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EL SALVADOR

AGRARIAN REFORM SECTOR

STRATEGY PAPER

USAID/EL SALVADOR
JULY 21, 1980

P R O L O G U E

"Till Tillie Toiler

Takes Her Title,

Tillie Toiler

Still Untitled Tills

\- Author Unknown, May, 1980

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INTRODUCTION AND EXECUTIVE SUMMARY

A. Introduction

On May 6, 1980 the DAEC reviewed and approved the Agrarian Reform Sector PID. Because of concerns raised over (A) the PID's incomplete description of the overall reform program, (B) the relationship between campesino owned enterprise and land-to-the-tiller components, and (C) the proposed AID development strategy in the sector, the Mission was requested to submit a brief supplemental report.

This document is in reply to that request. The Mission found that trying to answer AID/W's questions was a difficult task; to answer them in a brief report we found impossible. In the process the brief supplemental report was converted into an Agrarian Reform Sector Strategy Statement.

The Mission is submitting this strategy statement to AID/W as an amendment to its 1977 Agricultural Sector Assessment. That assessment, of course, did not deal with the present agrarian reform process, which has since March 6, 1980 become the focal point of USAID/El Salvador's program. Similarly, because of the fast-breaking events in El Salvador no review of the USAID/ES Country Development Strategy Statement, 1982-1982, was held last spring. Our CDSS did not deal with the reform process. It is hoped that the present document will at least partially satisfy the need that the CDSS could not.

USAID/ES hopes that the analysis and recommendations contained in this document will form an adequate basis for the approval of a five-year Agrarian Reform Sector Program Strategy for El Salvador and that it will be convincing enough to induce a significant shift in A.I.D.'s and indeed the U.S. Government's. foreign assistance strategy in El Salvador.

B. Executive Summary

In pre-reform El Salvador, the land tenure system constituted a serious obstacle to equitable development. El Salvador's reform, which already has affected 27% of the country's farmland, and which when fully implemented will affect over 50% of it, has opened up new opportunities to improve land use in order to expand production, rural employment and incomes. A successful agrarian reform may buy El Salvador the time it needs, perhaps a decade or two, to slow its population growth, invest in its human beings, and to develop a viable, efficient industrial sector. El Salvador must solve these even more fundamental problems.

Serious constraints still exist to making El Salvador's reform a successful one, the most fundamental being financial. The costs of implementing the reform, both financial and from a foreign exchange point of view, are substantial, around one billion dollars over the next five years. There is no possibility of financing any significant part of the cost of reform implementation with internal resources without driving the country into hyperinflation. The need for foreign exchange to finance the reform, reactivate the economy, and reestablish El Salvador's international credit rating are between $350 and $400 million dollars over the next two years. And finally El Salvador's external debt service ratio is so low that if the risk that commercial lenders perceive about El Salvador's future could be overcome, the GOES could borrow around $2.0 billion commercially over the next five years in order to rebuild its economy without its debt service exceeding 20% of exports.

Implementation of the Salvadoran reform is also facing significant institutional capacity constraints, and is also experiencing problems in the policy and procedures area. With regard to the latter, USAID/ES has quietly, but deliberately, worked to open up channels to trust with GOES policy makers, in order that effective dialog on policy issues can take place between GOES and AID officials. The GOES requested that AID supply significant technical and financial assistance to help in formulating reform procedures and to alleviate the institutional constraints.

AID should enthusiastically support all phases of the reform by supporting El Salvador's initiatives to increase production income and employment, to establish beneficiary rights and responsibilities, to establish viable, self-sufficient, and participatory farm businesses, and to invest in its poor human beings, conserve its natural resources, and lower its population growth rate. There is also an important need to reactivate El Salvador's industry and commerce and to reestablish the confidence of the private sector.

To achieve these objectives USAID/ES is proposing that over the next five years AID make available to El Salvador a total of $425 million in bilateral assistance, or an annual assistance level averaging $85 million, of which some $50.0 million would be used to finance reform activities. The balance would be used for complementary social service and employment creating programs in both the urban and rural sectors. Because of the tremendous foreign exchange gap and because macro-economic needs will not coincide with the logic of projectized assistance, the Mission is proposing that all USAID/ES activities, except population be funded by a combination of ESF and PL 480 resources.

To complement the above and to turn El Salvador's low external debt service ratio into a positive asset, the Mission is proposing a new foreign assistance instrument--an AID Commercial Lending Guarantee Program for El Salvador. Concretely, it is proposed that legislation be introduced to permit AID acting on behalf of the USG, to guarantee up to $400 million of new external debt which is either incurred or guaranteed by the GOES during FY 1981 and FY 1982.

The USG should, of course, continue to prod the multilateral banks to take a more active posture in [redacted] Salvador, but if they do not have the appropriate mechanisms or the will to do so AID must do the job.

The Salvadoran reality includes a damaged economy, grinding poverty, civil disorder, massive unemployment, violence and the threat of violence. It includes a private sector that is increasingly accepting reform, and is now willing to work; it however, also lacks resources.

The Salvadoran reality is now also characterized, however, by a new hope in the countryside—albeit mingled with fear and insecurity; by a new work mystique among ISTA and MAG field staff, by tears in the eyes of old colonos as they witness the formal installation of their association's new Junta Directiva; by a fierce determination on the part of many campesinos to work to make a reform that is increasingly theirs a reality; and, finally by a small, but growing group of noble Salvadorans who, even though they could fly to Miami or Costa Rica when their lives are threatened, continue to work fourteen hours a day, seven days a week to make El Salvador work again, to make their reform a reality, and to make their country a freer one and keep it that way.

It is for the latter reality, as well as the United States' own self-interest that El Salvador's agrarian reform merits AID's full support with appropriate funding instruments and levels to do the job. If others will not, or can not help, then we must do the job alone. If we do not, or allow our institutional inertia to get in the way, then El Salvador could become a major U.S. foreign policy disaster. We helped rebuild a war-torn Europe after World War II. Surely we have the ability and capacity to make available appropriate levels of effective assistance to El Salvador today.

I. The IMPORTANCE OF AGRARIAN REFORM FOR EL SALVADOR'S DEVELOPMENT

A. The Pre-Reform Agricultural Sector

Approximately 1,450,000 hectares (70%) of El Salvador's total land area of 2,098,000 hectares is in farms. Of the farmland about 662,000 hectares are in crops, 553,000 in pastures, and the balance in mountains, woods, and other uses. Except for urban land, non-farm land is primarily mountainous, some forests still remain.

The national population is approximately 4,500,000 of which about 2,700,000 people (60%) are rural. Thus the available farm land, including marginal land, is approximately two-thirds of a hectare per rural inhabitant; considering only crop land, there is less than a quarter hectare.

For El Salvador's rural poor, about 2.1 million people, limited access to land, small farm sizes, insecure and costly tenure, and poor land quality, constitute important strands in the web which have kept them in poverty.

Close to 740,000 people, about 35% of El Salvador's rural poor, depend exclusively on the wages of agricultural labor. Most, when employed, earn less than the official minimum daily wage of ₡8.16. 1/ About 83% of El Salvador's farms are too small to provide the families who work them with sufficient income to rise them above the absolute poverty level (even when off-farm income is counted). 2/

In 1971, 70.7% of the nation's farms were smaller than 2.0 Has. and 86.7%, smaller than 5.0 Has. Small size, moreover, was compounded by the predominance of tenure forms other than simple ownership, especially among smaller farms (see Table 1). Land rental was the most common non-ownership tenure form in 1971. Colonia, a system under which large land owners let farm workers living on the land to grow what was usually a small subsistence plot in exchange for services and/or a share of the crop, was still an import- c tenure form in 1971 (6.3% of farms) but was even then less important an in 1961. 3/

1/ ₡8.16 at the official exchange rate of 2.5 equals $3.25; at the "free" market rate of 3.3, the equivalent of $2.47. A small percentage of organized farm workers earn up to ₡11.

2/ USAID/El Salvador, Agricultural Sector Assessment, pp. 45 and 50. Absolute poverty level is defined as per capita incomes below $150 (1969 dollars)

3/ In the 1961 Census, Colonia was the tenure form for 24.6% of farms. Other forms such as free use and simple rental have apparently increased at the expense of Colonia. A recent study indicates, however, that labor obligations are still a factor in the tenure of some 60% of rented farms and that share-cropping also continues to be important.

According to the census, simple renting, alone, or in combination with an owned plot, was in 1971 the most common tenure form for farms smaller than 5.0 Has. 1/ Maximum rents were regulated by decree and the conditions of lease by law.2/ A March, 1978 decree, for example, fixed rents for Class II and III land at $86/Ha. for eight month's use, rice land rent averaged around $71/Ha.

That small farmers paid such high rents for often poor land is an indication of overall land [illegible]. Land purchase prices were correspondingly high and long-[illegible] credit for land purchase was not available. Purchase thus was not usually an alternative to renting for the poor.

Land Ownership as a Function of Farm Size

Size of Holding (has.)	Percentage of Farm Units Completely Owned
Less than 2.0	24.9
2.0 to 4.9	53.2
Over 5.0	79.5
All farms	39.9

SOURCE: Derived from 1971 Agricultural Census

Land distribution in El Salvador was quite skewed. In 1971 the agricultural census indicated that the 19741 farms larger than 100 Has. (0.7% of all farms) had an area of 409,462 Has.3/ (28.2% of all farm lands); at the other end of the spectrum, farms under 2 Has., numbered 191,527 (70.7% of all farms) and had 151,326 Has. (10.4% of farm area). Similarly, the 202 farms over 500 Has. (0.7% of all farms) had an extension of 218,641 Has., an area greater than that of the 216,874 farms under 3 Has. (over 80% of farms) which only had 212,571 Has. A factor which aggravated the situation that larger farms contain most of the country's well watered, more fertile, and flatter lands; smaller farms tend to be in hills, marginal areas.

1/ A censal definition problem may exist here because a recent sample study in the oriente indicates that only about 20% paid cash rent.

2/ The provisions of that law require, for example, that a written three-year automatically renewable lease be executed. The law is widely ignored.

3/ Holdings, as opposed to farms, over 100 has., are estimated at approximately 525,000 has., or 36.2% of the farm land.

The skewed distribution of ownership1/ also contributed to the underutilization of scarce crop land and soil degradation. Although in El Salvador the area in crops is roughly the same as that which is suitable for crop production, there exists an estimated 150,000 has., now mostly in pasture or in fallow on larger farms, which is apt for crop production. A corollary is that there exist some 150,000 has. in crops on smaller farms which are not apt for cropping. Over 80% of the land on farms smaller than 5 has. is cropped, while farms larger than 100 has. only crop about 40%. Both idle lands and natural pasture make up much greater percentages of larger farms than of smaller farms.

The land tenure situation in El Salvador has adversely affected the well-being and incomes of the rural poor and has frustrated efforts, both their own and those of others (including the GOES and USAID), to improve their situation. A few examples:

-- Land rental charges in the $70-80/ha. range have a serious adverse impact on the incomes and capitalization of small land renters.2/ A $140-160 rent for a two-hectare plot is considerable compared to the $600-$700 of net farm income from that plot if planted to corn and beans.

-- Small farms can not absorb available family labor. The USAID/El Salvador Agricultural Sector Assessment points out that high structural (and not only seasonal) labor underutilization occurs on farms smaller than 10 has. and that the smaller farms are, the greater the underutilization. According to an ILO study cited in the USAID Assessment, El Salvador has the highest rural labor underutilization in Latin America, 47%.

-- Insecure tenure and land renting are obstacles to capitalizing the small farm. Although permanent and specialty crops offer a much higher return per hectare than do the traditional basic grains, the larger investment generally involved in establishing them cannot be justified if tenure is insecure, even if a small producer could afford to pull land out of production on an already small farm until permanent crops generate income.

1/ Distribution in Salvador was not that skewed, relatively speaking. The Gini coefficient in 1950 was .83. Panama (.73), Nicaragua (.74), Honduras (.76), the Dominican Republic (.80), and Uruguay (.82) had more equal land distributions than El Salvador in 1950. Brasil (.84), Columbia (.85), Argentina (.86), Ecuador (.86), Guatemala (.87), Perú (.87), Costa Rica (.90), Venezuela (.91), Chile (.94) and Bolivia (.94) had more unequal land distributions in that year (M. Seligson, 1980, quoting Russet, et al., 1964).

2/ Land rentals are, however, probably a short-run spur to higher output and land utilization. On the other hand, a skewed land distribution and tenure insecurity leads to artificially high rents and short-run over-utilization. Because the renter is forced to become a short-term maximizer, over-utilization results in erosion and resource degradation and in the long-run, lower output.

-- Numerous attempts to extend credit, technical assistance, or public services to a larger percentage of farms have been frustrated by small farm size or tenure relationships. Servicing larger farms with services related to production is generally institutionally more cost-effective than servicing smaller ones. Tenancy may also pose other problems. For example, on many of the large _haciendas_ in El Salvador which have resident tenants, public services such as electricity, potable water, schools, and clinics have not been extended. On those having concentrations of large tenant populations, these services could have been provided in a cost-effective manner. Often the state did not provide them because their provision was seen as the responsibility of the _patron_ whose property was improved.1/

-- Extension efforts to encourage soil conservation or the planting of permanent crops on rented hillsides for conservation reasons were often frustrated.2/

In short, access to land, farm size, insecure or costly tenure, and the quality of the land constitute an inter-related set of factors and incentive system which have helped to keep the rural poor in their poverty. Because of the property relationships of the poor to the land, the "capitalization" of the poor, both financially, physically, and from a human capital point of view has been inhibited. In addition, environmentally unsound land use was fostered.

B. The Reform's Development Potential

Land reform has opened up new opportunities to improve land use in El Salvador in order to expand production, rural employment, and incomes. Good, tillable land, either unutilized or marginally utilized for pasture because of the tenure system, can now be cropped. Similarly, there is also much land too steep for efficient production of annual crops (though some is used for them) that would be better suited for coffee and other tree crops. There are also opportunities to improve the use of land through irrigation and other land improvement programs. Agrarian reform, therefore, will involve more than taking over existing production; it will be an opportunity to intensify the use of land, increase the national product and incomes of small farmers, and expand employment opportunities.

1/ Tax incentives did exist to make such investments.

2/ Some owners did enforce certain conservation practices on the land they rented out. A common prohibition was against burning.

Agrarian reform holds these promises because the land tenure system has posed a considerable obstacle to eliminating absolute poverty in El Salvador (and often in developing projects it was not adequately considered). It is possible, however, to exaggerate the importance of the tenure system in relation to other, and perhaps even more fundamental, factors contributing to rural poverty. Among others these are: 1) a high rate of growth in the rural labor supply, 2) little slack in the supply of non-labor agricultural resources, 3) limited good employment opportunities in other sectors; and 4) the low level of investment in rural human beings. Land reform is not a panacea nor will it resolve once and for all the problems of the rural poor in El Salvador. In order to realize the development potential of the land reform, it must be well implemented, supporting services have to be efficiently provided, sound policies adopted, proper incentive structures developed, adequate capital must be provided, and collateral social investment realized. The foregoing require the reestablishment of civil order. Perhaps the most important factor in the reform's success will be the human factor. Human skill, vigor, effort, ability, organization, and management will be the key.

