuperation (including terracing, decompacting, and reforestation), environmental protection, community agro-industrial facilities to prepare products for market, small water distribution system for irrigation. Productive credit needs have been determined for each package and beneficiaries will have access to credit under existing credit programs.
- 2.16 Individual collective investments cannot exceed US\$107,000 and the sample of projects indicates the average size to be considerably smaller. Standard designs and cost estimates have been developed for most social infrastructure projects and for some of the more standard productive projects (such as on-farm storage). For the sample of projects, individual designs have been developed for some productive activities.
- 2.17 The cycle for preparation and review of graduation packages is detailed in Chapter III (see Figure 1). All graduation package investments will be subject to rigorous financial, technical (including agronomic) and economic evaluation as outlined in the operating manual. For an overall package to be approved, it must have productive investments which generate an average household income of two minimum salaries (approximately US\$153) above that which is owed for paying for land (20 years at 6%). Each individual investment will also be subject to analyses of minimum cost, cost efficiency (for social projects) and cost/benefit analysis for productive investments. Investments which are

^{9/} Costs in parentheses do not include interest and contingencies.

traditionally municipal services will be maintained by the Municipality in which the community is located.

- 2.18 For the proposed program, 13 graduation packages have been developed and are summarized in Table II, at the end of this Chapter. These are the packages whose activities will be initiated during the first year of the program. Both the program's representative sample 10/ and rapid diagnoses indicate that in the northern region access is one of the greatest needs and road infrastructure and road construction will likely be one of the project's principal activities. In the south where infrastructure is more developed, both the sample and diagnoses indicate a need for activities in soil rehabilitation. 11/

b. Technical assistance and training (US\$21.5 million)

- 2.19 Graduation packages will also include technical assistance and training for settlers. Technical assistance could include technical topics to support infrastructure projects (in areas related to agricultural production, processing, marketing, community/microenterprise development, and environmental protection/management). Settlements have expressed interest in training in financial administration, best practice exchanges with associations undertaking similar sub-projects, and workshops on crop specific topics. During the later years of the project, as communities approach graduation after which they are no longer eligible for the PRONAF-A agricultural program (see Chapter I), technical assistance will also be used to assist communities in applying for agricultural credit under other agricultural credit programs for which they qualify. 12/
- 2.20 Each participating community association will be eligible to contract with individual firms or NGOs to provide technical assistance. Procedures and procurement regulations for technical assistance, included in the operating manual, are discussed in Chapter III.
- 2.21 Both the rapid participatory assessment and the representative sample of graduation packages indicate a substantial need for and interest in productive technical assistance. Technical support in agronomy has been requested by most settlements. Several have requested assistance in marketing (Brinco de Ouro and Seival), as well as product specific assistance in dairy and cashew nut production and processing. The community will contribute 10% of

10/ The project's representative sample is discussed in detail in Chapter III.

11/ The process of preparing designs, bidding documents, and bidding procedures will be discussed in Chapter III.

12/ These programs include the Programa Nacional de Fortalecimento da Agricultura Familiar (PRONAF), a national program for low-income farmers.

technical assistance costs their first year in the Program, 30% in the second year and 100% after graduation.

2. Program evaluation and studies (US\$3.7 million)

a. Impact study (US\$1 million)

- 2.22 This study, to be undertaken at the end of the third year of the project, will: (i) identify problems and issues in the design of the program (specifically unforeseen impediments to graduation); (ii) determine whether the approach in the pilot will be applied nation-wide; (iii) evaluate INCRA's performance in program execution; (iv) develop benchmarks for acceptance of new organized communities into the program with the goal of speeding the rate of graduation; (v) recommend new criteria, procedures, and measures to be taken to make the program more effective; and (vi) evaluate the socio-economic and fiscal impacts of the program at the local and regional level.
- 2.23 Control groups will also be selected in the same regions as participating settlements. Performance indicators which will permit an analysis of the impact of investments on the settlement and individual settlers are being developed. Indicators will include information on production, generation of income, and overall well being of participating families and the control group. An econometric model to analyze these indicators is also being developed.
- 2.24 Terms of reference for the study have been prepared and reviewed by the Bank. The Bank will require approval of the indicators for the study as a condition prior to disbursement for the financing of graduation packages.
- 2.25 The Minister has established a Center for Agrarian Studies which reports directly to his office. The Center is serving as the evaluation coordinator for the World Bank land reform program. It has been agreed that the center will also serve as the coordinator of this evaluation.
- 2.26 As discussed in paragraph 3.29, annual reviews of the program will also be undertaken which will monitor benchmarks and performance.

b. Phase II, preparation (US\$2 million)

- 2.27 Financing will be made available for preparation of graduation plans in order to extend the program to the national level. Funds for phase II preparation will be utilized after the project's impact assessment.

c. Pilot studies of the Amazon (US\$0.7 million)

- 2.28 Given the complex social and environmental conditions in the North, the program will provide funds to study the special needs and conditions of agrarian reform communities in the Amazon. Specifically, six case studies of different types settlements (traditional settlements, extractivists, and colonies) in different sub-regions will be prepared. These case studies will examine infrastructure, assistance received, organization, productive systems, future prospects, and recommendations for future interventions. Results from the studies will be used to guide future graduation efforts in this region.
- 2.29 Terms of reference for this study and the Phase II preparations have been prepared and reviewed by the Bank.

3. Project administration, graduation plan preparation and external audit (US\$8 million)

a. Administration (US\$3.25 million)

- 2.30 The program will finance the cost of operating the executing unit at the national level and special technical groups at the state level. While some of this staff will be on loan to the project from INCRA, it is anticipated that the majority will be hired using an existing open ended contractual arrangement which INCRA has with the Instituto Inter-Americano de Cooperação Agrícola (IICA) to provide long-term technical services. The composition and function of these units are detailed in Chapter III. The costs of project administration will be financed with local counterpart.

b. Graduation plan preparation (US\$4.75 million)

- 2.31 The program will finance the preparation of a minimum of 62 remaining plans that will have execution initiated in year two and three of the program. As detailed in Chapter III, a consulting firm will be hired to complete the remaining plans.

4. Costs of the Program

- 2.32 The total cost of the program is estimated at US\$85 million, distributed as shown in the following illustrative financial plan.

