RURAL DEVELOPMENT AND POVERTY ALLEVIATION IN NORTHEAST BRAZIL

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The Northeast region of Brazil has long been the single largest pocket of rural poverty in Latin America. With a combined area of 1.6 million square kilometers—16 percent of Brazil’s total—the Northeast is home to 45 million people, 28 percent of Brazil’s total population, of whom 5.4 million people live on about $1 a day and a total of 10.7 million on $1.60 or less per day. Nearly half of all rural communities are in the interior, semi-arid zone characterized by poor soil and severe, frequent drought. The rural poor are small farmers, tenants, sharecroppers and landless laborers. They face an uncertain climate and fluctuating markets. Their access to land is skewed and there is almost no rural financial system for their needs. They rely on subsistence cropping of basic foods, small-scale animal husbandry, some cash crops (mainly cotton and cashew), casual agricultural and non-agricultural work, pensions, and remittances from family members living in the cities.

Testing New Approaches under Decentralization

Community-based activities were first introduced to Northeast Brazil in 1985 as a pilot component of the Bank-financed Northeast Rural Development Program (NRDP). For several years following effectiveness, this community-based component - Apoio às Pequenas Comunidades Rurais (APCR)—was the only component under the NRDP to disburse effectively and achieve positive results on the ground. The APCR, with a total allocation of US$106 million, represented one of the most significant attempts by the Bank to make rural development projects more participatory. The APCR fund made matching grants of up to US$10,000 to community associations in towns of less than 5,000 inhabitants.

Following the establishment of the new Brazilian Federal Constitution of 1988 the trend was toward increasing decentralization of fiscal resources, priority setting and implementation from the Federal Government to the state, municipal, and local levels. For the NRDP, it created the enabling environment to undertake the quite radical reformulation of the program in 1993.

When evaluation showed the pilot was successfully getting resources directly to organized community associations, with greater impact, cost-effectiveness and prospects for sustainability, it was decided in 1993 to reformulate the overall program, i.e., its 10 constituent projects, essentially by scaling up the pilot and dropping all the other components. The poorest communities received financing to implement, operate, manage and maintain investment subprojects of their choosing and to contract technical assistance directly as needed. Participatory Municipal Councils (FUMAC) were introduced as a pilot, comprising representatives from the community, civil society and municipal government. As the reformulated NRDPs closed they were replaced by a set of eight Rural Poverty

A Women’s Initiative in Socorro Brings Water

In the municipality of Alagoinha, in Pernambuco, the Women’s Association of the community of Socorro provided the leadership for the community’s 3,500 people to resolve their water supply problems. By exploiting an already existing well, they obtained financing from the RPAP for a R$41,500 subproject, consisting of a water tank capable of storing 20,000 liters, a public fountain and desalinization equipment with a daily capacity of 4,000 liters, which supplies water to the whole community. Before the subproject, the community obtained its water mainly from water trucks sent by the municipal or state governments. Two or three water trucks would come each week, each one with 7,000 liters and costing R$45 to R$60 per truck. On average, each family had the right to only 30 liters per week, a very small quantity for the needs of a household.
Alleviation Projects (RPAPs) for which state governments borrowed directly from the Bank. Following the strategy of continuous piloting, testing, and expansion, the RPAPs mainstreamed the Municipal Councils and introduced a new variant (see FUMAC-P below) which assigned not only resource allocation decisions but also funds management responsibilities to Councils that performed well.

The projects which make up the Rural Poverty Alleviation Program (RPAP) cover eight states in Northeast Brazil with loans totaling US$444 million, became effective from 1995 to 1998. Six of the eight projects have now closed with the rest due to close by June 2002. This note provides an overview of how this model for community participation and poverty reduction evolved and highlights some of the lessons learned.

**Program Structures**

Three different delivery mechanisms distinguish how community subprojects are approved and the respective financing arranged.

**State Community Schemes (PAC).** Under the PAC subprogram, rural communities submit their investment proposals directly to a State Technical Unit (STU) which screens, approves and releases funds to the beneficiary associations. While this was the dominant arrangement under the R-NRDP projects, it has receded in importance as decentralization from State to local levels has progressed and FUMAC councils have been established in a majority of the municipalities. At appraisal2 of the RPAP, PAC was expected to make up about one third of community proposals, but the actual share decreased steadily. While PAC has been retained in all the new rural poverty projects, it is viewed as residual and designed to surmount certain circumstances in a municipality which might delay or prevent formation of a FUMAC Council.