A successful agrarian reform may buy El Salvador the time it requires to slow its population growth, to invest in its human beings, and to develop a viable, efficient industrial sector. During the time bought, perhaps ten or twenty years, El Salvador must resolve these fundamental problems. Doing so may enable it to step back from the brink of the almost Malthusian cataclysm on which it is tottering.

II. El SALVADOR's AGRARIAN REFORM PROGRAM

A. Earlier Efforts at Reform

The Government of El Salvador has long been aware of land tenure as a social and political issue. An agrarian reform agency was established in 1932 in the aftermath of a large-scale campesino revolt whose suppresion resulted in a very large number of campesino deaths. The agency has since gone through several changes of name, organizational structure, and operational methods. The present organization, created on June 6, 1975 is called the Salvadoran Institute of Agrarian Transformation (ISTA). ISTA's general objectives are to raise the social and economic level of the small farmer through the provision of land, technical assistance, credit and other beenfits as well as to increase agricultural production and productivity in general. USAID/ES attempted in the middle 1970's to develop a project to support the newly created ISTA in its land acquisition and settlement program. ISTA's predecessors had acquired 67,711 hectares of land, 80% of which was adjudicated to 10,700 families over a period of 43 years. In 1976 when ISTA announced that it planned to expropriate some 56,000 Has. of good land in the Usulután area, resistance developed and the GOES legislature curtailed ISTA's legal expropriation powers for the project. AID at that point stopped actively "pushing" an agrarian reform program but continued to be alert to possible forms of supporting a reform effort. ISTA, on the other hand, continued to acquire properties through voluntary sales and by June of 1979 it had acquired nearly 14,250 has. From 1932 through June of 1979 ISTA and it's predecessor agencies had acquired 82,165 has. of land of which 61,650 has. was distributed to 14,563 beneficiaries.

B. The Reform's Dimension

On March 5, 1980 the GOES with its Decree 153, Basic Agrarian Reform Law (Annex II-A), initiated El Salvador's agrarian reform, and less than two months later, it can already be classed as among the most fundamental reforms ever to be undertaken. 1/ The law decrees affected all land holdings used for agriculture, livestock, and forestry which exceed the ceilings of 100 hectares of lands classed as I, II, III, or IV, and 150 hectares on lands classed as V, VI, or VII. All land apt only for forestry (class VIII) are affected.2/ In addition, holdings under the ceilings can be affected if any one of the following five criteria is not met:

1. land is worked directly by its owner;
2. minimum productivity levels are maintained;
3. state agricultural plans are followed:
4. soils, water, and other renewable natural resources are appropriately managed, conserved, and protected; and
5. labor and social security law are complied with.

The law states that criteria 1, 3 and 4 will be regulated by implementing regulations. Criterion 1 was amplified by Decree 207, the so-called "Land to the Tiller" law, which is further discussed below.

The basic law further provides the authority and general procedures to be used in expropriating land, makes compensation provisions for assigning the properties to campesino groups. The campesino organizations to which the land is assigned must be constituted exclusively of landless campesinos be they salaried, renters, sub-renters, share-croppers, colonos or campesinos possessing an amount of land that is insufficient to meet their basic needs. Preference is to be given to those who have worked on the acquired lands for at least one year as

1/ Around 27% of the country's farm land has been affected to date; with the completion of Phase II, over 50% will be affected.

2/ Land classes are the same as those used by the USDA Soil Conservation Service.

renters, colonos, share-croppers or in other dependent forms. In special cases lands can be assigned to family or solidarity (jointly and severally liable) groups. The lands acquired are to be administered jointly (co-gestion) by the State and these campesino groups, with the co-gestion system lasting until the new groups are trained to administer them.

The income generated by the properties is to be distributed in the following order of priority:

1. Payment of production costs;
2. Satisfaction of basic needs of beneficiary family groups;
3. Payment of the ISTA's "agrarian debt".

Any surpluses are the subject of special treatment in order that they may be justly distributed within the affected zone with attention to the interests of the national economy and in order to:

1. Create a reasonable margin of savings for all the beneficiaries in the affected zone;
2. Develop social programs for the community; and
3. Develop other types of productive projects.

With regard to beneficiary rights and responsibilities, it is also important to focus on what the law does not state. The law, for example, does not provide for ownership of the land by the campesino enterprise. Similarly, the law does not state who determines how the distribution of enterprise income is to be made.

The above questions and many others will have to be sorted out later, either by legal modifications, by implementing regulations which are still being formulated, through practice and precedent, or by local decision. Had the GOES waited to work out these details, the agrarian reform would probably not have taken place, or alternatively, would now be so bogged down with rules and regulations as to be hopelessly hamstrung. To say that agrarian reform is a dynamic process is perhaps a cliché but that does not make it any less true. For example, the GOES during one week in May issued three decrees dealing with the reform, No. 220, No. 221, and No. 222.1/ These decrees, respectively, deal with bonds for compensation, the forming of campesino groups, and technical modifications to the basic law. Similarly, commissions have been formed to attempt to plan implementation of the Land-to-the-Tiller decree (No. 207)2/, to draft a new comprehensive law, and to attempt to correct errors and perfect systems.

1/ Annexes II.D, II.E., and II.F, respectively.
2/ Annex II.C

In this process of reform implementation forces both inside and outside of the GOES are attempting to influence outcomes. Some, acting on the basis of their ideological pre-conceptions or the experiences of other reforms, are pushing for their ideals; others are defending their self-interests of those of their institutions or group; still others are trying to perpetuate a legal system that has evolved over centuries. Some have unknown or undisclosed agendas, and many are reacting to the situation as they perceive it. The actions of all, including those of GOES institutions, are tempered by the Salvadoran reality which includes civil strife and disorder, a lack of resources, a depressed economy, a certain amount of personal risk, institutional inertia, insufficient communication with field levels, the agricultural calendar, and the decisions already taken.

B. Phase I

On March 6, 1980, based on Decree 154, ISTA, leading 800 agricultural sector technicians and backed by the millitary, intervened 279 holdings believed to exceed 500 has. Presently, ISTA has 238 of these properties, having an area of 251,000 has.1/ The exact number of beneficiaries is not known but is estimated at 62,000 families (372,000 persons).

To date, ISTA's principal objective on the Phase I farms has been to minimize disruptions to the productive process and to keep the campesinos on them working - a very reasonable short-run objective given the increasing levels of civil disturbance and the state of the economy, but one which could have long-run prejudicial consequences should campesinos become accustomed to year-round work regardless of the productive processes' labor requirements.

The area intervened under Phase I constitutes some 14% of El Salvador's farm land and is estimated to contain around 14% of the country's coffee hectarage, 31% of cotton, 24% of sugar cane, 38% of rice, 13% of corn, 5.2 of sorghum, and 7% of beans. These lands then are important producers of export crops but grow only a small percentage of the basic grains. With some possible exceptions in strifetorn areas, hacienda operations are proceeding relatively normally, and on most production is being maintained. USAID staff members have visited some farms on which some new areas had been planted, especially to corn.

To date, an important factor in maintaining in operation the Phase I haciendas has been overdrafts by ISTA on the Banco de Fomento Agropecuario (BFA) of at least $15.0 million and a similar amount of in-kind production credit. Reports have reached USAID that administrative

1/ Principally because many transactions had not been registered, but also because of technical cadaster problems, 68 properties having 16,200 has. had less than 500 has. or were zoned urban and should not have been intervened. Thirty-three of these properties were returned immediately and eight later. Thus, 37 of the properties now held are under 500 has. Decree 256 of May 25 authorizes their purchase in accordance with phase II terms (25% cash). An unknown number of holding over 500 has. perhaps 12, were not taken in areas where the cadaster was incomplete and in "liberated" areas. These will be taken in 1981.

controls on these funds are inadequate, and moreover, no decision has been made as to who will amortize these overdrafts and how.1/

It is not clear how important the MAG-ISTA presence has been in maintaining orderly operations of the farms, nor, on the other hand, how important a factor the presence of many of the farms' old managers has been. Because many of the MAG technicians have now been withdrawn - and one ISTA technician will stay on each farm - it may soon be possible to arrive at a conclusion. To minimize the effects of this transition, new managers are being hired to replace those dismissed by the campesinos on some farms.2/ These changes are being made to enable the MAG to perform its ordinary functions and in order to prepare for Decree 207 implementation and Phase II.

In spite of some of the problems encountered in Phase I, to date, it must be qualified as a success. In fact, it is surprising that given the turmoil in the countryside problems have not been more serious. It is too early to judge how the reform farms will do with cotton, perhaps the most technified crop in the sector, because planting is normally from the middle of June to the end of July.3/

C. Phase II

Conversations with GOES officials indicate that Phase II, the acquisition of farms between 100 and 500 hectares, will not proceed in the same manner as in Phase I which stretched the operational capacity of ISTA and other MAG entities to their limits. It is clear that the intervention of perhaps ten times the number of farms than in Phase I could not be managed by the sector and that the basic law calls for a different acquisition procedure. The timing and mechanisms for Phase II

1/ Potentially, amortization of these advances constitutes a very serious problem. Many expenditures were incurred that were really of a farm improvement type, e.g., paying ex-colonos to fix fences, paint trees, and improve roads. These types of expenditures are not properly charged against this year's production and should therefore not be transferred to the new annual crop credit lines to which they may be passed. A possible solution: separate these expenditures from this year's annual crop credit and incorporate them into the costs of property acquisition (i.e. into the long-term agrarian debt).

2/ The "new" managers being hired are in fact mostly "old" managers from other farms. What is developing appears to be a manager "recycling" system. Because most phase I farms were owned by absentee owners, the "recycling" of these managers is doubly important. They were key in making the farms function and constitute an important pool of management talent. A caveat must be added here. They were after all "fired" by the campesinos. They may require considerable "reeducation" because the class of people who they formerly told what to do will now be their bosses (and as managers of the farms, they will now have to organize the work of their new bosses).

3/ As of the middle of July, cotton production is estimated at 70 to 80% of 1979, with most problems being in phase II farms.

are now under discussion at high levels in the GOES, but they are still to be defined. One model that is being developed is the operation of Phase II by regions over a specified period which would permit a more orderly, logistically more simple process and which might give a certain security to the operators of farms not yet intervened.

The problem of the insecurity of the owners of farms in the 100-500 has. range is a serious one. These farms, which comprise about 340,000 has., about 23% of Salvador's farm land and are the backbone of the export economy. The insecurity of their owners may result in post-poned planting, decapitalization of the farms, etc. The GOES has attempt-ed to assure these owners that intervention has ended for this year and strong incentives do exist for planting. First, the basic law grants a 20% larger reserve to those owners who do not decapitalize and maintain production, as well as, 100% cash compensation for improvements made after March 6; and second, there is always the possibility of expropria-tion if lands are left idle.1/

Some GOES officials point out that Phase II is already starting in that numerous offers to sell have been received from Phase II owners and because the 37 farms under 500 has., mistakenly taken under Phase I, are being acquired.2/

here are probably many, including the landowners, who wish that Phase II would go away, especially because the GOES has stopped the intervention process and has not yet arrived at a firm plan for its resumption. The Mission considers it probable, however, that Phase II will take place if the present government stays in power, and highly probable that Phase II will not take place like Phase I, with massive interventions. In any case, maintaining reasonable levels of production and exports requires that Phase II owners understand the rules of the game. At present, they do not seem to.

D. Decree 207

Decree 207, the so-called Land to the Tiller law, expropriated all lands that are not directly exploited, i.e., through renter, share-cropper and time purchase agreements. This decree will benefit approxi-mately 160,000 farm families working perhaps some 200,000 has. This law unlike Decree 153 provides for the transfer of property rights of up to seven hectares to those who worked the land in 1978. The procedures for making these rights effective have yet to be established.

1/ AID officials have heard that unplanted cotton lands will be expropriated after July 30. If this were done, it would be possible to plant at least a corn crop on these lands (the postrera) this year.

2/ Farms being voluntarily sold are being turned over to democratic farmer unions such as UCS.
Some seventeen phase II farms have allready been voluntarily turned over by their owners (with ISTA concurrence, but not purchase) by democratic farmer unions such as UCS, ACOPAI, etc. Many are in "hot" zones and perhaps 20 more of such offers to sell have been made to ISTA.

Decree 207 is a radical departure from past experience, and was imposed on an unsuspecting bureaucracy and an unknown number of land owners. It is meeting with a great deal of resistance, in part, because of certain technical flaws. For example, the decree appears to lock the actual pattern of land holdings in place for the next thirty years because it forbids sale or rental of the newly acquired parcels during that period not even with ISTA permission. Yet, many campesinos are renting very small parcels from various landlords (due to past hesitancy to rent more than a very small parcel to any one campesino), and a land consolidation program could prove highly desirable. Although the facts are perhaps exagerated by the law's opponents, campesinos do rent land from one another, from family, and from otherwise incomeless widows and orphans.1/ Similarly, the law charges ISTA with its execution even though ISTA's capability to implement what it is now charged with, not to mention Phase II, is far in excess of its capabilities.

Because of ISTA's strained capabilities, the GOES ordered ISTA to take no steps towards implementing the law but did name a committee to plan for 207 implementation not using ISTA. It also commissioned a legal drafting effort to integrate the reform's separate laws into one. The "integral" reform law has now been drafted and is being studied by high GOES officials.2/ The ISTA institutional overload and the legal drafting exercise have caused significant and damaging delays in Decree 207's implementation. The decree's implementing regulations have yet

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1/ Some other technical problems: What happens to fallow areas (which were perhaps not rented) in what has evolved from a slash and burn system? How does the GOES collect the land amortization payments when studies show that only about 25% of the "renters" paid cash rents, others sharecropped (around 30%) and/or exchanged their labor services for the land and only 25% marketed their surpluses?

Some 40% of the "rental" arrangements involve a labor service obligation of some type and almost all work for the owners and are paid cash for that. Will those "renters" risk unemployment to claim their rights under Decree #207 given high unemployment levels and the fact that most of their income is not from their plots?

2/ Although the proposed law is reported to have certain good points in relation to the campesino organizations, it would significantly reduce the area affected by phase II, and reportly would "gut" Decree 207, by means of various dispositions, which when taken together, would reduce the number of 207 beneficiaries significantly, perhaps even down to 20,000. Aside from the 207 "gutting", the draft law reportedly would require a lot of further work to improve on the present legislation; it is unlikely to be approved by the Junta, which did pass the original decrees, without significant modification.

to be issued and detailed implementation planning is still required. There is little doubt that these delays and proposed legal modifications constituted a concerted effort on the part of certain high level GOES officials to emasculate Decree #207 by reducing its coverage. Fortunately, that effort has not been successful.