<p style="text-align: center;"><u>Table I</u> COSTS OF THE PROGRAM (In US\$ Million)</p>				
	IDB	LOCAL	TOTAL	%
1. <u>Graduation Packages</u>	<u>45.100</u>	<u>19.520</u>	<u>64.620</u>	<u>76.0</u>
A. Infrastructure	28.800	14.300	43.100	50.7
B. Technical assistance and training	16.300	5.220	21.520	25.3
2. <u>Evaluation and studies</u>	<u>1.870</u>	<u>1.870</u>	<u>3.740</u>	<u>4.4</u>
A. Impact study	510	510	1.020	1.2
B. 2nd. phase preparation	1.020	1.020	2.040	2.4
C. Amazonian pilot studies	340	340	680	0.8
3. <u>Supervision and administration</u>	<u>2.875</u>	<u>5.145</u>	<u>8.020</u>	<u>9.4</u>
A. Administration	0	3.245	3.245	3.8
B. Graduation plan preparation	2.875	1.900	4.775	5.6
4. <u>Contingency</u>	<u>645</u>	<u>1.420</u>	<u>2.065</u>	<u>2.5</u>
SUBTOTAL	50.490	27.955	78.445	92.3
5. <u>Financial costs</u>	<u>510</u>	<u>6.045</u>	<u>6.555</u>	<u>7.7</u>
Interest	0	6.045	6.045	7.1
Credit fee	0	0	0	0
Inspection and supervision	510	0	510	0.6
TOTAL	51.000	34.000	85.000	100.00
	60.00%	40.00%	100.00%	

- 2.33 The Bank will finance 60% of program costs, or US\$51 million in OC local currency. Local counterpart is US\$34 million or 40% of project costs.

Terms and Conditions

Interest: 4%

Credit Fee: 0

Inspection and Supervision: 1%

Disbursement: 5 years

Grace Period: 5 years

Amortization Period: 25 years

TABLE II - GRADUATION PLANS - SUMMARY OF THE REPRESENTATIVE SAMPLE

Name	Year Founded	Location	Beneficiary Size	Key Crops	Major Investments	Total Cost US\$	Program Cost/ Family	Project Minimum Salary
Cajazeiras	1985	Maranhão	72	beans, rice, coco, pineapple, pasture	schools, roads, storage, electricity	91,407	1,270	4
Antônio	1987	Maranhão	354	rice, manioc, millet, pineapple, sugar cane, banana	school, electricity, water, storage, soil rehabilitation, sanitation	743,287	2,100	2.8
Almeida	1996	Maranhão	40	rice, coco, cashews, maize	candy factory, electricity, roads, water, community center	181,166	4,529	2
	1994	Mato Grosso	54	rice, cattle, coffee, banana	storage, school, roads, health post	272,873	5,053	3.7
	1995	Mato Grosso	276	cashew, pineapple, coffee, banana	school, health post, water, electricity, storage	906,072	3,283	3
	1989	Mato Grosso do Sul	633	tea, coco, manioc, milk	soil rehabilitation and erosion control, water supply, community centers	2,581,744	4,079	2.5
	1993	Minas Gerais	115	cotton, beans, maize, rice	water, electricity, road rehabilitation	301,917	2,625	2
	1996	Minas Gerais	45	beans, rice, manioc, milk, banana, sugar cane	reforestation, soil protection, irrigation, electricity	221,396	4,920	5.3
	1985	Paraná	100	soy, tobacco, millet, rice, beans, herb tea, fish farming, milk	storage, community center, sanitation, reforestation, soil rehabilitation	543,809	5,438	3
Almeida	1995	Rio Grande do Norte	204	cotton, milk, beans, maize, cattle	storage, irrigation, school, health post, creche	422,244	2,070	4
Duro	1996	Rio Grande do Norte	82	beans, rice, maize, cashews	school, health post, water desalinator	141,596	1,726	2
	1987	Rio Grande do Sul	70	manioc, maize, soy, milk	milk cooler, schools, road rehabilitation, water	282,400	4,034	2
e	1995	Rio Grande do Sul	83	beans, maize, grapes, figs, beekeeping	roads, water and sanitation, community center	310,390	3,740	2.5

III. THE EXECUTION

A. Operational manual

- 3.1 The Operational Manual, included in the technical files, is the basis for the functions, responsibilities, criteria, and procedures described below. Figure I at the end of this Chapter summarizes the program's execution scheme.

B. The borrower and the executing agencies

- 3.2 The borrower will be the Federative Republic of Brazil. The program's focus will be at the local level with participating settlement associations, municipalities, and special technical groups serving as the program's co-executors.
- 3.3 At the national level, INCRA will serve as the executing agency responsible for overall coordination of the program. The project's executing unit (EU) at the national level will be located in the office of INCRA's President. INCRA will provide logistical and operational support to the Unit. An agreement has been drafted to be signed by INCRA and the Ministry outlining the responsibilities of each in the program's execution. Signature of this agreement will be a condition prior to first disbursement.

1. Settlement associations

- 3.4 In contrast to earlier programs carried out by INCRA in land reform, this programs assigns the most important responsibilities regarding the selection, execution and financing of infrastructure and technical assistance directly to the beneficiaries at the community level. As a first step, settlement associations (organized farmer groups with persona jurídica) participate in development of a "diagnóstico rápido participativo" (DRP), a participatory process developed and pilot tested for the program.^{13/} The process assists the settlements in identifying their needs to attain self sufficiency and graduate from the INCRA program. An agronomic review and on-farm economic analysis are then conducted to determine which productive investments are agronomically appropriate and carry the highest rates of return. Discussions are held with communities to develop their final priorities.
- 3.5 The operational manual contains the process and criteria for selecting participating settlements, investments eligible for financing, maximum investment levels per family by state, procurement and disbursement procedures (also discussed below), and model agreements. Beneficiary associations would contribute to

^{13/} The DRP technique is discussed in Chapter V.

investments, either in cash, kind or labor. Maintenance would be the responsibility of the Associations and Municipalities. The minimum level of contributions expected from the beneficiaries are specified in a cost-sharing matrix in the operational manual.