**Municipal Community Schemes (FUMAC).** Under this subprogram, decision-making on investment proposals is delegated by the State to Municipal Councils (MCs) composed of community members and representatives of civil society, and municipal authorities. At least 80 percent of voting members are drawn from actual or potential beneficiary communities. The MCs discuss, seek to build consensus on priorities and approve community proposals in the context of an indicative annual budget amount determined by the State. After the Councils’ recommendations are reviewed for consistency with guidelines in the project Operational Manual, funds are disbursed directly to the community associations. This became the dominant subprogram under the RPAP accounting for 80 percent of total community subproject costs.

**Pilot Municipal Community Funds (FUMAC-P).** The FUMAC –P mechanism is a more decentralized variant of FUMAC and was piloted under the RPAP with Municipal Councils that performed well. The State Technical Unit (STU) establishes an annual budget envelope according to a distribution formula based on clear and measurable criteria (rural population, poverty levels and previous year’s performance). Based on this budget, selected Municipal Councils submit an Annual Operating Plan for review at the State level. Upon approval, the funds are transferred to the Council which is then responsible for managing their distribution to community associations and assisting them in implementing their subprojects. This model accounted for 10 percent of total component costs in the projects in Bahia and Ceará, Sergipe, and Rio Grande do Norte.

**Box 1 - Subproject Cycle**

1. Community Associations decide their most pressing investment needs and with help, which they contract, prepare subproject proposals for investment financing.
2. Subproject proposals from community associations are submitted to respective project Municipal Councils (MCs) with majority representation of beneficiaries) where proposals are prioritized and approved, based on indicative resource envelopes (FUMAC) or actual budget allocations (FUMAC-P) and the Council members’ local knowledge of relative need (i.e. how funds should be targeted). This step does not occur for PAC, where community associations submit subproject proposals directly to the STU for review.
3. The STU and Municipal Councils in the case of FUMAC-P technically evaluates and approves subprojects and confirms compliance with subproject guidelines before releasing funds.
4. Subproject agreements are signed between the State level units and the community associations (in the case of PAC and FUMAC) or between the STU and Municipal Councils (in the case of FUMAC-P).
5. Resources for subproject implementation are then transferred directly from the project to the

**Results on the Ground**

- Cumulatively, the reformulated NRDP and the RPAP have disbursed a total of approximately $900 million, to more than 50,000 sub projects—69 percent infrastructure, 26 percent productive and 5 percent social. Through June 2002, the combined program had subprojects implemented in over 1,600 municipalities.
- Ninety three (93) percent of the resources reach the communities (compared with 20-40 percent in other
programs with 7 percent being provided for technical assistance and administrative costs.

- The combined programs have benefited approximately 1.7 million families (about 7.5 million people), net of repeat families—those benefiting from more than one sub-project. This represents 53 percent of the total target population for the eight RPAP projects in aggregate, and about 25 percent of all rural families in these states.

- Infrastructure projects are 40 percent cheaper when implemented by the communities.

- The investments have generated 100,000 additional permanent jobs and increased the areas cultivated by 80,000 ha.

- The Program has provided 7,000 communities with water systems, operated and maintained by the communities themselves, with 600,000 families with access to water which is generally of good quality. This has reduced the incidence of water-borne diseases and infant mortality and has increased the time available for income generating activities.

- The sustainability of these investments remains high. About 90 percent of the projects receiving funding between 1995 and 1997 under the Rural Poverty Alleviation Program remain fully operational today.

- Electricity, rural water supply and productive subprojects enabled families to take better advantage of available productive resources than families not participating, increasing the availability of food and consumer goods.

- The subprojects have also brought considerable health benefits to families, allowing them to be more productive, and resulting in significant fiscal savings for states, permitting them to devote those savings to other purposes.

Lessons Learned

Important lessons from the R-NRDP and RPAP include the following:

Decision-making should be decentralized and involve local authorities. Under the earlier Northeast Rural Development Program, excessive bureaucracy—both federal and state—created administrative bottlenecks and obscured accountability for project performance by distancing the beneficiaries from decision-makers. Under the new approach, the decentralization of fiscal and investment decision-making—from federal to state to local governments and ultimately community organizations—ensures efficient program administration and superior outcomes.