On July 11, 1980 the Junta Revolucionaria de Gobierno issued clear and unequivocable instructions to the MAG to proceed as quickly as possible with full scale implementation of the original law's concepts and it rejected alternative proposals to scale down Land to the Tiller's coverage. The JRG did agree that ISTA should not be the implementing entity and instead accepted a MAG suggestion that the extenion service, CENTA, the community development entity, DIDECO and the now functionless Inspectorías Agrarias team up for the field effort to implement Decree #207. The mortgage banking function would be handled by a new institution which would acquire the assets of COFINTA, a now obselete institution that had been charged with financing land parceling. COFINTA has several highly qualified employees, \$4.0 million in cash and a \$40.0 million bonding authority, but it never started operations.

On July 7, 1980, the Mission received a request from COFINTA (Annex II) for technical assistance in the technical and administrative organization of the institution which is presently called COFINTA to "make it adequate to the functions and responsibilities which will be assigned to it." In Mission conversations with COFINTA representatives, they indicated that such assistance would include advice in drafting new COFINTA legislation and its systems -- in short, the whole institutional design. Various names have been proposed for the new institution, among others: (FINATA (rejected), ENSUFINCA, CONSUFINCA. No name has been chosen yet. The MAG has also requested technical assistance and has asked the Mission to plan for operational support for immediate Decree 207 implementation. The Mission after having offered this technical assistance is now attempting to find appropriate advisors.

The potential for abuse and even higher levels of terrorist violence is great if the increased aspirations, and indeed rights, of former renters and sharecroppers are frustrated. The creation of an impossibly complex land registry snarl as perhaps 200,000 or more parcels suddently need definition, registry, and mortgage management is a real possibility. Similarly, credit, input delivery, and especially marketing systems must be created for the beneficiaries who formerly, in many cases, depended on their patronos for these services. Because of the problems associated with it, Decree 207, more than any other area in the reform, needs immediate attention and a greater variety of technical advice than it is now receiving.

III. MAJOR CONSTRAINTS

A. Financial

1. Costs of the Reform

There are no cut-rate agrarian reforms, and El Salvador's will be no different in this regard. Although the GOES Ministry of Planning is presently preparing an Agrarian Reform Plan, which will be issued in 60-90 days and which will estimate the reform's financial costs, to date, no formal GOES cost estimate has been made. There have, however, been some preliminary estimates of the reform's costs. One, done by ISTA in March, estimated the total cost of the reform's first phase at $1.2 billion, of which $586 million was for the compensation of former owners. ISTA's calculation probably over-estimated former owner compensation, included large expenditures for housing and basic services ($289 million), and did not consider that a substantial portion of the $250 million it estimated as the credit need were not new resources. ISTA's preliminary estimate had no time dimension, did not contemplate the costs of Phase II, nor of "Land-to-the-Tiller" which had not yet been decreed. A first-year estimate of the costs of the reform was made recently by a noted agrarian reform expert in a presentation to AID/W. He estimated the first year's cost of the reform as being approximately $220 million, of which $75.0 million was targeted to improvements in housing, education, and health. Both these attempts illustrate the hazards of quantifying the unpredictable based on incomplete information.

In spite of these hazards, the Mission has attempted a preliminary estimate of the costs of the reform over the 1980-84 period. In evaluating the estimate the reader is warned that it is the Mission's best guess and that it is based on a series of assumptions about basic GOES decisions which have not yet been taken. In order to estimate the costs of a minimum program the following assumptions were made:

a. It was assumed that the GOES will implement Phase II over a three-year period starting in 1981. Faster implementation of Phase II would have higher financing requirements but perhaps lower economic costs (to the extent that Phase II farms are being decapitalized at present and because of present owner uncertainty);

b. The estimate assumed that the GOES will want to move to definitive titiling of "Land-to-the-Tiller" as quickly as possible;

c. It was assumed that the GOES will defer the bulk of the reform sector's sorely needed social service investments to the 1985-1990 period. A minimum amount of these expenditures would be made early in the period with amounts increasing at its end.

Clearly, differing assumptions would lead to somewhat different expenditure levels, but nevertheless, the bulk of these expenses, at least those directly related to the reform are "locked-in". Major variations could occur in social service expenditures related to the reform sector. Those included in this estimate are considered to be the minimum possible given the _campesinos'_ human decapitalization, their increased aspirations, and the need for short-run improvement in their situation.

The Mission's best estimate, which is presented in Table 1, is that the minimum Agrarian Reform program will have financial requirements of over the equivalent of a billion dollars ($1,032 million) during the next five years. Some $389 million would be destined for new agricultural credit, $286 million in cash compensation to former owners and agrarian debt service, and $356 million for reform development and support, which includes $255 million for the areas of community development, health, and education.

The foreign exchange needs of the agrarian reform are also quite significant. In Table 2 they are estimated to exceed $1.1 billion over the next five years.1/ These costs will, of course, be more than compensated for by the exportable products that the sector will produce. Still, should there be serious foreign exchange shortages over the next few years, they could cause shortages of needed agricultural inputs.

2. The Reform's Financing

a. Internal Sources

It should be noted that the financial cost of the reform will not be borne entirely by the COES, but will be shared by the _campesinos_ as they and their enterprises service and amortize the "agrarian debt." Thus, in order to estimate the reform's financial cost to the COES and the banking system, some estimate must be made of the contribution by the reform's beneficiaries to the servicing of the "agrarian debt." Such an estimate is not an easy one because neither the structure of the agrarian debt nor its amortization schedule are firm. The Mission's best estimate of the _campesino_ contribution ($216 million) is also presented in Table 1.

1/ Foreign exchange costs exceed the financial costs because annual agricultural credit generates foreign exchange demands of about 1/3 its amount every time it is relent. Thus over a five-year period, the foreign exchange demand generated is equal to about 5/3 the amount of credit.

TABLE 1

PRELIMINARY PROJECTION OF AGRARIAN REFORM FINANCIAL REQUIREMENTS, 1980-84 (MILLIONS OF US DOLLARS) 1/

	1980	1981	1982	1983	1984	1980-84
NEW CREDIT RESOURCES 1/	113	56	110	51	59	389
COMPENSATION OF FORMER OWNERS (CASH) 2/	20	91	88	52	35	286
REFORM DEVELOPMENT & SUPPORT						
Land to the Tiller Implementation	2	5	5	3	1	16
Reform Training & T.A.	2	4	5	6	3	20
Farmer Organizations, Phase I & II	1	3	3	3	2	12
Farmer Organizations, Tiller	1	3	3	3	2	12
ISTA-MAG-BFA Operations	4	6	6	6	2	24
Land Use Improvement		1	2	3	3	9
Reform Planning and Evaluation	1	2	2	2	2	9
Sub-total	11	24	26	26	15	102
REFORM-RELATED COMMUNITY DEVELOPMENT, HEALTH & EDUCATION INVESTMENT	30	40	45	65	75	255
TOTAL	174	211	269	194	184	1032
Less: Est. Reform Sector Debt Service 3/	10	41	50	57	58	216
GOES & Banking System	164	170	219	137	126	816

1/ Table 1, Annex A
2/ Table 5, Annex A
3/ Table 6, Annex A

TABLE 2

Foreign Exchange Needs of the Agrarian Reform
1980-1984 (Millions of U.S. $)

	1980	1981	1982	1983	1984	1980-84
Agricultural Inputs and Machinery1/	118	139	183	202	219	861
Former Owner Compensation2/	10	46	44	26	17	143
Reform Development and Support3/	14	20	22	27	27	110
TOTAL	142	205	249	255	263	1,114

1/ It is assumed that 30.9% of agricultural credit (the ratio of imports of agricultural inputs and machinery to agricultural credit over the 1976-1978 period) results in foreign exchange costs.

2/ Because many expropriated owners are now abroad it is assumed that 50% of the payments to them will be converted to foreign exchange.

3/ 1/3 of the Reform Development and Support Expenditures from Table 1 are assumed to be foreign exchange costs.

Assuming an average yearly campesino contribution of \$43 million, new GOES and banking system financing over the 1980-84 period will average about \$163 million per annum, of which GOES expenditures would be around \$85 million. Should campesino debt service prove to be less, as it well may, GOES expenditures would increase correspondingly and could easily average \$100 million per annum. To put this estimate of GOES expenditures and debt requirements into perspective, it is useful to compare them to the past. In 1979, the expenditures of the GOES Central Government were \$500 million, thus a \$100 million level of expenditures would be equal to 1/5 of all expenditures made in 1979.

The impact of the reform on GOES internal indebtedness will be even more marked. El Salvador's historical public sector internal debt (in the equivalent of millions of Dollares) is as follows:

1974	64.1
1975	77.7
1976	115.6
1977	119.9
1978	185.1

These historical debt levels are low in relation to El Salvador's GDP and to the likely financial requirements of the new agrarian reform. It is estimated that this reform alone will necessitate debt levels of some \$600-800 million by 1982/83, even excluding additional GOES internal deficit financing for other programs. Total compensation to former owners is estimated at the equivalent of \$790 million, of which some \$156 million will be cash that will probably be raised by the sale of agrarian reform bonds to the banking system. Other than this possible sale to the banking system to raise cash for former owner compensation, the agrarian reform bonds appear to be of relatively low liquidity and thus should not add greatly to inflationary pressure. Although at first glance Decree 220, which authorizes the emission of ₡1.6 billion (\$640 million) of agrarian reform bonds, makes these bonds appear to be quite liquid, a more careful examination of the Decree indicates that key factors in determining their liquidity are still under the control of GOES monetary authorities.

It has been suggested by some that because the level of GOES public sector internal indebtedness is low (only 6.0% of GDP in 1978), much room exists for financing the costs of the reform program internally. Unfortunately, however, given that almost all increasing indebtedness would have to be absorbed by the banking system, the essential question regarding the capacity to finance internally is not the level of internal indebtedness, as such, but rather the change in the level of internal indebtedness. In fact, the lack of a well-developed securities market may even make new GOES public sector debt instruments harder to absorb.1/ There is a considerable risk that in El Salvador's actual circumstances, large increases in internal indebtedness, coupled with lagging production, and strict exchange controls could trigger a serious inflation. The annual rate of inflation in El Salvador for the first three months of 1980 reached 22.3%. Increasing levels of liquidity not accompanied by production increases could easily double or triple that rate. Other indications of inflationary pressure in the first quarter: (1) credit extended by the banking system increased at an annual rate of 51%; (2) the money supply (M_1) increased at an annual rate of 35%, and (3) credit extended by the Central Bank increased at an annual rate of 134%.2/

In examining the GOES capacity to internally finance the costs of the agrarian reform, consideration must be given to the needs of other sectors of the economy as well. The need to reactivate the industrial sector, which has lost around 30% of its jobs, many entrepreneurs, and much capital, is an extremely pressing one. Given the present levels of high urban and rural unemployment, jobs must be created and the new, centrist Government of El Salvador must somehow assure that the populace has adequate food. Under these circumstances an expansionary monetary and fiscal policy is no doubt the correct one even though its inflationary effects and, in the longer run, its exchange rate consequences are unknown.3/

1/ On the other hand, El Salvador has had such a tradition of price stability that there may exist here a greater degree of "money illusion" than in other countries. For example, during the 1955-75 period, the general wholesale price index only increased at an average of 2.38% p.a., and even during the 1974-78 period the increase in that index was only 12.5% p.a. Similarly, interest rates have been kept very low. Because of the security and economic situation, it is difficult to predict what the public's reaction would be to a GOES bond issue with a higher than usual interest rates. Still such an issue probably ought to be attempted in order to soak up excess liquidity.

2/ See ANNEX I, Table 3, which comes from the unclassified portion of Dr. Clark Joel's (ROCAP Regional Economist) June 23, 1980. Copies of Dr. Joel's report which further discuss this data are on file in LAC/DR and in LAC/CEN.

3/ Nor for that matter can the effect of inflation, exchange controls, and possible competitive devaluations on the Central American Common Market (CACM) be predicted. El Salvador's competitiveness in the CACM has always been due, at least in part, to its conservative monetary and fiscal policy.

The recently issued GOES Plan Nacional de Emergencia, 1980 contemplates a significant increase in the level of internal indebtedness. In 1980 alone that increase amounts to the equivalent of $826.8 million, but because the money supply is only planned to increase by the equivalent of $145.2 million, or 14.2%, much of that new indebtedness must be agrarian reform bonds.1/ In addition to increased internal indebtedness, the Emergency Plan also proposes significant tax reforms, among them:

1. a selective consumption tax;
2. a general value-added tax;
3. replacement of the Vialidad Serie "A" with:
   a) a property tax, with different rates for urban and rural properties, and
   b) a tax on the appreciation of real property; and
4. a reclassification of firms for income tax purposes.

However, even with these reforms, the Emergency Plan only expects a 9% increased in 1980 central government current revenues from 1979, but programs a 54% increase in current expenditures as can be seen in Table 3.

In sum, there are mounting pressures on all sides to increase the public sector's levels of domestic borrowing -- to finance the agrarian reform and National Emergency Plan and to reactivate the industrial and other sectors. There is a limit on how far and how quickly the GOES can go with increasing its internal indebtedness, however. Once that limit is reached, in a small and damaged economy that is limiting its imports, inflation could sky-rocket.

The implications of increasing levels of domestic borrowing by the GOES for AID and other donor programs are discussed in Part IV of this paper.

b. Foreign Exchange Needs

Table 4 summarizes the June 23, 1980 balance of payments analysis carried out by Clark Joel. The "pessimistic" column represents that analyst's projection. It is based on the assumptions indicated in Annex I and is not intended to represent a range. The $122 million 1980 decline in reserves in the June 23, projection is $67 million less than the decline projected by him on May 9 because in the former it is assumed that short-term debt due in 1980 would be amortized; the present projection does not. Both projections assume that imports will not increase over 1979 in nominal terms (in real terms a 10-15% drop occurs).

1/ Joel's report points out that such an expansion in internal debt is equivalent to a 54% increase in the money supply over 1979. That the difference might be in agrarian reform bonds would also get some support from the plan's much smaller central government new internal indebtness of $93 million. The plan is full of other expansionary proposals. For example, it proposes that the 12% of their loan portfolio which banks must retain in public sector bonds, be reduced to make more credit available, and similarly that the 8% reserve and capital requirement also be lowered. In other words, it is proposed that banking system reserve requirements be lowered.

Table 3

SUMMARY OF FISCAL SITUATION OF CENTRAL GOVERNMENT
1978-1980
(IN MILLIONS OF COLONES)

	Actual 1977	Actual 1978	Actual 1979	1980 Original Budget	1980 Emergency Plan
Current Revenues	1181.8	1027.0	1215.4	1292.8	1324.8
Current Expenditures	706.3	782.8	838.2	1123.0	1294.4
Surplus on Current Account	475.5	244.2	377.2	169.8	30.4
Capital Expenditures*	506.3	341.8	414.8	524.4	477.8
Direct Investment (Physical and Financial)	406.0	119.4	171.8	326.4	381.5
Transfers	100.3	123.0	131.1	124.1	94.1
Prior Year Obligations	-	99.4	111.9	73.9	2.2
Amortization of Public Debt	29.3	33.0	28.8	28.7	28.7
Total Expenditures (Net of Amortization)	1212.6	1124.6	1253.0	1647.4	1772.2
Overall Deficit*	- 30.8	- 97.6	- 37.6	-354.6	-477.4
Financing Required (Net)**					
External	52.0	96.7	30.0	143.7	244.4
Internal (and change in Cash Balance)	- 21.2	.9	7.6	210.9	233.0

* Excluding amortization
** Net of amortization payments

Source: For 1977-79 and original 1980 budget, Central Bank. For last column, Emergency Plan for 1980, preliminary version.