- 3.6 The program will be widely publicized and settlements may apply at the local INCRA office where the STU's are located. Criteria for selection are discussed in ¶ 2.10 of this document and detailed in Section 5.4 of the Operational Manual. Should more associations apply than spaces available, settlements will be prioritized based on a point system which considers the amount of infrastructure and other support received (fewer services, more points) and the number of years under INCRA sponsorship (see Operational Manual).
- 3.7 Regulations allow packages to finance a maximum expenditure of US\$5,700 per family which includes up to US\$1,400 in technical assistance and US\$360 in training. Works to be financed will be primarily for collective use and can include basic infrastructure such as road upgrading and construction, electrification, small irrigation systems as well as health posts, and basic sanitation. Both works and technical assistance will be publicly bid and procured from private sector sources.
- 3.8 Settlement associations sign a tripartite agreement (INCRA/the municipality and the association) whereby they agree to graduation after inputs in their graduation plan have been completed (ie. works constructed and technical assistance and training provided). At the time of graduation land titles will be provided to individual families (and group titles where applicable). As established in the operational manual, plan execution will not exceed three years.

2. Municipalities

- 3.9 Municipalities will agree to provide maintenance and staff for schools and health posts (which is frequently already the case) and roads. The operational manual establishes municipal involvement with the associations as a criterion for settlement selection, as is the financial capacity of the municipality to undertake this maintenance. Municipalities will also sign the tripartite agreement between the municipality, the community, and INCRA under which they will agree to provide maintenance.

3. State Technical Units (STU's)

- 3.10 STU's will be created in seven INCRA regional offices. STU's will be staffed with one or two professionals and support staff. While physically located in the local INCRA office, STU staff will report to the program's executing unit in the Office of INCRA's President at the national level.
- 3.11 STU's will: (i) promote the program to ensure a large pool of settlement association applicants; (ii) apply selection criteria

and select eligible settlements; (iii) establish contacts with municipalities with eligible settlements to determine their interest and financial capacity; (iv) prepare annual work plans; (v) coordinate preparation of community consolidation plans by the consultant's diagnostic teams (beginning in year 2 of the program) (vi) supervise execution of the plans, contracting for works and services, and acquisition of equipment above established limits; and (vii) authorize the financial agent payment for works, services, and goods.

4. The Program's Executing Unit (EU) 14/

- 3.12 At the national level, the program's EU will: (i) provide annual information to STU's on resources available, program parameters, and goals which need to be taken into consideration in their preparation of annual workplans; (ii) provide up to date guidance and training where necessary on applying selection criteria, developing annual workplans, and the development of community consolidation plans; (iii) review and approve annual state workplans; (iv) provide teams, under the state's coordination, to undertake the diagnóstico rápido participativo and prepare graduation plans; (v) ensure that criteria applied by the states in the selection of communities has been appropriately applied; (vi) keep the STU's informed of disbursement arrangements with the financial agent (see below); and (vii) coordinate and approve graduation plans during the first year of project execution. For the remaining components, the EU will coordinate the development of operational norms, administer the project impact and Amazon studies, and coordinate preparation of the phase II program.
- 3.13 The EU for the project, was created in June 1998 by "Portaria Ministerial", is staffed with a project coordinator, three agronomists, a sociologist, an environmental specialist, an economist, and two support personnel. Two additional professional positions, which have been created, will be staffed shortly (a micro-enterprise specialist and a civil engineer). The Unit which has always been located within INCRA, will report to INCRA's President. The loan contract will require that the EU be fully staffed as a condition prior to first disbursement.

C. Disbursement procedures and advances

- 3.14 The proposed loan will be disbursed over a five year period. The EU will open a Special Account and seven sub-accounts (one for each participating state) at the Banco do Brasil, which will serve as the program's financial intermediary. In keeping with Bank procedures, the authorized amount for the revolving fund would be US\$2.55 million, 5% of the loan amount. After the initial deposit

14/ A discussion of INCRA's budget and organizational structure is included in the following Chapter.

of the authorized amount in the special account, amounts defined in the annual operating plan will be transferred to the sub-accounts. The STG's will authorize transfer of approved funds directly from their respective accounts with the Banco do Brasil to suppliers upon authorization of the beneficiary based on expenditures of settlements' suppliers documented with receipts. Settlements contributions to subproject investments would be defined in the agreement between the STU and the community association. Simple standard records would be completed by the community to record cash contributions, materials, and labor inputs. As a condition prior to first disbursement, the loan contract requires a signed agreement between the Bank of Brazil and INCRA under which they agree to serve as financial intermediary. The program's execution scheme is summarized at the end of this Chapter.

D. Procurement procedures and bidding schedule

- 3.15 Procurement for subprojects costing the equivalent of US\$50,000 or less and procured by participating communities will be carried out mainly through direct contracting utilizing local legislation, and under subproject agreements between the STUs and the community. Communities will be responsible for bidding works up to US\$50,000 and services up to US\$20,000. Bidding exceeding those levels will be done by the STUs. Local legislation requires that a minimum of three proposals be considered.
- 3.16 Consultant services to provide technical assistance and training to the beneficiary settlements, the STUs and the UE will be procured in accordance with Bank guidelines for the use of consultants. International competitive bidding will be obligatory for procurement valued at more than US\$200,000 for consulting services and US\$350,000 for goods. The traditional threshold of US\$5 million for construction does not apply since the project will not finance large construction works and it is not feasible to package several works due to physical separation and range of items. Bidding in amounts below these thresholds will comply with national legislation. The bidding schedule is included in Annex III-1 to this document.

E. Status of sub-project preparation

- 3.17 Of the 75 graduation packages to be prepared and executed during the project's life, 13 settlements have completed their packages using the rapid participatory diagnostic methodology and 2 additional packages will be completed in the first three months of project execution. Engineering designs for more complex works (water and irrigation systems and new roads) have been completed as have standard designs for basic infrastructure such as schools, health posts, and minor road improvement. The execution of these packages will be initiated during year one of the project. A minimum of 30 additional packages will be developed during year one of the program for financing during year two. During year two 30

more packages will be prepared for financing in year three. For the studies, draft terms of reference have been prepared for pilot studies in the Amazon, the project impact studies, and phase II preparation.