Decision-making should be kept transparent at all levels. Transparency was also strengthened by setting clear rules for the composition and modus operandi of councils with 80 percent of members coming from community representatives and local civil society. Transparency was promoted through a system of operational incentives and penalties— incentives for positive performance and penalties against departures from project guidelines.

Communities should be involved in financing and managing investments. Greater participation in the financing of subprojects generates a sense of ownership and a willingness to share responsibility for the operation and management of project investments. Beneficiary participation in the selection, financing, execution, operation and maintenance of project investments ensures that they reflect community needs, generate cost savings, and increase local accountability.

Poverty targeting mechanisms should be simple, explicit and measurable. The targeting mechanisms should be based on objective criteria, foster greater transparency, minimize political interference, and ensure that project resources reach the poorest communities. In the Brazil program, the priority setting carried out by Municipal Councils is the basis for project targeting since the communities themselves, through their majority participation in the councils, determine where project funds should be applied based on their knowledge of local socio-economic conditions and investment needs.

Dissemination of best practices such as experiences with NGOs in Rio Grande do Norte, the State rural extension agency in Ceará, FUMAC Councils in Bahia and Sergipe and FUMAC-P in Pernambuco can hasten learning and reward innovation. In the case of Ceará, the extension agency plays an active role in facilitating the project in the countryside, partnering with the Technical Unit through its local offices, thus decentralizing project support.

Standardization of subproject documents, technical designs and unit costs simplifies the subproject preparation and evaluation process, improves the quality of subprojects and facilitates the procurement of goods and works, prevents over-design and enables participation by poorer communities.

Environmental protection criteria: Experience demonstrates that because of their small scale, most subprojects do not have significant effects on the environment. However, the detailed environmental checklist developed under the RPAP is being maintained and updated under the new follow-on program.
**Technical assistance** enhances the ability of community associations and MCs to identify, prepare and implement sub-projects thereby increasing their capacity to compete for investment funds. This assistance needs to be targeted to weaker municipalities to improve their planning, management and financial capacity to participate in the program. Locating and/or developing sources of technical assistance in rural areas requires significant attention and needs to be monitored at the local level.

**Summary**

A variety of socioeconomic benefits resulting from the RPAP projects are having an impact on individual families and their communities. These benefits fall into four main categories: improved living conditions, improved health conditions, enhanced productivity, increased family income, and the creation of jobs, all considered essential for gradually lifting families out of poverty.

Coffee in Bahia Ensures Income and Better Living Conditions

Piatã is a municipality in the region of Chapada Diamantina, whose topography favors the development of temperate agricultural activities. Traditionally, small farmers in this municipality have cultivated coffee in small plots, typically using family labor. The dependence on manual processing of beans had always led to high losses and poor quality. The alternative, to take the beans to more distant centers that had coffee hullers is too expensive. Many preferred to sell their coffee beans unprocessed, absorbing enormous losses due to the low prices available on the local market.

In view of these difficulties, small farmers organized around the Piatã Coffee Growers’ Association (ASCAMP) and in 1997 they submitted a request to the RPAP (Programa Produzir) for the implementation of a coffee processing unit that now directly benefits 190 families in the region. This unit is operated by the Association, which charges a fee for the maintenance of the small community industry. This fee in only one kilo of the product per bag processed. Before, farmers paid up to 3 kilos per bag to private processors, i.e., a cost 200% higher than now, without counting transportation costs. The waste resulting from hulling, which the processor used to keep, is now used by farmers as organic fertilizer.

The introduction of this small-scale agro-industrial unit has brought other benefits. In 1999 there was an expansion of around 470 hectares, equivalent to 1,200,000 coffee plants. With this expansion, it is estimated that 1,175 direct jobs and 2,350 indirect jobs will be created.

Today the Piatã Coffee Growers Association, besides having its own headquarters and a well-organized accounting system, is producing excellent quality coffee that is sought on the regional market.

**Notes**

1. the project becomes “effective” following signign of the legal agreement and after the government has satisfactorily fulfilled any conditions
2. Project “appraisal” is the final process by which the Bank determines the suitability of a project for Bank financing

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