From Joel's June 23, 1980 report

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TABLE 4

EL SALVADOR

BALANCE OF PAYMENTS PROJECTION

1980-81

(In Millions of U.S. Dollars)

	1979	1980 Optimistic (Central Bank)	1980 Pessimistic	1981 Without Emergency Plan	1981 With Emergency Plan
1. Exports (FOB)	1134	1080	966	832	872
Coffee	685	687	608	510	510
Cotton	88	86	72	50	60
Sugar	27	14	14	20	20
Shrimp	12	12	12	12	12
Other (to outside CACM)	51	49	40	40	50
To CACM	272	232	220	200	220
2. Imports (CIF)	-1040	-1080	-1040	-1040	-1200
3. Services - Net	- 140	- 180	- 180	- 180	- 180
4. Transfers - Net	56	55	55	55	55
5. Current Account Balance	11	- 125	- 199	- 333	- 453
6. Capital Total (Net)	- 119	46	39	100	140
Private	- 192	- 131	- 131	- 30	- 30
Official, long-term	40	87	80	80	120
Banking Sector Non-Compensatory	33	90	90	50	50
7. Total Overall Balance	- 108	- 79	- 160	- 233	- 313
8. Financed by:					
Compensatory Loans	-	38	38[12/]		
Decline in International Reserves (or Foreign Exchange gap)	108	- 41	- 122		

In analyzing the drops in reserves of the differing projections it must be kept in mind that by the end of the first quarter Salvador's net international reserves were negative by $14 million and that reserves in the first quarter were drawn down at a rate in excess of $18 million a month. Salvador has managed its negative reserve situation by mortgaging 1/3 of its gold stock and delaying payments.

Salvador is caught in a squeeze. If it implements its emergency plan a higher level ot imports will be required. Not implementing the plan could lead to an even worse socio-political situation, which is difficult to imagine. Delaying payments, selling gold,1/ or involuntary roll-overs of commercial debt due would not be good for supplier/creditor confidence.

c. Commercial External Borrowing

Although El Salvador is an oil-importing, developing country, one would not think so looking at its public external debt situation. As can be seen from Table 5, in 1978 the public external debt was equal to 10.6% of GDP, and its service only required 3.7% of its export revenues. The estimates of these ratios in Table 4 are similar for 1979, and a slight increase in both is projected for 1980 mainly because of the anticipated decrease in exports and a slower growing nominal GDP (real GDP growth will be sharply negative).

If El Salvador's low external debt service ratio is one reason why the country finds itself in the situation that it's in,2/ it is also the key to its future. If it is assumed very conservatively that over the next five years nominal exports only increase at 8% per annum, then by 1984 it's exports will reach about $1,470 million. If it is assumed further that 20%, or $294 million, of those exports could be used to service external debt and that one dollar of debt service can support 8.8 dollars of debt (El Salvador's 1974-1978 ratio and not unrealistic given falling interest rates), then by 1984 El Salvador should be able to support close to $2.6 billion of public external debt: In other words, the Government of El Salvador should be able to borrow in the neighborhood of $2.2 billion dollars over the next five years and much more if exports recover. These sums, because of the magnitude involved, would have to come primarily from private sources.

However, lenders are not queing up at the GOES' doors. In fact, even many ordinary supplier credits to the private sector are no longer available as their sources have attempted to trim their exposure here. International commercial banks cannot be expected to lend

1/ As so many, El Salvador's gold stock of 550,000 troy ozs., 200,000 ozs. have been mortgaged and if sold at $600/oz. would net $50 million. The remaining 350,000 oz. if sold at $600/oz. would fetch an additional $260,000,000. The amount available from possible sale of gold is thus equal to $260 million.

2/ It has not invested enough in its people.

TABLE 5

EL SALVADOR'S EXTERNAL PUBLIC DEBT RATIOS 1974-1980

(Millions of U.S. $)

	GDP	External Public Debt	External Public Debt as a % of GDP	External Debt Service	Exports	External Debt Service as a % of Exports
1974	1,577.4	174.7	11.1	12.8	462.5	2.8
1975	1,791.1	242.4	13.5	21.0	513.4	4.1
1976	2,282.4	283.2	12.4	19.2	720.7	2.7
1977	2,847.6	280.3	9.8	64.3	972.4	6.6
1978	3,071.6	325.7	10.6	31.5	845.9	3.7
1979 1/	3,503.2	383.1	10.9	43.5	1,134.1	3.8
1980 2/	4,057.9	562.6	13.9	63.9	1,080.0	5.9

1/ Mission estimate based on partial information in GOES National Emergency Plan, 1980.

2/ Mission projection based on National Emergency Plan, 1980.

when the newly nationalized banking system (which included some of their subsidiaries) immediately defaulted 1/ and when they perceive the situation in El Salvador to be chaotic, and the economy in a downward spiral. International donors, and especially AID, would have a role to play in El Salvador even if the situation were not a critical one -- El Salvador is a poor country; under the present circumstances our role, which is further described in the strategy section, will be crucial.

3. Financial Constraints Summary

A great deal of emphasis has been put on financial constraints in this paper because they are so fundamental to the reform's successful implementation. For example, if greater financial and economic resources existed, phase II implementation could begin immediately.

The costs of implementing the reform, both financial and from a foreign exchange point of view, are substantial, around one billion dollars over the next five years. There is no possibility of financing a significant part of the cost of reform implementation with internal sources without driving the country into hyperinflation. The need for foreign exchange to finance the reform, reactivate the economy, and reestablish El Salvador's international credit rating are somewhere between $350 and $400 million dollars. And, finally, El Salvador's external debt service ratio is so low compared to other developing countries that if the risk that commercial lenders perceive about El Salvador's future could be overcome, the GOES could borrow around $2.0 billion commercially over the next five years in order to rebuild its economy without its debt service exceeding 20% of exports (even if these should stagnate).

B. Policy and Procedural Constraints

Although Salvadorans have long speculated about agrarian reform and there have been many unimplemented plans for reform drafted in the past, when the actual reform began, there was insufficient planning for it. Preparations for the Phase I take-over were made very quickly after the political decision was taken and its details were very closely held so that opposition would be minimum. Planning for the reform's further implementation continues to be insufficient and inadequate and it also continues to be closely held. The insufficiency of prior planning has been compounded by changing leadership within the government and the reform and related events have moved so quickly that priority implementation needs have taken precedence over drafting and approval of policy and procedures.

1/ Defaults were due to bank garantees which had been issued to coffee exporters. With exporting nationalized, they defaulted and with them their garantors. This situation has now been remedied and former creditors have been paid preciously short foreign exchange. The debts were not rolled-over.

The foregoing is compounded by the fact that this radical reform is being carried out by a high officialdom which is essentially moderate in its orientation. Often, one senses that all their heart is not committed to the reform's measures. The latter is especially true with regard to Decree 207, which by some key GOES officials is erroneously viewed as a misguided and entirely political, U.S.-imposed reform measure. This opinion is sincerely held by many key GOES officials, and it has led to efforts to cut the scope of Decree #207. It can now be said that their efforts have not been successful. These differences of opinion have, however, seriously impeded the development and approval of sorely needed policy and procedures, not only on Land to the Tiller but also on Phases I & II.

According to the basic law, the JRG enunciates policy; the Minister of Agriculture prepares policy proposals with the assistance of an eleven person advisory committee; and ISTA and other MAG entities execute policy. There have understandably been communications problems up and down this chain of command.

The key MAG-ISTA communications channels have especially suffered from mutual distrust, much of which stems from the highly politicized nature of ISTA and its internal administrative disorder.

There are strong indications that many of these early problems in the reform are being worked out. A capable, experienced Minister of Planning, who fully supports the reform, has been named, and the new Vice-Minister of Agriculture a capable, young military officer with agricultural sector experience is quickly becoming the focal point of the reform effort. Several commissions are working feverishly to draft implementation regulations of the basic law and Decree 207.

The USAID/ES has worked quietly but deliberately to open up channels of trust with GOES policy makers, including those at the highest levels, in order that effective dialog on policy issues can take place between GOES and AID officials. The project planning process has been an especially effective medium for these efforts. Although this style of advisory assistance perhaps differs markedly from the stereotypical foreign sage who whispers into the ear of the chief of state, or that of the benevolent table pounder, the Mission is convinced that it is more effective and more appropriate than the high profile "world expert" style, especially given the widespread, albeit erroneous, Salvadoran (and Latin-American) opinion that this reform is U.S. inspired and imposed.

Our collaborative style has already resulted in significant policy level inputs with regard to establishment of phase I and Decree 207 credit policies, procedures, and mechanisms. This document is another example. An earlier, and somewhat less candid draft of this strategy statement was tralslated into Spanish, discussed carefully at the ministerial level where it received unequivocable endorsement. A JRG member has indicated to us in conversation that the draft circulated and was discussed at that level as well. Our approach has resulted in GOES requests for assistance in the design of Decree 207 implementation and institutional dimensioning, a request from the highest levels of the GOES for assistance in municipal development, and a request that AID critique a draft of a new general agrarian reform law.

Still our most effective work are not "high profile"like the foregoing but rather occurs in mutual "brainstorming" with counterparts at all levels. In these conversations we have discussed:

1. dangers of tampering with #207 because it has increased renter aspirations and the need to do provisional titling and payment collection and how that might best be done.

2. the need for firm plans for extending the reform into Phase II which will at the same time remove present owner uncertainty;

3. defining the rights of casual laborers in the producer association and the rights of members VIS-A-VIS the association;

4. the relationship between ISTA and the associations and the move to self-management; and

5. means of increasing the number of phase I beneficiaries and hacienda employment.

Finally, our funds have paid for the short-term IICA advisors who have been working (at arms-length from AID) with various GOES work groups which are developing policy options.

C. Institutional Constraints

The reform's first stage forced the agricultural sector's institutions to improvise. They did well, given the enormous task. ISTA had contracted more staff in anticipation of the take-overs and the other sectoral institutions reinforced it with staff, vehicles, gasoline, etc. But even with that reinforcement, the whole sector was strained for resources, both human and material. Over the last year many of the sector's vehicles have been burned by terrorists and there were not enough for the task. Because of both human and material constraints the expropriations went slower than planned. Now, as the technicians of other sectoral entities are being reassigned to their respective units, the burden on ISTA and the BFA, will become even more pressing, precisely at the time when their tasks are becoming more complex. The reform's initial challenge was to maintain the status quo. Now, improvements need to be made.

The tasks facing the institutions involved in the reform will be monumental. For Phase I, land use changes must be considered and carried out to absorb more labor; the former owner reserves must be defined equitably and in a manner which leaves two viable farms; campesino organizational and technical training must be carried out; credit, input supply, and marketing systems must be established and perfected; and managerial and technical assistance provided.

If phase II is to begin smoothly next year, the property registries and cadaster must be more carefully studied than for Phase I, logistics planned, procedures defined, vehicles and supplies purchased, etc. For this phase new approaches must be considered.

Decree #207 will require the issuing of perhaps as many as 200,000 provisional and definitive titles, the organization of its beneficiaries into associations to provide them with influence and economies of scale in production and marketing, and the establishment of a mortgage banking and payment system. The issuance of these titles will probably require establishment of a new section in the property registry, modification of legal procedures, use of electronic data processing, etc. Systems design and field work needs to being as soon as possible.

The GOES institutions involved in implementing the reform are and will be overtaxed, the demands on the time of few trained people are incredible, budgets and material resources are strained, institutional structures and control mechanisms are either impeding a process they were not designed to handle or groaning under an immenses burden. Some parts of ISTA's already ricketty administrative control systems have just simply collapsed.

AID is helping to alleviate many of these constraints. Our flexible, yet well targeted institutional support is helping the institutions involved to buy vehicles, supplies, employ more people who are being quickly trained (at least "sheep dipped") with the help of AID resources. AID financed technical assistance is helping modify institutions. For example AID funded a study by INCAE of ISTA's accounting and administrative structures which even though not off the press is already helping.

One of the most serious institutional constraints facing the reform is AID itself. This Mission, now down to four U.S. direct hires is literally doing the impossible. The LAC bureau and other Missions have helped with good TDY support but that can not replace permanent employees. We, like the GOES, are doing the best we can given austerity and our institutional inertia. Our Washington backstops have performed heroically within the constraints, we all work under. They have responded quickly and with the best people available. Even given all that, we have two pleas. The first, is directed at the powers that be in State, AID, OMB, and the NSC. AID has funding instruments that are more appropriate to the task here than those the USG has given us. They are called ESF and PL480 and they need to come in larger chunks to cut down our number of submissions and documents. Our second plea is to the auditors who will land here, if and when, the shooting stops. We ask you to remember that if you are able to come in at all, it will be an indicator of our success.

IV. A STRATEGY FOR EXTERNAL ASSISTANCE

A. A.I.D.'s Support of the Reform Effort

AID Policy Determination 72 of January 16, 1979 on land reform states:

"In sum, AID is prepared to offer support to developing countries which express a genuine commitment to help their rural poor by establishing more equitable access to agricultural assets and to more secure land tenure arrangements. Because commitment is the single most important element of a successful reform, AID will examine and will be prepared to consider supporting any request for assistance where that commitment exists."[1]

El Salvador has shown a genuine commitment to agricultural asset redistribution. It's actions and decrees have been truly sweeping ones. Now, El Salvador's reform is entering into a more difficult phase -- the implementation and consolidation of the reform. This phase will make its endurance a reality and assure that its promise is in fact realized. Now GOES decision makers are taking a closer look at the magnitude of what they have undertaken and the high costs involved. This is the point in El Salvador's reform where the availability of sizable external resources can help strengthen GOES resolve to proceed rapidly with its implementation. To be really helpful, our assistance has to be of a considerable order of magnitude, and it must be tailored to the reality of El Salvador's situation.

That reality includes a damaged economy, with a private sector that is increasingly accepting the reform and now willing to work but which lacks resources; it includes civil disorder and violence (although much less than is commonly thought); it includes RFPs for technical assistance to which there is almost no response; it includes sources of commercial external financing which are still decreasing their exposure here and multi-lateral development banks who are watching it all from the sidelines or whose instruments and policies do not permit them to participate effectively. The Salvadoran reality is also characterized by a new hope in the countryside, by a new work mystic among ISTA and MAG field staff, by tears in the eyes of old <u>colonos</u> as they witness the formal installation of their association's new <u>Junta Directiva</u>, by a fierce determination on the part of many <u>campesinos</u> to work, to make a reform that is increasingly theirs a reality, and by a small, but growing, group of noble Salvadorans who, even though they could fly to Miami or San José, Costa Rica, when their lives are threatened, continue to work fourteen hours a day, seven days a week to make El Salvador work again, to make <u>their</u> reform a reality, and to make their country a free one and keep it that way.

