



LAND RENTAL MARKETS AND LAND ACCESS IN BRAZIL

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The tenancy challenge

DESPITE ITS HUGE SIZE and abundant supply of natural resources, labor and technology, Brazil faces severe agrarian problems. Massively concentrated landownership contrasts with rural workers and smallfarmers demanding access to sufficient land to turn into a productive enterprise.

In theory, alternative forms of land access such as tenancy and sharecropping could reduce, at least partially, the mismatch between supply and demand in land. Yet, despite plenty of unfarmed land in the country, land rentals have not been widely used to facilitate land access for peasants and rural workers. This brief examines the reasons for the weakness in land rental markets in Brazil and offers suggestions for overcoming its related problems.

Conditioning factors

Although found in every region of the country, leased holdings account for only 10.9% of rural establishments in Brazil and are increasingly restricted to the most capitalized producers, who are better equipped to reduce risks and invest in modern technology.

In regions where modern entrepreneurial agriculture is well established (Center-West, South, and Southeast), more than 2.4 million hectares are in leased holdings (see table). The average size of leased holdings varies greatly, from 40 hectares in the South

to 277 hectares in the Center-West. In contrast, in the Northeast region there are more properties (152,929) farmed by tenants than in the other regions combined,

Region	Total		Average size of leased area (ha)
	No. of leased establishments	Leased area (ha)	
South	65,519	2,662,826	40.64
Southeast	37,397	2,439,582	65.23
Center-West	9,381	2,606,536	277.85
Northeast	152,929	789,912	5.17
North	3,065	150,126	48.98

Source: Farm Census (Censo Agropecuário do Brasil, 1995-6).

and yet the average size of the leased area is just over 5 hectares.

Local institutions, historical patterns of land use and social relations, landownership distribution, rural poverty, and the level of development of local markets all are factors that shape regional differences in leasing contracts. Due to these regional factors, capitalist tenancy is concentrated in the South, Southeast and part of the Center-West regions, whereas small tenants and subsistence farming tends to be concentrated in the Northeast and North regions.

The basic hypothesis to explain the lack of strong land rental markets is that the institutional framework creates obstacles to the functioning of the rental market, especially when it comes to contracts involving poor agriculture producers. Many landowners are deterred by the perceived risks associated with contracts underpinned by weak guarantees. One risk they face is that land occupied by a tenant farmer could be subject to compulsory purchase by the federal government for inclusion in a land reform program. Another risk is that tenants with little or no access to markets for inputs, services and, above all, credit are more likely to be late with rental payments or to default altogether.

In Brazil, land access through the land rental market is difficult for peasants, smallholders and rural workers. Some of the problems are intrinsic to the contract itself, such as duration, form of payment, the availability of information, and tenant selection. Also, tenant farmers' access to input, credit and service markets is problematic.

Not all problems associated with designing and enforcing tenancy contracts are market oriented, however. Socioeconomic, political, cultural and institutional reasons also work against the land rental market. The main factors that determine the land rental market in Brazil are the following.

Land statute. The 1964 Land Statute established that the duration of land rental contracts depends essentially on the type of farming activity and the physical condition of the land, setting upper and lower time limits. The aim was to protect tenant farmers by assuring a minimum time span in which they could work the land and reap the benefits of their investment. The justification for imposing a maximum time limit was to enforce property rights by guaranteeing the landowner's right to repossess the land at the end of the lease.

Legislation that sets prices and forms of payment for farm tenancy is not enough to protect legal rights,

however. The existence of a significant number of informal contracts, especially in the Northeast region, shows that the law is far from universally obeyed. Landowners can easily flout the law and simply impose the terms they deem appropriate, subjecting small tenant farmers to unfavorable productive conditions.

Short-term contracts combined with high transactions costs can create obstacles to the practice of rational and economically sustainable farming on rented land. Therefore, the logic followed by farmers tends to be predatory: they maximize the revenue they produce as intensively as they can while spending as little as possible maintaining the land and assets or the quality of crop. Landowners are well aware of this attitude on the part of some farmers, and this can be a major obstacle to land rental contracts.

The property tax on rural land has always been symbolic and never used as a policy instrument to promote better land distribution, energize the market, or facilitate access to land. As a legal instrument, it can be as much an obstacle as an incentive to the development of the land rental market. The lack of an efficient tax system in Brazil enables landowners to hold vast idle or underutilized areas thanks to low maintenance costs.

A progressive tax penalizing land that is barely used or kept unproductive could oblige landowners to give up holding property as a store of value and sell it or rent it out to landless farmers or *minifundistas* (small rural landowners) holding tiny plots of land, thus, increasing productive land use.

Political and social factors. Political factors in all spheres of the federation interfere with the dynamics of the land rental market. This is particularly clear where the absence of transparent rules that standardize rights and obligations creates negative expectations for both parties when entering into a contract. Landowners especially lack incentives for entering into contracts. Coupled with the lack of penalties for holding land idle, these sources of insecurity create a situation in which there is no motivation to lease out land.