F. Preparation of the remaining 62 packages

- 3.18 Because of difficulties which INCRA encountered in preparing the sample, preparation of the remaining graduation plans will be outsourced.
- 3.19 Of the sixty remaining packages to be prepared, 10 plans will be prepared under an existing contractual arrangement which INCRA has with IICA for project preparation and the remaining 52 will be prepared by consulting firms, hired under a competitively bid contract. Using IICA to prepare the next 10 plans, which can be done immediately after the program is approved, will allow the EU time to bid and award the contract for the 52 plans without losing program preparation and execution momentum. IICA financed plans will be counterpart financed.

G. Benchmarks

- 3.20 The Program has a five year disbursement period. All graduation packages will be executed in three years. Benchmarks for graduating settlements are: end of year three 15 settlements graduated; end of year four 30 more settlements graduated; and end of year five 30 additional settlements graduated.

H. Environmental procedures

- 3.21 Procedures for regulating environmental impacts and granting permits vary by state. Given the variation across states and the need to ensure consistency in environmental standards, the executing unit has developed and negotiated a simplified procedure for evaluating and classifying projects with state environmental authorities. This procedure is outlined in detail in the Operating Guidelines of the program and described briefly below.
- 3.22 The guidelines for classifying and mitigating environmental impacts are based on a simplified procedure for granting permits under a multiple works framework. Under this framework, sub-projects identified as priorities by local communities will be classified into one of three categories based on an environmental brief. For projects classified as category 1 and 2 with relatively low and localized impacts, an EIA/RIMA will not be necessary to obtain the preliminary permit. For projects classified as category 3, the preliminary permit will be issued only after state environmental authorities have analyzed the EIA/RIMA.
- 3.23 In all cases, proposed measures to mitigate possible negative environmental impacts will be defined and quantified in the environmental brief or EIA/RIMA. The briefs will also include

budget estimates for costs of mitigation which become the responsibility of firms interested in bidding for the sub-project. For category 1 and 2 projects, copies of the environmental brief will be sent as a courtesy to the state environmental agency. If after two weeks the agency does not object the sub-projects will be considered approved. For category 3 projects, construction of the works may not begin until formal approval is received from the state environmental agency. For category 3 projects, this review process will include public hearings on the proposed work.

- 3.24 The STUs are responsible for preparing the briefs and submitting them to the state environmental authorities. They will contract environmental specialists at the state level for the duration of the program, who will review and submit the briefs associated with settlements in each state. In the preparation of the bidding documents, the environmental specialist will verify the inclusion of the items for which the construction firm is responsible. Supervision during the construction phase will remain the responsibility of the state environmental agency.

I. Previous expenses

- 3.25 INCRA has requested that the Bank recognize up to US\$1.9 million for expenditures incurred in preparing the program and be recognized as local counterpart. These expenditures are for studies to prepare the program including the preparation of graduation packages and for costs associated with creation of the EU.

J. Maintenance

- 3.26 Municipalities will maintain schools, health posts and roads. Water systems will be maintained by the community association through a tariff established when the plans are developed. The operational manual requires that for all graduation plans containing water systems, that tariff levels be established as well as an organizational plan for collecting the tariffs and maintaining the works. Electrical works will be maintained by local electric companies. All other investments (primarily those which are productive in nature) will be maintained by the community associations. Technical assistance and training funds will be used to support community associations in maintenance of productive investments.

K. Execution period and disbursement schedule

- 3.27 The term for disbursement of loan resources will be five years. Disbursements are summarized in the following table:

Table III (in US\$ million)				
YEAR	IDB	LOCAL	TOTAL	%
1	8.9	5.3	14.2	16.7
2	16.2	9.9	26.1	30.7
3	18.2	11.8	29.9	35.3
4	5.2	3.8	9.0	10.6
5	2.5	3.2	5.7	6.7

L. Data collection

- 3.28 After selecting the settlements for the each year of the program, INCRA will prepare a chart with key socio-economic indicators for each of the selected settlements and for the control group. This data will serve as a basis for the program's impact evaluation. As discussed in Chapter II, both the indicators and economic model will be prepared prior to the financing of graduation packages.

M. Monitoring

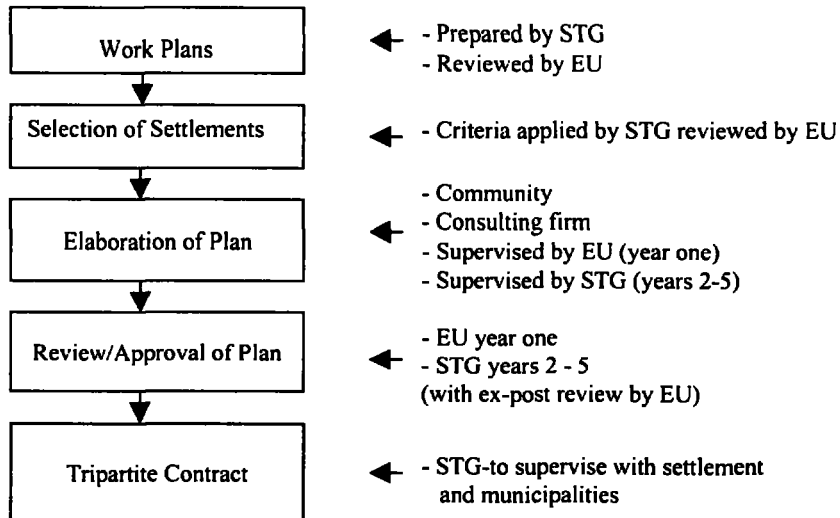
- 3.29 Annual reviews will be held of the program. These reviews will analyze a random sample of graduation packages followed by a meeting with settlements whose packages are in execution or have been executed. This will help ensure that procedures established in the operating manual are being applied and will provide a preliminary review of progress toward meeting performance indicators. By the end of the second year of the project, a mid-term review will be conducted to assess progress achieved and identify measures, if needed, to improve execution. Members of the project team from Washington will participate. In addition to the performance indicators presented in the logical framework of the project and the random review of packages, the mid-term review will also examine the process of data collection and project staffing needs.