It is for these latter reasons, as well as the United States' own self-interest, that El Salvador's agrarian reform merits AID's full support with appropriate funding instruments to do the job. If others will not, or can not help, then AID must do the job alone. If we do not, or allow our institutional inertia to get in the way, then El Salvador could become a major U.S. foreign policy disaster.

1/ HB 1, Sup. A. PD-72, P. 3

B. Strategy Objectives

1. Production, Income, and Employment

Given El Salvador's overall economic situation and that of the rural poor, especially, AID should support GOES efforts to maintain in the short-run and increase in the medium and long run agricultural production and rural incomes. These increases in production and income should be brought about in as labor-intensive a manner as is consistent with economic rationality in order to spread the benefits of the agrarian reform as widely as possible among El Salvador's rural poor and to generate much-needed employment.

AID would support efforts to increase production, income, and employment in the reform sector, including Decree #207. AID would respond positively and quickly to Salvadoran initiatives in the areas of agricultural credit, input supply, and marketing services for reform beneficiaries in pursuit of this project.

Because most of El Salvador's rural poor are not direct beneficiaries of the agrarian reform, especially temporary wage workers, and because in other cases the expropriated haciendas can not provide sufficient employment for all its inhabitants, AID should support Salvadoran efforts to increase permanent employment opportunities either on haciendas which are underutilized or on haciendas which have a surplus labor situation. In the former case, this could involve assistance for land-use studies, diversification, and for settlement of more campesinos on the expropriated haciendas, and in the latter case it might involve financing of new employment-intensive agricultural or industrial activities on the haciendas. This is a high priority effort which should be initiated at once because until more beneficiaries are added to many of the phase I associations, "self-management" can not really be implemented without the risk of creating a "new oligarchy" on some of the haciendas.

It is important that no erroneous distinctions be made between various target groups or the beneficiaries of various phases of the reform. Because of the hetrogenous nature of these various groups, generalizations about their relative levels of income and employment are difficult to make. It should not be assumed that phase I beneficiaries are better off than "tillers" (Decree 207 beneficiaries), nor that the latter are now without any support system. It would also be an error to assume that because phase I seems to be running smoothly, it should be the "tiller" phase that receives AID's priority attention.

More information is needed on many of these areas, but before jumping to premature conclusions about supporting more heavily this or that phase of the reform because that group or this group is more worthy, poorer, or more numberous, the following facts ought to be considered:

-- Some phase I colonos (most phase I beneficiaries are colonos) are the elite of El Salvador's campesinos, especially those who held skilled or semi-skilled jobs. Other phase I colonos are among the poorest of El Salvador's rural poor.

— Most phase I beneficiaries have no access to land. Some lived off of the hacienda and perhaps rented small plots and are therefore also "tillers". (They can be beneficiaries of both reforms if they were renting less land than the minimum to support a family -- defined as seven has.)

— The poorest of the poor in El Salvador are not beneficiaries of Decree 207, they are temporary agricultural laborers who did not even rent or sharecrop. This group is constituted by about 125,000 families (35% of the rural poor). Their future lies in: (1) incorporation into the phase I and II associations as a result of "beneficiary broadening", or (2) having more employment on those haciendas at higher wages (the haciendas must function productively for this to happen).

— Most "tillers" earn most of their income in activities other than their small, rented plots. Most work as temporary or migrant laborers on the large haciendas to earn cash, part of which they use to finance their small plots. Thus, in order for most "tillers" to continue earning most of their income and even increase it, the large haciendas must continue to operate and become more prosperous.

— "Tillers" are now running micro-farms, they have entrepreneural and farming skills, and are less dependant on their patronos than colonos, few of whom have entrepreneural skills,

— Phase I and II properties have an area of 500,000 and 600,000 hectares; they contain the best farm land in El Salvador and the only significant quantity of under-utilized land. "Tiller" lands, on the other hand, have 150,000 to 200,000 hectares, much of it is El Salvador's poorest farm land, and it is, in the main over-utilized. Thus, the potential for aiding the poor, be they "tillers", beneficiaries of phase I and II, or temporary landless laborers, is greater on the large farms. Similarly, for El Salvador as a whole, the export earnings of the larger farms are indispensable.

The intentions of the foregoing is to stress that the whole reform process is important to all of the rural poor. All of its phases need attention in many aspects, and the whole reform is worthy of AID's assistance. We should especially resist the temptation to stress the "tiller" reform in ordinately or irrationally, because it is "our kind of reform".

Although increased production, income, and employment are also important for the poor in the non-reform sector, AID resources for the rural sector should be concentrated on the reform sector because its problems and potential are greater and so that the reform in El Salvador continues and serves as a model for other countries in the hemisphere.

2. The Establishment of Beneficiary Rights and Responsibilities

Unless the rights and responsibilities of beneficiaries are clearly established the net effect of the reform on its beneficiaries could become only a change of patronos. Under Phase I and II, the members of producer associations should have clearly defined and should understand their rights, including their property rights, their separation rights, succession rights, etc. Mechanisms and organizations should exist to make their rights effective. The same can be said of campesino responsibilities. The question of beneficiary rights and responsibilities assumes special importance for Decree #207 beneficiaries. Many of them will have to be assisted in establishing their new property rights and mechanisms will have to be established to collect their mortgage payments.

Now that the JEG has reiterated its full intention to implement Decree 207 fully and as quickly as possible, AID should be prepared to assist the GOES in its effort to implement that complicated program. The JEG endorsed MAG's strategy for implementing "land-to-the-tiller" through its extension service, its agrarian inspector's offices, and a new version of COFINSA. With the political decision taken, it is now possible to design a strategy for "tiller" implementation. The GOES has requested AID assistance in dimensioning the strategy, in legal drafting, and in institutional design. AID should immediately respond with the best technical assistance that we can find and complement it, also in the short-run, with financial assistance to set up procedures and mechanisms for provisional and permanent titling of Decree 207 parcels, as well as, such related mortgage banking mechanisms as may be required.

The Mission will discourage the GOES from trying to mix the titling process with the establishment of "tiller" agricultural service structures as some have implied as an approach. The titling field work should come first and it could be followed by other efforts. AID support for forming such structures could be considered, however, if they were, required in the context of a program to rationalize or consolidate the several small, disparate parcels which "tillers" often have. AID could not, support any GOES effort to collectivize the working of "tiller" land against expressed campesino desires, nor could AID support any "tiller" program which in its implementation would deprive "tillers" of their new property rights.1/

1/ Technical modifications of Decree 207 to improve certain of its precepts and change the implementing entity would, of course, be excepted.

To help establish campesino rights and obligations under both Decree #207 and under Phases I and II of the reform, AID would like to be able to respond positively to requests for assistance from democratic campesino unions which can demonstrate effectiveness in the country side. Areas of priority relating to the objective under discussion would be in campesino organization and legal assistance. For a further discussion of the Mission's proposed strategy for dealing with these campesino unions, the reader is referred to ANNEX IV which is on file in LAC/DR, LAC/DP, and LAC/CEN.

The establishment of legal rights and responsibilities should not be left exclusively to private sector groups, and therefore AID should be responsive to GOES requests for technical and financial assistance to set up legal assistance and conflict resolution mechanisms to assist campesinos in the just and peaceful settlement of land disputes. The reduction of conflict and violence in the Salvadoran countryside is an important priority area. Should the GOES decide to establish the agrarian courts that are being discussed, AID should lend its support because campesinos stand a better chance of receiving justice in a specialized, less formal land dispute tribunal than in existing tradition bound civil law courts.

As mentioned earlier the GOES is still sorting out how and when it intends to implement phase II of the reform. One of the most important things that AID could do to assist the GOES with phase II is to help it strengthen the instituions which will have to implement phase II. Although at present no massive take-overs of haciendas are foreseen on the phase I model, in many ways phase II will be more complicated. For example, it may be better to parcel and let out in individual plots the 20 to 50 hectare pieces of land which will result on many of Phase II's smaller haciendas after the owner's reserve has been severed than to try to establish a producer cooperative on such a small area. Much more of a case by case approach will no doubt be required or perhaps even totally different methods of agrarian reform should be contemplated.1/

1/ A possible model which is similar to that being carried out in Nicaragua: instead of a reserve, perhaps the present owners should be offered minority stock ownership in proportion with reserve rights in a new corporation and possibly a management fee should the workers freely decide to retain his services. Beneficiaries would be obliged to vote their stock as a unit and ISTA and MAG would at least for a time control land use and provide guidance. Especially, for the units in the 100-200 ha. range might this model prove effective. A more "revolutionary" variation: under no circumstance could the former owner be the manager on his old farm in order that the patron relationship be broken.

No matter what form Phase II takes, AID should make clear to the GOES that it stands ready to assist with technical assistance to help plan and implement phase II and with financial assistance to strengthen the institutions which will have to carry it out. Lack of institutional capability to implement the reform's phase II could then not be used by those whose real aim is the reform's subversion, as a pretext for delaying phase II forever. In the short-run, AID should be willing to assist the GOES improve its information on phase II properties and based on that improved information, assist also in formulating cost-effective phase II implementation strategies.

In short, AID should support GOES efforts to build systems to improve tenure security which is aimed at improving equity. This should be a constant strategy for all the reform's facets.

3. <u>The Establishment of Viable, Self-Sufficient, Participatory Campesino Enterprises.</u>

AID views the farm establishment of viable, self-sufficient, participatory campesino farm businessses as being key to the success of the agrarian reform. It therefore should respond positively to Salvadoran requests for technical and financial assistance to programs designed to assist the enterprises of agrarian reform beneficiaries to become viable, self-sufficient, participatory, and financially sound. Such programs could be of a training nature or could consist of Salvadoran technical assistance to the enterprises in the farm management area.1/ AID should also support <u>campesino</u> efforts to create secondary level service cooperatives of Phase I associations in the medium term. Secondary level organizations could provide important services to its member associations and would tend to "privatize the sector and relieve the burdens of GOES entities. AID should be responsive to ISTA efforts to assist Phase I to move towards self-management and shorten the period of <u>co-gestion</u>, or joint management between them and ISTA.

For Decree #207 beneficiaries improving their farms will probably entail the formation of service and marketing cooperatives. In order for these cooperatives to take advantage of scale economies and not become excessively layered in federations, strong consideration should be given to the establishment of large, multiactivity, integral or regional cooperatives which can afford professional management. Membership in these groups should probably consist of small farmers generally and not just ex-renters, ex-share-croppers, and ex-<u>colonos</u>.

1/ Management has consistently been one of the weakest areas in other reforms, especially when group farming has been practiced. The creation of a high level reform management training capability and of management systems within the associations is of high priority.

4. Human Capital Formation and Natural Resources Conservation

Earlier it was pointed out that land reform is not a panacea that will resolve once and for all the problems of the rural poor. Other factors underlying the country's rural poverty will still remain. Among these are: (1) a high rate of growth in the rural unskilled labor supply, (2) little slack in the supply of agricultural resources, (3) limited good employment opportunities in urban areas, and (4) the low level of investment in rural human capital formation.

Agrarian reform may buy the time which El Salvador needs to attack these more fundamental problems and may enable it to step back from the brink of the almost Malthusian cataclysm on which it is tottering. Perhaps the reform will buy another ten to fifteen years for El Salvador, and if successful, it may give the country the margin of time and resources it needs to enable it to undertake solidly based industrial development.

Because El Salvador's land resources are limited they must be prudently used, with an eye to their long-run preservation. Although, this area of effort is an important one, it is perhaps not of such urgency as other aspects of the reform. Still, a start should be made. Therefore, AID should respond favorably to Salvadoran initiatives in the natural resources use area or to research efforts to develop farming systems which should intensify land and labor use in an environmentally and economically sound manner. For the present, this effort is seen as being limited to employment intensive reforestation and a limited land use planning effort in the context of reform planning and evaluation. Three to five years from now, AID should be willing to finance a broader scale action program in this area.

The most fundamental source of El Salvador's future wealth is its people and especially its youth. El Salvador should undertake immediately a massive program to invest in its people. Health posts, potable water, primary education, adult literacy, maternal child health, nutrition, and shelter solutions are all priority areas which can not continue to be delayed. A functioning rural health delivery system will also make more feasible the extension of family planning programs. Community participation mechanisms should be utilized to the maximum to lower the costs of these services, reinforce their effectiveness, and minimize dependency.

AID and other donors should support increased levels of GOES effort in investment in El Salvador's human beings. IDCA should continue to strongly encourage the IBRD and the IDB to broaden the basic education and rural health programs in El Salvador.

One area seems to have been inadvertently overlooked to date in the Salvadoran reform is the role of women, especially in the farm-level decision making process. The series of reform decrees do make various references to the family group. For example, in Article 20b of the basic law there is reference to "the family groups which farm the enterprises" and the "tiller" decree does characterize the transferred property as a "family good". On the other hand, in the basic law's Art. 2, a strong reference is made "that the land constitutes for the man who works it" the basis for his dignity, liberty, economic security, etc. In El Salvador, women perform many agricultural tasks, they also work the land and in many instances are more permanent on the haciendas than their frequently migrating mates.

In spite of women's greater stability on the farms and their role in agricultural production, no specific measures have so far been taken in the reform to address the special needs of women, nor to include them in formal decision-making. In the absence of specific efforts to include women's participation, the male-dominated cultural environment would as a matter of course tend to exclude women from these processes.

The AID Mission has acted as a counter weight to the female exclusion tendency. In developing the AID-supported CENCAP reform training activity, we urged greater women's participation in the overall reform training program and a short-term advisor was included to assure that women's special needs are considered in developing the program and to maximize female participation. ISTA and DIDECO social promotors are also sensitive to the problem; many are women.

More could be done in this area, however. It is suggested that AID support efforts to highlight the role of women and to secure their more active participation in all aspects of the reform. One approach that might be considered is the use or development of a women-centered PVO or perhaps the reformulation of a Partner's rural women's training proposal.

C. The Magnitude, Modes, and Timing of A.I.D. Assistance

1. Traditional Bilateral Assistance

The Mission is proposing that over the next five years AID make available a total of $425 million in traditional bilateral assistance to El Salvador, or an annual assistance level of $85 million of which $50 million would be used to finance agrarian reform activities. The balance would be used for complimentary social service and employment creating programs in both the urban and rural sectors, in projects not unlike those in the Mission's Marginal Community Improvement Program. The amounts of assistance that El Salvador will require relates to the speed with which the reform is implemented. For example, should Phase II of the reform be slowly implemented or not implemented at all, overall resource needs would clearly be less.

The Mission is proposing that traditional AID assistance to the agrarian reform over the next five years be structured using a series of sectoral programs. These sectoral programs, would like the rest of the Mission's activities, be ESF financed, except the sectoral programs would also utilize P.L. 480, Title III to the degree that usual marketing requirements would permit.

The first sector program, which follows the $8.0 million made available for the reform's immediate needs from Title I and ESF, is for $25.0 million and is split into three projects, the $10.0 million Agrarian Reform Credit Project, which has already been obligated, the $19.4 million Agrarian Reform Organization Project, which is being submitted to AID/W concurrently with this strategy statement and a $1.6 million OPG for AIFLD. The Sector Program concentrates on overcoming the reform's immediate bottlenecks as well as laying the groundwork for addressing its longer-terms needs, and finances priority activities in the reform process over the next 12 to 18 months, but which should be initiated prior to January of 1981. The Agrarian Reform Credit Project provided capital for a special BFA line of credit designed to replace the ex-owner's working capital for phase I haciendas and also provided technical assistance to initiate phase I farm credit planning.