Social movements that agitate for land access also contribute to this insecure institutional environment. Landowners fear having their land declared unproductive and therefore eligible for land reform programs. Social movements that lobby for land access have an interest in obtaining such declarations, which are a prerequisite for compulsory purchase under the land reform legislation.

Small landless or *minifundista* farmers match the profile of potential beneficiaries of a possible land distribution policy, and this too can lead landowners to refrain from leasing their land. Influenced by widespread comments about the possibility of expropriatory land reform programs in their vicinity, landowners prefer not to lease out land due to the fear of losing it to compulsory purchase and settlement for the purposes of a land reform program. Estimated rents from the leasing of land do not offset institutional risks in contracting with smallfarmers and landless rural workers.

Characteristics of landless

farmers: Lack of access to land constitutes a major obstacle for small tenant farmers in seeking farm loans, either because they cannot provide the collateral required by banks or because they lack support from landowners. The only way to finance production in the absence of working capital or bank loans is through informal credit via a cooperative or by borrowing from other farmers. Limited access to the market for inputs and the absence or inefficiency of technical assistance and infrastructure only exacerbates the difficulties faced by these producers.

Contracts and their predictable outcomes are also affected by farmers' qualifications and income levels. Higher-income tenants tend to enjoy better access to credit and input markets, and are therefore better placed to invest in modern technology. Conversely, poor peasants and less well-off farmers face severe barriers to credit and markets. For this reason, they tend to be rejected as prospective tenants by the few landowners willing to lease out land. Because some tenants are better qualified, experienced, and enterprising, landowners may even compete among themselves for these better tenants.

Municipal land rental programs

The main aim of the municipal programs at the time of their conception was to foster the establishment of land rental contracts between landowners and small or landless farmers interested in expanding production,



and to provide legal and organizational assistance to facilitate land rental. The expected benefits included the promotion of rational economic land use and local wealth, diversification of productive activities, creation of new jobs, growth of other economic segments, such as commerce, industry and services, and growth of tax revenue.

The nation was also expected to benefit from the intensification of land use in areas with an abundance of arable land and suitable conditions for market production, increased farm output for domestic consumption and exportable surpluses, and reduced rural exodus. However well considered the initiatives are, they have not achieved their goals. In Brazil, municipal administrations do not manage to use either the incentives or the coercive instruments required to induce landowners and landless farmers to negotiate under equal conditions leading to mutually profitable contracts.

Conclusions

The country's institutional framework, as exemplified by current legislation, property rights and contracts, interferes negatively in the development of a land rental market, particularly when contracting between landowners and poorer producers is involved. Land rental contracts, albeit regulated by the land laws in such a way as to satisfy the interests of both parties, seem to be more an obstacle than a solution. Field surveys suggest the law is not enforced most of the



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time. Contracts are usually of short duration and drawn up in terms that meet the interests of landowners, rarely taking into account the tenant's interest in gaining tenure security.

Smallfarmers exploiting or working on leased land have no incentives, let alone the conditions, to make the investment required to raise productivity and reduce their risks. They face restrictions on access to credit and markets in general, and they tend to consider tenancy a highly transitory situation rather than a solution to lack of land. Under such conditions, and because of factors such as limited access to markets, little capital, and lack of qualifications, small tenant farmers are almost condemned to perform poorly in terms of producing a marketable surplus and obtaining sufficient income to pay the rent for the land they use.

Municipal land rental programs were thought to offer solutions to problems of underutilized and idle land, leading to the regeneration of degraded pasture and a reduction of land conflicts. Yet an analysis of the experience of these programs shows that the proposed aims have not been achieved at all or have met with only limited success in most of the cases studied.

Even in cases considered successful, the programs have not proved sustainable, falling into decadence or disappearing without trace after a few years. One reason for failure is that the programs neither interested landowners nor provided conditions for small tenant farmers to operate profitably on leased land.

A fundamental condition exists for a land rental market in Brazil: there is plenty of underutilized or idle land available, and there are many rural workers who lack land of their own. Yet, to function dynamically and involve small producers, there must be an institutional framework capable of not only assuring the viability of tenancy contracts but also making them attractive. As we have illustrated, the outlook for positive change in this area does not seem promising.

A key and perhaps the most important issue is land tenure security. Many landowners still view leasing land to small producers or landless laborers as a way to exploit the weak and poor, which shows that the land in question is not being put to productive use by the owner. Such landowners are reluctant to enter into rental contracts because this would place their property at risk of being confiscated by the government and/or being occupied by social movements. Nor do peasant leagues and associations that represent landless workers and small producers seem to accept tenancy as a solution to the lack of accessible land.

Until ways are found to solve the problem of land tenure insecurity and win the acceptance of the beneficiaries themselves, small-scale farming on leased land is unlikely to flourish even though land rental markets could be an attractive and viable option that could contribute to solving the land problem in Brazil.



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