N. External auditing

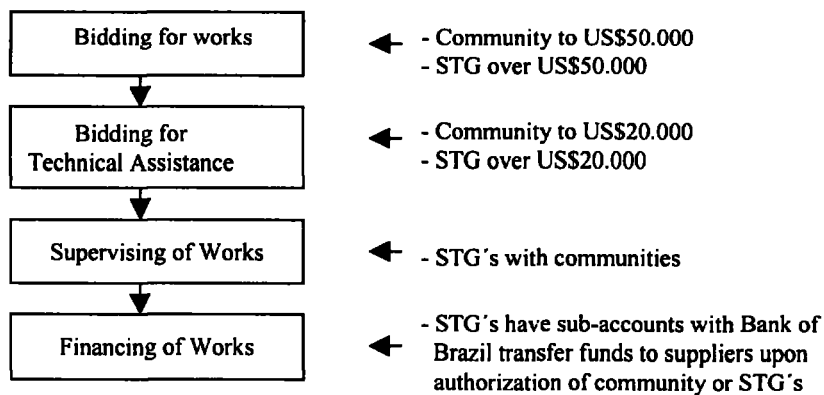
- 3.30 Within the first 90 days of each year, INCRA will present to the Bank the annual financial statements of the program. These reports will be certified by the "Secretaria Federal de Controle (SFC)". The audit will include INCRA's master account with Banco do Brasil as well the accounts of the seven STU's and a random sample of participating settlements.

FIGURE I
EXECUTION SCHEME

GRADUATION PLAN / PREPARATION, APPROVAL



GRADUATION PLAN / EXECUTION



IV. FINANCIAL AND INSTITUTIONAL ASPECTS

A. INCRA and the Ministry

1. General background

- 4.1 Founded in 1970 to integrate the country's northeast and Amazonia through road construction and colonization, INCRA's mission was broadened and its budget and staff grew quickly. Today, INCRA has a large national presence and a broad mandate to improve land distribution by securing and providing land and follow-up services to the rural poor.
- 4.2 The position of Minister Extraordinaire for Land Policy (MEPF in portuguese) was created in 1996 as a cabinet level position to give more visibility to land reform, to speed up the transfer of land, and to work with international donors to develop new approaches to land reform. It consisted of the Minister and support staff as well as the executing unit for the World Bank's land reform and poverty alleviation program (see Chapter I). The Minister did not had its own budgetary resources but relied, instead, on a separate line item in INCRA's budget to operate. In December 1999, a line Ministry (Ministerio de Desenvolvimento Agrario-MDA) was created to replace the previous arrangement. This Ministry has all the attributions of a normal Ministry, including personnel and budget. Moreover, the family farmer programs have been transferred from the Ministry of Agriculture to MDA. While placing the proposed program in the office of the Minister would give the program considerable visibility, INCRA's role (since it is supplying the personnel and the counterpart for the program) in the program is critical to its success, so it was agreed that INCRA's President would be responsible for the program.

2. INCRA's organizational structure

- 4.3 From a staff of 700 and four regional offices in 1970, INCRA's staff has grown to over 6000 ^{15/}, and the number of regional offices to eighteen. The functions of the project's Executing Unit (EU) are discussed in Chapter III. The draft agreement between INCRA and the Ministry ^{16/} details INCRA's role in the project. It specifies that the EU will coordinate closely with Diretoria de Assentamento. This Diretoria is the largest of INCRA's Departments and its budget and staff includes all of INCRA's regional offices and nearly half of its personnel.

^{15/} In the early 1990s INCRA employed over 10,000.

^{16/} The signature of this agreement is a condition prior to first disbursement (see ¶ 3.3).

B. Characteristics of community organizations

- 4.4 All settlements under the INCRA land reform program are organized into formal farmers organizations. It is these organizations which represent the community in negotiations with INCRA and all are involved in financial transactions on behalf of the communities. The functions of these organizations vary widely by settlement and region. In the north where communal farming of some land holdings is the norm, the organization frequently markets the communally produced product, and distributes the earnings. In the south, where individual land holdings are the norm, farmer organizations frequently pay for technical assistance and are involved in marketing.

C. Financial aspects

1. INCRA's budget and local counterpart

- 4.5 INCRA's budget has averaged over US\$2 billion in the five years leading to 1998 and because of the high priority given to the land reform effort has not suffered the cutbacks of other large Federal bureaucracies. Of INCRA's total budget, its largest annual expenditure has been for support of settlements. In 1998 for example, this cost represented nearly 50% of INCRA's budget. In 1999 INCRA's budget suffered its first major cut due to the large devaluation of the real and subsequent measures to control public expenditure. For the year, the budget was around US\$1.3 billion, and the authorized level for 2000 is about the same. For the year 2000, additional money (credit & extension) for the settlements is available under the budget of the MDA.
- 4.6 Most of the counterpart for this program will be provided from a separate line item in INCRA's budget for the project. For 2000 US\$5 million has been set aside for the program. This amount is sufficient to cover counterpart requirements for the rest of 2000. For years two and three of the project counterpart requirements increase to US\$10 and then US\$12 million a year, less than 1% of INCRA's budget. Additionally, counterpart funds for the program has already been assigned in the Plano Plurianual-PPA recently presented to Congress, and covering 2000-2003.

2. Municipal budgets

- 4.7 For the sample of projects, municipal budgets were examined to ensure sufficient financial resources to maintain works which are within their jurisdiction. Since works are small and maintenance costs correspondingly low, all municipalities in the sample were judged to have sufficient financial capacity.

3. Financial analyses of graduation plan

- 4.8 All packages are subject to rigorous financial analyses to ensure the sustainability of productive investments. Cash flow analysis

must demonstrate: (i) a positive cash flow beginning in the third year of the program; (ii) sufficient income to pay debt for land and past credits of PROCERA/PRONAF-A over a period of 20 years at 6% interest; and (iii) income equivalent of two 2 minimum salaries (approximately US\$153) in addition to income for land debt. Project's which do not meet these criteria are not considered viable and are not financed. Within the sample, income generated ranges from 2 salaries for the poorer communities in the north to nearly 6 in the more fertile southern regions. This represents a substantial increase in household income and places these families far above the 86% of farm families who earn US\$112 per month.