The Agrarian Reform Organization Project finances the start-up of priority activities in three areas which are designed to strengthen the farmer organizations involved in the reform's various phases, through training, a new BFA democratic campesino union credit line, a resource of increment for the existing BFA/AID phase I line of credit, and an accounting/information system for phase I farms. An important part of the sector program related to farmer organization which the Mission recommends be obligated in AID/W is a $1.6 million PVO grant with the AIFLD which has an important program to strengthen democratic campesino unions in El Salvador through the Union Communal Salvadoreña (UCS); (2) support for the reform's administration through an activity designed to increase employment on phase I farms and to incorporate more campesinos into phase I associations, and through the planning and early implementation of the Land-to-the-Tiller reform; and (3) strengthen the reform's planning and evaluation. $25.0 million of FY 81 PL 480, Title III would be used for budget support of COES reform implementation agency and for agricultural credit.

In the second and third Agrarian Reform Sector Programs, there will probably be continued need for significant resource transfers for credit and logistical support to finance the heavy expenditures associated with Phase II, the titling of Decree 207 properties, and land use changes and consolidation of Phase I properties. The second sector program would be for activities starting in 1981, and the third sector program for activities starting in 1982. Both programs would absorbe $50.0 million, split between ESF and P.L. 480 Title III.

The final sector program would total approximately $80.0 million and would cover the needs in 1983, 1984, and 1985 to consolidate the entire reform process. Its focus would be land use changes, agricultural technologies and institutional consolidation.

Over the FY 81-85 period, the Mission is planning to request $50.0 million a year in ESF/PL480, Title III to finance the Agrarian reform sector program. Another $35.0 million per year will be requested for the rest of the Mission program.1/ Thus over the period, AID-PL. 480 resource requirements would total $85.0 million per annum.

The rationale for utilizing these types of assistance relates basically to the macroeconomic problems that El Salvador will face during this period of revolutionary change. Should Salvadoran foreign exchange needs be greater in the 1981-82 period, requests for ESF funding during that period could be correspondingly greater and would probably involve commodity import programs. The Title III resources, although also important from a foreign exchange perspective, would be programmed and projectized to meet the local currency costs of the sectoral programs and related activities and its levels would not vary in accordance with foreign exchange needs given that such use of Title III is not congruent with its basic purpose.

ESF is requested because macro-economic needs will not coincide with the logic of projectized assistance disbursement. ESF can serve both balance of payments and the development objectives being pursued by the agrarian reform. The flexibility that ESF affords would also enable the Mission to undertake an ambitious program of the type proposed with lower staffing levels than would otherwise be required, an important consideration given El Salvador's security situation. Another consideration in requesting ESF is that not only is the macro-economic situation important, in and of itself, but it is also vital to the reform program in that an even more serious foreign exchange crisis than the present would no doubt impede the reform's implementation.

1/ Another $20.0 million of ESF per annum would fund Marginal Community Improvement types of activities in community development, health, nutrition, and employment generation. Over the period, $45.0 million in HIGs would complement the program, which would be rounded out with $6.0 million p.a. for population, PL 480 Title II, and PVO-OPG. We plan to request $425 million in all over the five-year period.

The foregoing should not be misconstrued. Although it would not be optimal to have to finance the reform program with D.A. resources, it is possible. Thus, should the requested ESF and Title III resources not be available, DA resources would be required to replace them.

2. A New Foreign Assistance Initiative -- an AID Commercial Lending Guarantee Program for the GOES.

As earlier analysis presented in this document has shown, the El Salvador external credit case is an unusual one. It is a country needing massive inflows of foreign capital to finance a program of truly fundamental economic and social change, and because of its low external debt service ratio, it has a high capacity to absorb new external indebtness. Yet, because of civil disorder and continued economic chaos normal commercial international financing is not available to El Salvador.

What the Mission is proposing to help bridge the gap is a new AID guarantee authority. It is proposed that the USG acting through AID be granted the authority to guarantee up to $400 million of new external debt which is either incurred or guaranteed by the GOES during FY 1981 and 1982. The Mission is aware that this measure would require legislative authorization and that it would be the source of considerable debate both in the Executive and in the Legislative branches, but we are convinced that the potential pay-off is worth the effort. Should the international crises of confidence in the future of El Salvador subside and commercial lenders come back prior to enactment of the new legislation, so much the better. Conversely, should civil strife in El Salvador go on beyond 1982, then more guarantee authority might be required.

The proposal is a straight-forward one and should contain only two restrictions: (1) that the proceeds from AID guaranteed loans not be used to purchase arms and (2) that loans be made through U.S. banks. To keep it an uncomplicated matter and to demonstrate USG support for the GOES reform program, the proposal should not be encumbered with a desire to bring other countries into the scheme or attempt something similiar through multilateral channels. A small guarantee fee might be charged to help defer the operating costs of the AID Mission in El Salvador.

D. The Role of Other Donors

The IBRD, the IDB, and the Government of Venezuela are the other major donors in El Salvador. Both banks have considerable undisbursed portfolios here and they have been active in areas that are highly complementary to the agrarian reform. The IBRD has active loans for primary and non-formal education, and basic rural education, and with FAO has an institutional development activity for agricultural sector training with CENCAP, the agrarian reform's principal training institution. The IDB is financing area rural development, health facilities and agricultural credit. The IDB still maintains a representation here, and has made two loans totalling $31.5 million within the past year. The IBRD has not made a new loan here during the past year.

The USG should continue its efforts to convince these major lenders to resume more active lending postures here to help close the identified resource gap. Their involvement, especially in the social development programs related to the reform and in the high priority urban/industrial development area should be encouraged.

Venezuela's inputs into El Salvador are important and should be encouraged to continue.

ANNEXES

TABLE 1

EL SALVADOR AGRICULTURAL CREDIT NEEDS AND FINANCING

1980-1984 (Millions of 1980 Dollars) 1/

	1979 (Actual)	1980	1981	1982	1983	1984
CREDIT NEEDS						
Phase I, 500 ha. & over	-	125	158	182	182	182
Phase II, 100-500 ha. 1/	-	-	26	67	115	148
Small & medium 5/	94	103	124	148	178	178
Others 6/	287	153	108	144	172	199
TOTAL	381 2/	381	499	593	654	707 1/
RECOVERIES 3/						
Portfolio Recoveries		268	343	449	563	621
Agrarian Reform Bonds 4/		-	101	34	40	27
TOTAL		268	443	483	603	648
NEW RESOURCES		113	56	110	51	59

1/ Projection of credit need for 1980-1983 period is the same as in the FY 80 Agrarian Reform Credit PP; assumptions are there stated. For 1984 it is assumed that additional credit needed for land use shifts for about 50% of phase II properties. Credit/hectare is the same in 1984 for phase I and phase II farms. Assumes Phase II will be carried out over three year period and that the exchange rate remains 2.5:1.

2/ New lending in 1979 was considerably below 1977 and 1978 new lending.

3/ 1980 collections are assumed to be at 70% normal because of insecurity and non-payment by affected owners. For 1981 and 1982 collections assumed to increase to 90% of prior years credit, and for 1983 and 1984 to 95% prior years.

4/ It is assumed that Agrarian Reform Bonds given to banks to settle affected owner credit debts can be discounted at Central Bank for 90% of par value. Amounts estimated are then 90% of prior year defaults.

5/ Including Decree 207 beneficiaries.

6/ Are included because production must be maintained and because many are reserve holders who must now make additional investments on their reserves because of the reform process.

TABLE 2

Estimate of Land Acquisition Costs, All Phases

	No. of Farms Affected	No. of Hectares	No. of Hectares in Reserves 6/	Hectares to be Compensated	1976-77 Value/ha. U.S. $ 4/	Declared Value/ha. U.S.$ 5/	Compensation Millions of U.S. $
Phase I, 500 has. & over	251 1/	230,645 1/	31,375	199,207	1,500	1,200	239
Phase II, 100-500 has. 2/	1,739	342,877	217,375	125,502	1,500	1,200	152
Tiller, (DECREE #207) 3/	N.A.	160,000	-	160,000	1,000	800	128
Total	N.A.	733,522	248,750	484,709	-	-	519

1/ ISTA

2/ Agricultural Census of 1971

3/ Mission Estimate based on 1971 Ag. Census

4/ Based on USAID/ES land market study, in 1978 the average price per hectare for large haciendas was $1,850 and land prices increased 23% between 1976-77 and 1978, yielding an average cost per ha. in 1976-77 of $1,500.

5/ Based on estimate of I.R.S.-USAID ex-advisor to the GOES cadaster, declared values are approximately 80% of market values.

6/ Assumes that the average reserve will contain 125 hectares.

TABLE 3

Estimated Acquisition Costs of Land & Improvements
In Cash and Bonds, All Phases, (Millions of U.S. $) 1/

	Total	Cash	Bonds
Phase I			
Land, 199,207 has. 2/	239	-	239
Cattle & Installations 3/	110	27	83
Sugar, coffee, and other mills 3/	45	-	45
Sub-total	394	27	367
Phase II			
Land, 125, 502 has. 2/	152	38	114
Cattle & Installations 4/	69	17	52
Sugar, coffee, and other mills 4/	28	7	21
Sub-total	249	62	187
Tiller, (Decree #207)			
Land, 160,000 has. 2/ & 5/	128	58	70
Improvements 5/	19	9	10
Sub-total	147	67	80
TOTAL, ALL PHASES TO DATE	790	156	634

1/ Exchange rate remains at 2.5:1

2/ From Table 2, ANNEX A

3/ ISTA estimates

4/ Same value per hectare as Phase I

5/ Tiller improvements are estimated at 15% of land value; it is assumed that 20% of tiller land and improvements are on properties over 100 has., therefore ave. cash compensation is equal to 45%, 2(.25)+.8(50)

TABLE 4

ESTIMATE OF GOES AGRARIAN REFORM INDEBTEDNESS AND

ITS SERVICE, 1980-84

(Millions of U.S. $) 1/

	TOTAL	1980	1981	1982	1983	1984
Phase I						
Land.	239	239				
Cattle & Instal.	83	83				
Sugar, Coffee & other mills.	45	45				
Phase II						
Land	114		38	38	38	
Cattle & Instal.	52		17	18	17	
Sugar, Coffee & other mills .	21		7	7	7	
Tiller						
Land.	70		40	30		
Improvements	10		6	4		
TOTAL, New Indebtedness	634	367	108	97	62	
Outstanding Indebtedness 2/		367	475	572	634	634
Average Debt Balance		184	421	524	603	634
Interest 3/		10	23	29	33	35

1/ Assuming exchange rate of 2.5:1

2/ Assuming no amortization during the period

3/ Estimated to average 5.5% p.a. because of mix of 5% and 7% bonds.

TABLE 5

ESTIMATE OF CASH REQUIREMENTS FOR LAND REFORM
COMPENSATION OF FORMER OWNERS, 1980-84

(Millions of US $) 1/

	1980	1981	1982	1983	1984	1980-84
LAND & IMPROVEMENTS						
Phase I, Cattle & Instal.	10	17				27
Phase II, Cattle & Instal.		6	6	5		17
Phase II, Sugar, Coffee & Other Mills.		3	2	2		7
Phase II, Land		13	13	12		38
Tiller, Land		25	33			58
Tiller, Improvements		4	5			9
Sub-Total	10	68	59	19		156
DEBT SERVICE 2/	10	23	29	33	35	130
	20	91	88	52	35	286

1/ Assumes exchange rate remains 2.5:1

2/ From Table 4, ANNEX A

TABLE Nº 6

DEBT SERVICE BY REFORM SECTOR, 1980-84

(Millions Of U.S.$) 1/

	1980	1981	1982	1983	1984	1980-84
Beginning Year Balance	0	367	457	531	566	-
Less: Amortization 2/	0	-18	-23	-27	-28	-96
Plus: New Indebtedness	367	108	97	62	0	634
Ending Year Balance	367	457	531	566	538	-
Average Balance	184	412	494	549	552	-
Interest 3/	10	23	27	30	30	120
Reform Sector Debt Service	10	41	50	57	58	216

1/ Assumed exchange rate remains 2.5:1

2/ Assumed to be 5% of beginning year balance which goes into a GOES reserve to help defray amortization to former owners when due.

3/ Assumed to be 5.5% of average balance.

ASSUMPTIONS UNDERLYING JOEL JUNE 23 BOP
PROJECTION IN TABLE 4 AND CREDIT AND MONEY
SUPPLY SITUATION:

1/ Coffee: For 1980:

Optimistic (Projection by Central Bank and Instituto Salvadoreño de Café)

1978/79 Coffee Crop	3.3 million quintales (1 quintal = 100 lbs.)
Carry-Over from prior years	1.0
Total	4.3 million quintales

Pessimistic Projection:

1978/79 Crop	2.8 million quintales
Carry-over from prior years	1.0
Total	3.8 million quintales

Price: $160 per quintal for both projections

For 1981

Projection is for 3.0 million quintales at an average price of $170 per quintal. A 15% reduction (below normal) was assumed owing to reduced application of fertilizer and less care, as well as the cyclical decline in output expected in 1981.

2/ Cotton: The "Optimistic" projection for 1980 is a Central Bank estimate. It projects the export of 1,200,000 quintales at a price of $71.20 per quintal. For 1981, I projected a sharp drop owing to reduced plantings in 1980 relating to fear and uncertainty resulting from violence and the land reform program.

3/ The "Optimistic" projection for 1980 is a Central Bank estimate. It assumes export of 800,000 quintales at an average price of $18 per quintal. For 1981, I assumed 800,000 quintales (1/3 of normal) at $25 per quintal.

4/ Mostly manufacturing exports: For 1980, Central Bank estimate. For 1981, manufactures are projected to continue to be low or to decline further on the assumption that the private sector climate continues to be unfavorable.

5/ In 1980, imports are projected (by the Central Bank at 3.8% above the 1979 level in current dollars. This allows for about a 7-8% decline in real terms, in line with the contracting GDP. I have assumed an even larger decline in my "Pessimistic" projection.

6/ Central Bank estimate.

7/ Projected by the Central Bank as a residual. The Central Bank estimated the maximum decline in foreign exchange reserves that it would permit -- about $40 million -- then estimated independently the other items in the balance of payments, except for the net private capital outflow which was obtained as a residual. The country's short-term indebtedness (falling due in 1980), with expected coffee stocks pledged as collateral, is estimated as follows:

Outstanding Indebtedness of private Coffee exporters (as of Dec. 31, 79)	U.S.$ 45.0 million
Outstanding Indebtedness of Coffee Institute as of Dec. 31, 79 (direct loans and advances)	197.0
Total Debt outstanding with Coffee Pledged as Collateral	242.0 million

8/ A much lower private capital outflow is projected for 1981 as it is assumed that most of the advances secured against prior-year coffee crops were repaid in 1980, and that tight controls make capital export very difficult. Still, allowance must be made for some repayments and for capital outflow as foreign banks may continue to reduce their exposure.

9/ Some \$134 million in long-term project assistance has already been contracted and is available for disbursement in 1980. In addition, some \$20 million could be obtained for two larger projects: a hydroelectric plant and a national road building project. Thus, the Central Bank feels that the \$87 million projected for official capital inflows(in the "Optimistic" projection) is a conservative estimate from the viewpoint of funding availability. From the standpoint of executing ability, however, the projection is quite optimistic. The "Pessimistic" projection assumes no improvement in project implementation in 1980.

10/ These are loans and credits from abroad that are independent of the country's balance of payments difficulties, i.e., they would have been obtained even in the absence of the balance of payment problem. They are composed of the following in 1980:

Special Drawing Rights (IMF)	\$ 6.0 million
Venezuelan Investment Fund	14.0
Loans being currently negotiated by the Banco de Fomento Agropecuario	

with Commercial Banks and the IDB	$ 7.0
Loans from the Central American Bank for Economic Integration ($20 million for housing and $10 million for Coffee rust control)	30.0
IMF Trust Fund (gold sales by IMF)	24.5
Advance deposit with Central Bank of IDB loan to Power Company (CEL)	9.0
Total Non-compensatory Inflow from Banking Sector in 1980	90.5

11/ By assumption. There are no data for 1981.

12/ "Compensatory" loans are composed of the following:

Stand-by from IMF, First Tranche	13.9
Loan from Central American Monetary Stabilization Fund	23.9
TOTAL	$ 37.8

13/ Residual (the "decline in international reserves" plus "compensatory loans" are equal to the overall balance of payments deficit on line 7).

TRENDS IN BANK CREDIT, BANK DEPOSITS AND MONEY SUPPLY
DEC. 28, 1979 TO APRIL 4, 1980
(In Millions of Colones)

	Dec. 28, 1979	April 4, 1980	Percent Increase at Annual Rate %
Total Credit of Banking System	3,228	3,608	51
Total Credit Extended by Central Bank	1,561	2,084	134
Deposits of Savings and Loan Associations	441	352	- 56
Deposits of Commercial Banks	1,716	1,735	4
Money Supply (Currency plus demand deposits)	1,408	1,531	·35
Consumer Price Index (Dec. 1978 = 100)	114.8	121.2	22

Source: Central Bank, Reporte Monetario Semanal of Jan. 1, 1980 and April 10, 1980

THE BASIC LAW OF AGRARIAN REFORM (DECREE 153)

DECREE No. 153

The Revolutionary Junta of Government

WHEREAS:

I. In accordance with item III of the Emergency Program contained in the Armed Forces Proclamation of October 15, 1979, it was established that "measures would be taken for equitable distribution of the national wealth, at the same time increasing the national gross product," and, to this aim, an instrument would be created to establish a solid basis for the implementation of an agrarian reform, thus ensuring the right to private property within a communal framework;

II. The present law for the establishment of the Salvadoran Institute of Agrarian Reform does not satisfy the demands of the destitute majority of the population of this country, their situation being the result of a single privileged class, contrary to the objectives of real economic, social and political development;

III. It is necessary to establish a new economic and social order in accordance with principles of social justice and the revolutionary ideology adopted by the new Government, in order to give an objective response to the demands of the Salvadoran people, thereby rejecting the prevailing interests of the minority;

IV. Decree No. 43 of the Revolutionary Junta of Government, dated December 7, 1979, published in the Official Gazette No. 228, Volume 265, of the same date, established the necessary basis for the promotion of a policy of change within the land tenure system, forbidding the transference or partition of rural landholdings, it is necessary to issue the legal provisions to implement such policy;

THEREFORE:

By virtue of the authority conferred (upon the Governing Junta) by Decree No. 1 of October 15, 1979, published in the Official Gazzete No. 191, of the same date, and having heard the considered opinion of the Supreme Court of Justice,

DECREES:

The following

BASIC AGRARIAN REFORM LAW

CHAPTER 1

BASIC PROVISIONS

Article 1. Private property within a communal framework is hereby acknowledged and guaranteed.

Landholdings within the limits established by this law comply with the social or communal concept, in addition to having the following characteristics:

A) Land is exploited directly by its owner;

B) Exploitation of said land guarantees the minimum productivity levels, in accordance with national percentages for the crop under exploitation;

C) Exploitation of such land is carried out in accordance with the Government's agricultural development plans;

D) Land, water and other renewable natural resources are protected and handled appropriately; and

E) Labor and social security laws are complied with.

Provisions included in B, C, and D of the present clause shall be governed by a special statute or regulations.

Article 2. For the purpose of this law, agrarian reform shall be understood to mean the transformation of the country's agrarian structure and the incorporation of the rural population into the economic, social and political development of the nation through the substitution of the latifundia system by a more just system including property or land and the exploitation of landholdings, based on an equitable distribution of land, an adequate credit system, and comprehensive assistance to the producers in order that land become the basis of economic stability for the peasant, as the basis of his greater well-being and guarantee of his freedom and dignity.

CHAPTER 2

EFFECT ON LANDHOLDINGS AND OTHER PROPERTY

Article 3. The Agrarian reform shall be applied throughout the entire national territory, without regard to crop, location, productivity, land tenure system, quality of soil, or any other variable; therefore, all land used for agricultural, livestock or forestry exploitation shall be affected by this law, with the exceptions and limitations established by the law itself.

Article 4. Land affected by the present law is understood to be any property within the national territory belonging to one or more individuals, estates, or associations exceeding ONE HUNDRED HECTARES for land within classifications I, II, III and IV; and ONE HUNDRED AND FIFTY HECTARES for land within classifications V, VI and VII. These classifications constitute the right to land ownership reserved for landholders.

Without prejudice to provisions in clause one of the present article, landholdings which do not exceed the limits prescribed by law shall be affected if their owners do not comply with provisions as established in article one of this law, or should they cause damage to renewable natural resources or to the land itself, which are necessary and indispensable for their exploitation.

Land strictly reserved for forestry exploitation shall be subject to provisions within the Law for Forestry Exploitation (Ley Forestal)

It is presumed under the law that each individual member of an association (or corporation) shall be entitled to land tenure in proportion to the number of shares owned within said association or corporation.

If an individual holds titles to land, both independently and as a member of an association or corporation, property belonging to him independently shall be affected with priority to that pertaining to him as a member of an association.

Article 6. The location of land, and equivalency according to soil classification, in connection with owners' rights shall be determined by the Salvadoran Agrarian Reform Institute (ISTA).

Such rights shall be determined on an equitable basis in order to allow an effective exploitation of the land by landholders or owners.

Article 7. The Government may increase the landholders' rights by 20 per cent if at the time of acquisition of such land (by the State) it is established that the owners have maintained or increased productivity, or have otherwise improved their property on or after the date when this law becomes effective.

In any event, in order (for landholders) to be entitled to such rights, evidence of compliance with labor and social security laws must be presented.

Article 8. Any landholder or owner may continue exploitation of his property until said property is expropriated or acquired by the State.

CHAPTER 3

ACQUISITION OF LAND AND OTHER PROPERTY

Article 9. The State shall acquire land and other property through any legal means established by law, especially through the purchase and expropriation of same.

Article 10. Once the State has decided to acquire a piece of land or other property, the ISTA shall notify the landholder or owner personally, at his place or residence, if known. Otherwise, a single announcement published in the Official Gazette, and two announcements published in two of the local newspapers of major circulation shall suffice.

The landholder or owner must notify the ISTA officers, in writing of his willingness to sell the property, within eight days (excepting Saturdays, Sundays and holidays) after being notified (by ISTA), or publication of the announcement in the Official Gazette, as the case may be, indicating an adress to receive notifications.

The ISTA shall notify owners or landholders, in writing, regarding date and time to appear for the signing of the title deed.

If said owner or landholder should not appear on the date and time indicated, (ISTA) will proceed to expropriate the land or property in question.

Article 11. Expropriation procedures shall be conducted in accordance with the law. In the event of expropriation, a document shall be drawn up, and (ISTA) shall take possession of the land or property in question even before formal transfer of same has been made.

Once ISTA has taken possession of the land or property, the landholder or owner, or his legal representative, shall appear before ISTA to sign the expropriation document. A document containing the description of the land or property shall be attached to the expropriation document. This description will be provided by the Ministry of Agriculture and will constitute a title deed. This deed shall be used to record the (expropriation of the) land or property in question in the Real Estate Records Office (Oficina de Registro de la Propiedad Raiz). This office must register the title deed, even though the description may not coincide with the title, provided the property and the owner are the correct ones.

The owner or landholder, or his legal representative, must sign the deed referred to above at the main offices of ISTA no later than eight working days after the last notification in two local newspapers of major circulation.

In the expropriation document and title deed on behalf of ISTA, the registration number and ledger in which it was recorded shall be indicated. The right to indemnification shall also be recorded.

If the owner, landholder, or his legal representative should not appear to receive this indemnification, ISTA shall deposit it in the Agricultural Development Bank (Banco de Fomento Agropecuario), to the order of the owner or landholder and payment for such property shall be considered as actually having been made.

Article 12. If the land or property expropriated or crops derived therefrom should be mortgaged, the amount of the indemnification or compensation shall be deposited in any banking institution in the country, at the order of the agrarian judge, in order that he may pay creditors in order of preference, delivering the balance to the landholder of the expropriated property.

In the event that the amount deposited should not be sufficient to pay legal debts, the agrarian judge shall order that payments be prorated among all creditors.

CHAPTER 4

EVALUATION AND PAYMENT

Article 13. Value or compensation of all land and other property acquired (by the State) shall be paid partly in cash and partly in agrarian reform bonds. This amount shall be determined on the basis of the percentage declared by landholder or owner in his property tax declaration for (calendar) years 1976 and 1977.

If a landholder or owner shall have failed to declare his property value for the years indicated above, he shall state the estimated value of his property at the time when he indicates his willingness to sell.

ISTA shall pass a resolution at the next meeting of the Board of Directors, expressing its agreement or disagreement with the estimated property value. In the event of disagreement, ISTA shall make a counterproposal to which the land or property holder must reply within three working days after being notified. If he should reject the counterproposal, expropriation proceedings will be carried out and indemnification will be set on the basis of the property value as determined therein.

If the landholder or property owner should fail to appear, the amount of indemnification or compensation shall be set by ISTA, taking into acccount the percentage value of similar land or property within the same area.

Article 14. Land and other property acquired in accordance with this law shall be paid for or compensated as follows:

1) In the case of contract of purchase-and-sale, up to 500 hectares: 25 percent in-cash and 75 percent in agrarian reform bonds.

2) In the case of property exceeding 500 hectares, or when such property has been expropriated: 100 percent paid in agrarian reform bonds.

3) In the cases mentioned in clause two of Article 4 of this law: 25 percent in cash and the balance in agrarian reform bonds. These bonds will be subject to special regulations regarding terms and interest.

Value of livestock and improvements as mentioned in Article 7 for landholdings or property under 500 hectares shall be paid in cash.

Capital liabilities for duly proven investments on an agricultural or livestock operation shall be absorbed by the State under the same conditions as those under the contract.

Article 15. There will be three types of Agrarian Reform Bonds: Series A, B, and C, which shall be regulated by a special law. This law shall establish the terms, interest rates, benefits and other conditions.

Article 16. Percentage payment of agrarian reform bonds shall be as follows:

(A) In the case of efficiently cultivated land, payment shall be made through Type A bonds;

(B) In the case of leased land, tenanted farms or other indirect forms of land exploitation, compensation shall be made through Type B bonds;

(C) In the case of idle land or inefficiently cultivated land, payment shall be made through Type C bonds;

(D) In the case of land leased without a contract registered at the Ministry of Agriculture, payment shall be made through Type C bonds;

(E) In those cases mentioned in Article 14 — clause 3 of the present law — payment shall be made through Type A bonds, with a special five-year term of redemption and;

(F) In the cases included in clause two of Article 4 of the present law, indemnification or compensation shall be made through Type C bonds, after deducting the amount corresponding to damages, and in addition to any criminal liability therein.

CHAPTER 5

PROVISIONAL ADMINISTRATION

Article 17. Once ISTA has acquired property title of the land and other real estate property, a provisional administrative office shall be established in order to guarantee the following:

(A) Agrarian Reform objectives

(B) Continuity of production and productivity; and

(C) Care and maintenance of land property acquired.

Whenever there are pending harvests or the cultivation of a new crop has been initiated, the provisional administration shall guarantee the harvesting to the owner or the lease-holder, provided they continue the productive process. The ISTA provisional administration shall be in effect until all land (aquired by the State) has been allocated to the peasants.

CHAPTER 6

ALLOCATION OF LAND AND OTHER PROPERTY

Article 18. Land and other real estate acquired (by the State) shall be allocated to agricultural cooperatives, peasant community associations and other organizations of agricultural workers registered in the Ministry of Agriculture.

Land and other real property thus acquired shall be administered as a joint venture of the government and such organizations.

The joint venture system to which this article refers shall be in effect until the new landholders have acquired the necessary skills; notwithstanding this, there will always be ample coordination between the State and the new landowners, to achieve national planning objectives.

Article 19. Allocation of land shall be carried out taking into account a dynamic concept which will include property size and quality of the soil in relation to productivity and income.

Article 20. Income derived from the exploitation of land and property allotted to the peasants shall be applied according to the following priorities:

(A) Defrayal of production costs;

(B) Fulfillment of basic needs of family units within agricultural organizations;

(C) Payment referred to in Article 30 of this law.

Surplus funds shall be subject to special treatment in order to obtain an equitable distribution of same within a given area in accordance with national economy interests, striving to achieve the following:

(A) Creation of a reasonable margin of savings for all peasants in a given area;

(B) Development of social benefits for the community; and

(C) Development of other types of productive projects.

Article 21. Organizations referred to in Article 18 of this law shall be comprised exclusively of peasants who do not own any land, whether they are paid workers, lease-holders, secondary lease-holders, or tenant farmers ("aparceristas" or "colonos"). Peasants who own land but the size of which is not enough to fulfill their basic needs shall also be entitled to membership in said agricultural organizations.

General allotment rules and priorities as well as selection criteria shall be regulated by special legislation.

Article 22. Regulations regarding coordination, training, promotion, credit, technical assistance and other actions aimed at comprehensive development of the agrarian reform process, as well as an enlargement of the minifundia sector in order to increase productivity and achieve integration of productive associations, shall be regulated by other laws.

CHAPTER 7

GENERAL PROVISIONS

Article 23. The Executive Branch, together with the Cabine (Consejo de Ministros) shall define the national agrarian policy.

The Ministry of Agriculture, in coordination with other public sector institutions in the agricultural field, shall be responsible for implementing this policy in order to promote the agrarian reform process.

ISTA shall be responsible for the implementation of the process provided it does not act contrary to this law.