V. PROJECT FEASIBILITY

A. Technical feasibility

- 5.1 To determine the technical feasibility of the Program, a sample comprised of 13 community graduation packages was analyzed. This sample represents about 10% of investment costs.
- 5.2 During the development of these packages, the following features of the program were applied: (i) all aspects of the draft operational manual were tested with some modifications made based on experience (eg. the minimum number of families in a settlement was established at 50, a maximum investment level of US\$107,000 per infrastructure investment, and new internal access roads were permitted); (ii) selection criteria were used to determine participating communities; (iii) the DRP method (see ¶ 5.5 below) was used to ensure maximum community participation in the selection of investments for graduation plans (a decision was made to combine the exercise of applying the DRP methodology with preparation of the plans rather than the original conception of doing the two separately); (iv) investments in the sample were subject to rigorous economic, financial, environmental and agronomic review and analysis (major changes were made in agronomic packages of many of the plans); and (v) prototype designs developed for the program's infrastructure were developed and utilized for most school and health posts. It was found, however, that standard designs could not be used for more complex works so specific engineering designs were prepared.

B. Social feasibility

1. Program characteristics

- 5.3 The program design is based on a strategy to accelerate the process of graduating land reform settlements through investments in socioeconomic infrastructure and technical assistance to guarantee both the economic feasibility and social stability for the families in the communities. The program is expected to have a positive social impact on living conditions in these settlements through the provision of basic social services like education, health, roads and sanitation in addition to technical assistance and access to credit.
- 5.4 Participation of settlements in the program is voluntary. However, eligibility and selection criteria were designed to take into account the wide gap in access to social services in settlements located in different regions, states and municipalities. Although the pilot characteristics of the program in this stage require that a wide variety of situations be contemplated, priority was given to settlements lacking access to basic infrastructure and social services and which, at the same time, present a favorable

combination of contributing factors to graduation. These include: interest of the community; the commitment of the municipality; favorable economic and productive conditions as well as a favorable institutional and legal environment conducive to graduation.

- 5.5 The DRP methodology, which was field tested, relies on the broad participation of beneficiaries and stakeholders in the preparation of graduation plans from the diagnostic stage to the definition of investments. This method emphasizes semi-structured interviews with small groups of farmers and other local actors (such as municipal representatives) to identify information of interest to the project (utilizing open-ended questions, and encouraging discussion) and ultimately identify investments. Specific techniques of the method include: (i) inflow/outflow diagrams of expenses and receipts to help farmers understand the need for better management of each agricultural process; (ii) field observations with farmers and technical experts to evaluate the agro-ecosystem, existing use of land, environmental problems, and potential; (iii) developing of seasonal calendars to provide a graphical representation of the cycle of labor requirements to identify conflicts in resource demands; (iv) preparing daily routine diagram which account for seasonal differences in workloads with the participation of all family members; (v) selecting priorities through discussion of all needs of the community (including assigning weights to alternatives); (vi) using Venn Diagrams which are developed through group discussions with organizations involved in daily activities of the community in order to evaluate their relationships with the community; (vii) evaluating matrices to assess economic data pertaining to cultivation as compared to market requirements; and (viii) mapping with the community to develop a graphical representation of the state of the community including environmental problems, land use, natural resources, etc.
- 5.6 Direct benefits of the application of DRP technique include: (i) taking the settlement as a planning social unit, a group with common interests but also internally differentiated; (ii) fostering the group's capacity to independently identify and analyze problems and collectively generate solutions for them; and (iii) incorporating the perspectives of all stakeholders - settlers and their families, technical assistance teams, INCRA state teams, NGOs and other interest groups in the planning process. In addition, the active involvement and commitment of municipal governments provides an adequate environment for changing the perception of settlements as federal, INCRA-supported enclaves in the municipalities, giving settlements a more active role as legitimate actors in those municipalities. Another positive characteristic of the DRP methodology is that, because it seeks to actively involve the whole community in the diagnostic and planning process, its application leads to a particularly favorable environment for the participation of women and/or other groups who (for cultural or socioeconomic reasons) might not otherwise be considered as legitimate actors in the process.

C. Institutional feasibility

- 5.7 Creation of a national executing unit and regional special technical groups were designed for rapid execution and to bypass the INCRA bureaucracy. Loan conditionality requires that the EU and the STUs be adequately staffed to implement the program (see Chapter II). The implementation rate of the program allows time to prepare the plans for the second and third year.
- 5.8 Implementation will be greatly facilitated by the contracting consulting firms to prepare the graduation packages to be executed beginning the second and third year of the program. Terms of reference for this firms, which have been reviewed and approved by the Bank, include all tasks related to plan preparation ranging from preparing the DRP to specific engineering designs and financial and economic analyses. Contracting with IICA to prepare the next 10 plans will allow time for bidding the contract without losing momentum in project preparation. With its experience in preparing the first 13 plans, the EU has the experience to critically review plans prepared by the firm and perform the function of "quality control."
- 5.9 Settlements will contract for works valued up to US\$50,000 and for services to US\$20,000 and STU's will contract for investments which exceed these limits. Experience with the first 13 projects demonstrate that most activity falls within the community established limits. Community involvement will ensure the best use of resources (given the ceiling per family, it will be in the communities' best interests to utilize resources efficiently). The STU's will be able to draw on INCRA's substantial procurement expertise at the field level for procurement in excess of community limits.

D. Environmental feasibility

- 5.10 While no significant negative environmental or social impacts are anticipated from this operation, the environmental procedures developed in collaboration with state agencies will avoid any potential problems. The program is considered environmentally and socially feasible given the strong participation of the communities in selecting the investments and the involvement of state environmental authorities in overseeing project works. The program actively supports public participation in the review process and in upholding state and federal environmental standards.
- 5.11 The Environmental and Social Impact Report (ESIR) was reviewed and approved by the CESI on October 23, 1998. The CESI recommended that the operational regulations and ESIR specifically address mitigatory measures for land clearing. These mitigatory measures have been included in the operational manual.

E. Economic feasibility

- 5.12 All investments included in the projects were selected and prioritized by the settlements using the DRP. These investments will contribute to the economic and financial sustainability of the beneficiaries. For purposes of the socio-economic analysis, investments are divided into two categories: (i) social investments which are not related directly to increases in productivity and/or value added to production and; and (ii) productive investments which are necessary to increase productivity or add value to production.

1. Social investments

- 5.13 Social investments include schools, health posts, community centers, simple water and sanitation systems, childcare, and electricity for domestic use. For this type of investment, analyses of minimum cost and cost-efficiency were undertaken. Indicators of cost-efficiency were calculated for each type of work on the basis of a sample of projects. These indicators should be revised taking into account the analysis of the execution of a larger body of projects. Indicators and guidance for preparing these analyses are included in the Operating Regulations.
- 5.14 In the case of water systems which include construction of household distribution network, a simplified cost-benefit analysis was performed. Only two graduation plans contemplated this type of investments: Ranchinho which is viable (Economic Internal Rate of Return of 15.7%) and Bojuí that was not viable with a Internal Rate of Return of less than 12%. In the later case, a new simplified solution was developed (fountain).

2. Productive investments

- 5.15 Productive investments include, among others, small irrigation systems, silos, rural roads, bridges, soil rehabilitation, buildings for small agroindustry and technical assistance. For this type of investment, the evaluation included: (i) minimum cost analysis for all works; (ii) cost-efficiency for investments such as silos, rural roads, bridges and buildings; (iii) a cost-benefit analysis of the graduation plans taking into account all of the costs of achieving the proposed objective, independent of the source of financing (labor, equipments, purchase of agrochemicals, etc); and (iv) evaluation of the financial sustainability of the beneficiaries.
- 5.16 The cost-benefit was performed using the Data Analysis Simulation (DASI), Model developed by the FAO. The analysis compares actual production of the communities considering their current system of production (without the project) with production levels which will be achieved in project execution (with the project). The current situation is defined based on a survey of typical units of production of each settlement. The proposed change to improve the

productive system (with the project) was discussed and agreed to using the DRP methodology.

- 5.17 Quantifiable benefits derived from the project will be the increases in production by changes in technology, improvements in the quality of agricultural production and in some cases value added through vertical integration (i.e. agroindustries).

a. Cost benefit analysis

- 5.18 The cost-benefit analysis was undertaken for the graduation plans which will be executed during the first year. Cash flows as well as benefits were adjusted to eliminate existing distortions in the market. Economic Internal Rates of Return (IRR) of the plans and the Economic Net Present Value (NPV) are indicated in the following table.

Table IV			
Projects	IRR (%)	NPV (US\$ 000)	Reduction in production to IRR equal 12%
1. Indaiá (MS)	22.8	9,585.1	-23.2
2. Chopim (PR)	26.2	4,501.7	-34.5
3. Santa Alice (RS)	26.3	824.6	-30.8
4. Seival (RS)	28.4	669.4	-35.6
5. Brinco de Ouro (RN)	28.7	606.8	-35.5
6. Santa Maria (RN)	56.3	5,500.6	-41.4
7. Buriti do Meio (MA)	24.3	265.4	-27.2
8. Entrocamento (MA)	47.9	5,234.1	-51.8
9. Clemente-Cajazeiras (MA)	39.1	5,622.3	-44.8
10. Ranchinho (MG)	27.4	1,780.4	-18.5
11. Renascer (MG)	36.7	1,426.4	-32.7
12. Bojuí (MT)	44.4	5,793.6	-33.2
13. Martins I (MT)	16.8	291.0	-11.5

MS = Mato Grosso do Sul MT = Mato Grosso MG = Minas Gerais PR = Paraná
RN = Rio Grande do Norte RS = Rio Grande do Sul MA = Maranhão

b. Sensitivity analysis

- 5.19 An evaluation was undertaken to measure the economic viability of the PCAs by varying the basic parameters adopted in the cost-benefit analysis. The analyses indicate that even a significant reduction in the incremental value of production, the majority of projects have a IRR above the minimum required by the Bank of 12% (with Ranchinho and Martins having the lowest deviation in production with 11.5% and 18.5% respectively). The inclusion of social investments costs in the cost-benefit analysis do not affect the viability of the plans. If the cost of the land is included in the analysis, only the project of Seival and Santa Alice, both in Rio Grande do Sul, would have a IRR of less than 12%. The results of the analyses indicate that the representative sample has a strong economic justification and the program is considered economically viable.

F. The focus on poor beneficiaries

- 5.20 The project qualifies as PTI as sector automatic because it will promote activities that enhance small agricultural production and microenterprise development in the beneficiary settlements. Furthermore, the eligibility criteria of states, municipalities and settlements interested in participating in the program gives priority to states where the concentration of settlements is above the national average and to municipalities where the concentration of settlements is above the state average. Furthermore, definition of beneficiary settlements was based on indicators accounting for their relative deprivation in the access to infrastructure and social services vis-à-vis other, more well-equipped settlements. In providing these more deprived settlements and the landless families there living with the necessary infrastructure, social services and technical support for the settlement's self-sufficiency, the project is expected to contribute to a significant reduction in the poverty levels in those settlements, thus furthering social equity objectives.
- 5.21 The project specifies explicit performance indicators to measure poverty reduction and social equity enhancement (Annex II-1). Investments will benefit approximately 12,500 families in 75 Agrarian Reform Settlements presently lacking basic infrastructure (water, sewage) and social services as well as effective productive technical assistance. The project will finance community-defined development plans to make such services available to these communities, which will ultimately lead to the emancipation and self-sustainability of the beneficiary agrarian reform settlements. The project is also expected to provide INCRA with a cost-effective methodology and alternative approaches to accelerate the pace of agrarian reform in Brazil.

G. Risks

1. INCRA's commitment to the Program

- 5.22 Only 48,000 settlers have graduated from INCRA support. While graduating so few settlers reflects a lack of incentives, particularly in the credit programs, it also reflects a resistance on the part of INCRA to developing a program for graduating communities. Strong political will from the Government to dramatically increase the pace of the land reform program is putting considerable pressure on INCRA to develop such a program. The creation of MDA incorporating the family farming programs has brought the administration of all programs affecting the settlements under one roof. Also, within Brazil there is a renewed sense that the Government cannot maintain a direct management role for the settlements and that intervention should be kept to a minimum. Those aspects should be a counterweight to internal bureaucratic resistance in INCRA.

AGRARIAN REFORM SETTLEMENTS CONSOLIDATION AND SELF-SUFFICIENCY PROGRAM

LOGICAL FRAMEWORK

Objectives	Indicators	Means of Verification	Assumptions
<p>Objective</p> <p>The process of agrarian reform will be more efficient.</p>	<ul style="list-style-type: none"> Commencing in year 6 of the program, methodology for consolidation and empowerment of settlements created under agrarian reform will be implemented across the country 	<p>Reports from INCRA's Office of Settlement</p>	<p>Sufficient financial resources available to ensure continuity of the agrarian reform program</p>
<p>And implement a system of settlements resulting from agrarian reform in Brazil to be self-sufficient without INCRA</p>	<ul style="list-style-type: none"> Methodology for consolidation and empowerment of settlements created efficient and transparent, tested and approved At least 12,500 families receiving benefits of diversified production and family income that has increased by at least 2 minimum wages 	<p>PEU reports</p> <p>Impact assessment reports</p> <p>Reports from public or private institutions providing services to settlements.</p>	<p>Tripartite agreements signed by settlements and municipalities</p> <p>Consulting firms hired to prepare the PCA.</p> <p>Institutional integration with municipalities accomplished</p> <p>Participation and effective involvement of the beneficiaries in planning and implementing the programmed activities</p> <p>Activities related to issuance and registration of PCAs completed and accorded priority by INCRA for purposes of final land titling.</p>

Purpose	Indicators	Means of Verification	Assumptions
Settled are economically self-sufficient and independent of INCRA	<ul style="list-style-type: none"> At least 75 consolidation plans for settlements established under the agrarian reform prepared and implemented in seven states At least 12,500 families are economically integrated into family farms and socially integrated into municipality and independent of the agrarian reform program Average family income per month over 2.0 minimum salaries commencing in year 4 Agricultural production and productivity increased on average by 20% in year 1, 30% in year 2, and 40% in year 3, with the adoption of new technologies Products with high added value incorporated into the production process Organization and management functioning efficiently At least 12,500 beneficiaries trained for production activities and social services 90% of lots of beneficiaries accessible throughout the year 90% of families have access to power All families have access to water supply 90% of families have proper garbage disposal All of the students in first cycle receive proper care 30% increase in number of children receiving day care 80% of residents have access to medical and dental care 	<p>PCU reports issued</p> <p>STG reports issued</p> <p>Program impact assessment reports issued</p> <p>Monitoring and follow-up reports on the program and institutions involved</p> <p>Reports from municipalities on efforts to address basic social services and maintenance of program-financed works</p>	<p>Technologies and specialists available to support production activities</p> <p>Market and feasibility studies prepared</p> <p>Beneficiaries trained in environmental conservation and made aware of its importance</p> <p>Environmental impact and mitigation studies proposed in plans approved by competent bodies</p> <p>Effective support and involvement of environmental protection agencies</p> <p>Effective involvement of municipalities</p> <p>Sufficient resources released on a regular basis</p>

II. Components	Indicators	Means of verification	Assumptions
Consolidation Plans			
Infrastructure			
social, and economic infrastructure installed, improved, or maintained and functioning	<ul style="list-style-type: none"> • 380 km of access roads in settlements built or improved • 100 km of electric power grid installed, upgraded, or expanded • Potable water supply systems installed or improved in 75 settlements • Proper sewer and garbage disposal systems installed or improved in 75 settlements • 30 schools built, outfitted, or expanded • 10 day care centers built, outfitted, or expanded • 18 health posts built, outfitted, or expanded • 32 community center areas built, improved, or expanded • 45 storage facilities for production or installation of small agribusiness companies built, improved, or expanded • 10 water supply and conveyance systems built for small irrigation systems • 7,800 hectares reforested • 18 settlements with environmental protection and soil recovery works • Topographic zoning completed for at least 20 settlements 	<p>Monitoring and follow-up reports on the program and the institutions involved</p> <p>Annual and progress reports on supervision of works, acceptance of works, and inspection reports</p>	<p>Basic projects prepared</p> <p>Effective involvement of municipalities and stakeholders with municipal secretariats for effective delivery of public services and to and maintaining infrastructure</p> <p>Sufficient local counterpart funding on a timely basis</p> <p>Credit resources (PRONAF) made available in sufficient quantities and on a timely basis</p>

Technical Assistance

Technical assistance and training to enable communities to make better use of new technologies and infrastructure made available	<ul style="list-style-type: none">• At least 75 sets of technical equipment for transfer of agricultural technology acquired and maintained• Specialists hired to assist with production, social services, and environmental activities• At least 900 training events held in areas of production, processing, marketing, business and community development, environmental management and protection concerned with planned investments projects	Monitoring and follow up reports on programs and institutions involved Semiannual technical assistance reports	Terms of reference for technical teams of specialists, and training prepared Trained technical experts immediately available for hiring in areas needed by PCAs Agreement with EMBRAPA given effect satisfactorily implemented Credit resources (PRONAF) made available in sufficient quantities and on a timely basis
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Evaluations

Program impact studies Pilot studies in Amazonia Studies and to assess and develop a new national environmental program	<ul style="list-style-type: none">• Data and information collection system installed in year one of report and program impact report prepared• Studies of at least 6 settlements in Amazonia prepared• Studies conducted and settlement consolidation plans prepared for formulation of new national environmental program	Evaluation report of studies issued by PCUs Reports prepared	Terms of reference for studies prepared Local counterpart funding released in sufficient amounts and on a timely basis
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BIDDING PLAN (BR-0274)

ITEM	LOTS	FINANCING		METHOD	COST US\$000 million	PUBLICATION (SEM/YEAR)
		IDB	LOCAL			
Infrastructure for Settlements	300	67%	33%	Public bidding	43.1	Throughout the program
Technical Assistance for Settlements	300	76%	24%	Public bidding	21.5	Throughout the program
Project Impact Study	1	50%	50%	International public bidding	1.0	2001
Phase II - Preparations	3	50%	50%	International public bidding	2.0	2002
Studies Amazon	1	50%	50%	International public bidding	0.7	2001
Evaluation Plan Preparation	3-6	59%	41%	International public bidding	4.6	03/2003

PROPOSED RESOLUTION

**BRAZIL. LOAN /OC-BR TO THE FEDERAL REPUBLIC OF BRAZIL
PROGRAM FOR THE CONSOLIDATION AND SELF SUFFICIENCY OF AGRARIAN
REFORM SETTLEMENTS**

The Board of Executive Directors

Resolves:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Federal Republic of Brazil, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Program for the Consolidation and Self Sufficiency of Agrarian Reform Settlements. Such financing shall be for the equivalent of up to US\$51.000.000, in reais, which are part of the resources of the Ordinary Capital of the Bank, and it will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.