Article 24. A Council shall be established to advise the Ministry of Agriculture regarding agrarian reform. This Council shall be formed by:

(A) The Ministry of Planning and Coordination for Economic and Social Development and the Ministries of Labor, Defense, Treasury, and Economy;

(B) A representative of each of the following institutions: the Salvadoran Central Reserve Bank and the Agricultural Promotion Bank (Banco de Fomento Agropecuario);

(C) Four members representing the organizations covered by this law.

Article 25. Special Rules and Regulations shall be issued, no later than 90 days after this law becomes effective, for the division of the country zones and the implementation of the agrarian reform.

Notwithstanding the above, acquisition of rural land and/or property shall be implemented immediately for estates whose size will be indicated in a Special Decree, and (the State) shall take possession of same in the manner established in Article 11.

Article 26. Transference of property within the present irrigation and drainage zones shall be subject to the laws through which they were established. (This caluse sent by subsequent tel-id)

Article 27. Landholders or owners of land and/or property whose acreage, taken either combined or separately, does not exceed the limits established by this law may sell or mortgaged their property without other limitations than those established by other legislation, provided a sworn statement is made before a notary public at the moment of signing of the title deed and that the overall size of rural land and/or property does not exceed the limits established by law. The notary public shall indicate this fact in a sworn statement.

Land or real estate which does not exceed these limits may be sold, provided transfer is made to an agricultural association as described in Article 18, belonging to the State and previously decentralized for the development of a plan regarding housing, industry and services, duly authorized by ISTA. However, landowners may mortgage property, either as a whole or in part, to obtain supervised credit for the development of agro-industrial production or the improvement of their property.

Any sale made in violation of this provision shall be void, and the State may take possession of all rural property belonging to the violator.

Article 28. Present landholders or real estate owners whose property exceeds the limits established in Article 4 of the present law are under obligation to maintain their livestock at the present level in order to keep their productive units intact.

Article 29. This provision shall not apply to land and/or real estate or other property belonging to duly registered agricultural cooperatives and peasant community organizations.

Article 30. The beneficiaries of land and other property and/or goods and services shall pay ISTA an amount of money that will be applied toward paying the agrarian reform debt.

ISTA shall not apply these funds to any other ends.

Article 31. Until such time as the Agrarian Courts are established, all matters pertaining to the agrarian reform process shall be handled by the Civil Courts.

Article 32. All actions, proceedings and documents relative to the agrarian reform process are hereby exempted from payment of any and all taxes.

Article 33. The agrarian reform process is hereby declared to be a public utility or social program.

Article 34. The provisions of this law are hereby declared to be of public nature.

Article 35. Executive Decree No. 24 dated March 20, 1975, published in the Official Gazette No. 35, Volume 246, of March 21, 1975, is hereby nullified.

Decree No. 43 of December 7, 1979, published in the Official Gazette No. 228, Volume 265, of the same date, is hereby nullified.

Provisions contained in the Legislation for the Establishment of the Salvadoran Institute of Agrarian Reform are hereby declared null and void insofar as they violate the present law. Other laws, regulations or decrees contrary to the present law are also nullified.

Article 36. The landholder's right (or reservation) recognized through the present law shall be exercised by said landholder or owner concerning property affected by the (agrarian reform) law one year after ISTA has taken possession of said property.

Article 37. The present law shall become effective eight days after its publication in the Official Gazette.

SIGNED AT THE PRESIDENTIAL PALACE, San Salvador, on March 6, 1980.

(Signed by)

Col. Adolfo Arnoldo Majano Ramos

Col. Jaime Abdul Gutiérrez

Dr. Jose Antonio Morales Erlich

Dr. Jose Ramon Avalos Navarrete

Ing. Octavio Orellana Solis
Minister of Agriculture and Livestock

DECREE No. 154

The Revolutionary Junta of Government

WHEREAS:

I. It is the Junta's objective to adopt measures intended to foster an equitable distribution of the national wealth, and that to this end solid bases must be established at the beginning of the Agrarian Reform process;

II. The "Agrarian Reform Basic Legislation" has been decreed on this same date, wherein the general provisions governing said process have been established;

III. In order to guarantee compliance with the objectives of the law it is necessary to take precautionary measures that allow the taking of possession of land holdings included within the first stage (of the process), in order to maintain normal agricultural productive activities and implement an orderly process of acquisition and awarding of land to the beneficiaries;

THEREFORE:

By virtue of the legislative authority conferred (upon the Governing Junta) through Decree No. 1 of October 15, 1979, published in the Official Gazette No. 191, Volume 265, of the same date,

DECREES:

Article 1. In order to implement the execution of the first stage of the Agrarian Reform throughout the country, which will include land holdings in excess of FIVE HUNDRED HECTARES, either as a whole or a combination of several units belonging to one or more individuals, estates or associations. The Salvadoran Institute for Agrarian Reform is hereby authorized to proceed to immediate intervention and taking of possession of land holdings involved, through delegates of that institution or of the Ministry of Agriculture.

Such delegates will prepare a document attesting to the taking of possession of land holdings (in accordance with the law).

Land holdings belonging to agricultural cooperatives, peasant community associations or other campesino organizations are exempted from this legislation.

Article 2. The Ministry of Agriculture will cooperate in the implementation of this decree and the Ministry of Defense will also assist in its implementation, as needed.

When the Basic Agrarian Reform Law becomes effective, expropriation procedures established thereby will be implemented on the basis of the appropriate document ("Acta de Intervención") prepared in accordance with article one of the present Decree.

Article 3. The taking of possession and expropriation (intervención) conducted in accordance with this Decree will be effective at such time as the Basic Agrarian Reform Legislation becomes effective.

Article 4. The present Dec: e will become effective on the date of publication in the Official Gazette.

Given at the Presidential House in San Salvador.

(signed)

Col. Adolfo Arnoldo Majano Ramos

Col. Jaime Abdul Gutiérrez

Dr. José Antonio Morales Ehrlich

Dr. José Ramón Avalos Navarrete

Ing. Octavio Orellana Solís, Minister of Agriculture.

ANNEX II.C.

UNOFFICIAL TRANSLATION

DECREE No. 207

LAW FOR THE EXPROPRIATION AND TRANSFER OF LAND TO THE TILLER

THE REVOLUTIONARY JUNTA OF GOVERNMENT,

WHEREAS:

I. In accordance with the Basic Law of the Agrarian Reform, it is hereby recognized and guaranteed that private agricultural landholdings are complying with their inherent social function whenever they are directly exploited by their owners.

II. In accordance with Article 4, clause 2 of the above mentioned law, landholdings which do not comply with their inherent social function may be affected by the Agrarian Reform, even if they do not exceed the allowed limits of tenancy or reserve rights.

III. As a continuation of the comprehensive agrarian reform process already initiated, it is convenient to enforce the necessary measures for the swift eradication of unfair systems of indirect exploitation, which impose upon the actual tillers the obligation to pay, either in cash or in goods for the right to exploit the land in order to create the conditions for these tillers to acquire ownership of the land they farm, through the State.

THEREFORE, by virtue of legislative powers conferred by Decreee No. 1 of October 15, 1979, and based on Decrees No. 114 (February 8, 1980) and No. 153 (March 5, 1980),

THE FOLLOWING IS DECREED:

LAW FOR THE EXPROPRIATION AND TRANSFER OF AGRICULTURAL LANDS TO THE TILLERS:

Article 1. The purpose of this law is that the State acquire landholdings which are not being directly exploited by their owners, in order to assign them to the persons mentioned herein, who from now on shall have preferential rights to acquire said landholdings and become their rightful owners.

Therefore, landholdings or portions of same--appropriate for agricultural exploitation and regardless of their size--which at the present time are being exploited by simple lessees or by persons holding lease contracts with an option-to-purchase clause, sharecroppers, contract purchasers with ownership rights over the property, or other persons who work the land directly--through payment either in cash or in goods--are hereby expropriated.

Article 2. The expropriation of landholdings or portions of same mentioned in the preceding article, is hereby lawfully decreed on behalf of the Salvadoran Institute of Agrarian Transformation (ISTA).

Landholdings or portions of same expropriated in accordance with this law, shall be assigned through ISTA to lessees, sharecroppers and other persons referred to in Article 2 of this law, in compliance with provisions contained in the same law and of internal regulations as may be established.

However, in the event that a lessee, sharecropper or contract purchaser should cultivate an entire property or land plot exceeding one hundred hectares, expropriation as established in Clause 1 shall not apply. Therefore, its exploitation shall not be altered in any manner whatsoever until the landholding or land plot has been acquired by ISTA, in accordance with the Agrarian Reform Basic Law.

Article 3. Beneficiaries who, in accordance with this law, have been assigned land plots by ISTA, shall be entitled to own a maximum of seven hectares (approximately 10 "manzanas").

When expropriated landholdings or land plots exceed seven hectares, the excess land shall continue to be ISTA's property, who should respect the rights of the lessee or other person working the land during the current agricultural year, and assign it to other beneficiaries after the end of the harvest season. This seven hectare limit shall not be applied to persons holding a lease contract with an option-to-purchase clause, or to contract purchaser with ownership rights who has acquired such property or land plot through a legal instrument, before the present law became effective.

The time limit established hereby shall not be applicable to agricultural cooperatives, communal peasant associations, or other organizations of agricultural workers registered at the Ministry of Agriculture and Livestock (MAG).

Article 4. For purposes of the present law, landholdings or land plots held under a simple lease or other types of indirect exploitation, shall be understood to be affected whenever their contracts or leases are still in effect, or when their due date has been extended by law.

The above shall also apply to verbal or written contracts, even though no money may have been paid, and regardless of the amount of money involved.

Article 5. Landholders and owners of land plots of less than one hundred hectares, expropriated in accordance with this law, shall have the right to be paid fifty percent of the land value in cash, in accordance with a special law regulating bonds which shall be enacted in the future.

Landholders and owners of expropriated land in excess of one hundred hectares, shall receive payment according to provisions in the Agrarian Reform Basic Law.

In any event, the amount of such compensation shall be established on the basis of the property value stated by their owners in their tax reports for the years 1976 and 1977.

Should the landholder or owner of expropriated land have failed to report such property for the periods indicated in the preceding paragraph, expropriation shall be implemented as indicated in Article 13 of the Agrarian Reform Basic Law.

Any payment already received by a landholder or property owner for land-leases shall be deducted from the price of the property to be paid by ISTA.

Article 6. The amount to be paid by the beneficiaries of landholdings or land plots assigned to them shall be equal to the amount of the compensation that the State has paid for their expropriation. Such amounts must be paid in cash, in regular payments not to exceed a term of 30 years, including interest. The type of product under cultivation, as well as harvest collection time shall be taken into account when setting repayment terms.

However, the beneficiaries can make payments in advance or full payment in cash. In this case, ISTA may deduct up to one third of the total value, in accordance with the special regulations.

Article 7. Until such time as ISTA has set the value of a property or land plot, beneficiaries will pay ISTA an amount equivalent to that set for land leases in Decree No. 44.

Provisions as stated above shall not be applicable if the beneficiaries have already made future payments on account to the landholder or owner of an expropriated property.

In the same manner, any amount paid by the beneficiaries to their former landlords shall be deducted from payments to be made to ISTA, in accordance with Article 6 of the present law.

Article 8. Beneficiaries of expropriated land shall abide by the following rules, limitations and prohibitions:

a) The may not lease, or in any form permit indirect exploitation of land affected by this law;

b) The allocation of landholdings or land plots to beneficiaries shall be entailed in benefit of the family unit for a period of thirty years. The family unit clause shall be effective, even if the beneficiary should pay for the land in full before the thirty year period expires.

During that time, landholdings or land plots assigned to a family unit may not be transferred or mortgaged. However, transfer may be effected in the event of the death of the beneficiary, and property may be mortgaged as collateral for agricultural loans granted by credit institutions.

c) Beneficiaries must pay for their land as established in Article 6. Should a beneficiary fail to make payment without a valid reason for a period of one year or more, the land shall be repossessed by ISTA, to be redistributed to other beneficiaries. The same provision will apply to beneficiaries who abandon their land; to those who violate provisions contained in a) above, and to those who do not comply with the social function provision as described in Article 1 of the Agrarian Reform Basic Law.

Article 9. In order to receive title, persons include in any of the cases described in Caluse 2 of Article 1 of the present law, and who wish to take advantage of the benefits that it confers, should contact ISTA express their desire to acquire the land or plot which they are cultivating, or the established maximums, provide information regarding the type of land involved and its location, landholder's name, the tenure arrangement under which they work the land, and any other pertinent information to clearly establish their identity and the legal situation involved. The identity and other details about the applicant must be ascertained by any available legitimate means.

In order to implement the above described procedure-- and after the present law has become effective--ISTA will publish announcements in the Official Gazette and in two newspapers with large national circulation, inviting interested persons who meet the established requirements to state their intention or willingness to become owners of landholdings or land plots. Their intention must be stated within one year after the last publication of said announcement. One year after the last day of publication of these announcements, the benefits of the present law shall expire.

Until such time as their intention (as referred to in this Article) is stated, ISTA must respect the rights of persons mentioned in Article 2 of the present law, regarding landholdings or land plots.

Article 10. The procedure to identify and legalize the transfer or expropriated land on behalf of ISTA shall be in so far as applicable, that established by Article 11 of the Agrarian Reform Basic Law, without the need in this instance of either previous occupation of expropriated land or the public announcement referred to in Article 11 of the Agrarian Reform Basic Law.

Article 11. The Ministry of Agriculture and Livestock (MAG) shall issue special regulations for the implementation of this law, no more than thirty days after said law becomes effective.

Article 12. This law shall become effective eight days after its publication in the Official Gazette.

GIVEN AT CASA PRESIDENCIAL, San Salvador, on the twenty-eight day of April of the year nineteen-hundred and eighty.

(signed)

Col. Adolfo Arnoldo Majano

Col. Jaima Abdul Gutiérrez

Dr. José Antonio Morales Erlich

Dr. José Ramón Avalos Navarrete

Ing. Octavio Orellana Solís
Minister of Agriculture

PRESS RELEASE: DECREE 220

SPECIAL LAW FOR THE ISSUANCE OF THE AGRARIAN REFORM BONDS

BONDS FOR AGRARIAN REFORM ISSUED

The President's Office of Information yesterday afternoon issued the following press release:

The Revolutionary Junta of Government, through Decree No. 220 has put into effect the Special Law for the Issuance of the Agrarian Reform Bonds, payable in national currency, which will be issued by ISTA and will be used to pay for the land and other assets acquired by the State for the execution of the mentioned Reform.

In accordance with above decree, Agrarian Reform Bonds will be issued for the sum of One Thousand Six Hundred Million Colones, (₡1,600,000,000.00)

The above mentioned bonds will be issued in three categories: Series "A", Series "B", and Series "C"; they will bear a 5% annual interest and will be redeemed in the following terms: 20 years for Series "A", 25 years for Series "B", and 30 years for Series "C".

It should be noticed that in the Series "A" Bonds, some Preferential Bonds will be issued, with the special term of redemption of 5 years, for payment of cattle, machinery and infra-structures, paying 7% annual interest.

The bonds will constitute direct obligation of the Salvadorean Agrarian Transformation Institute, and will have the subsidiary and unlimited guarantee of the State. This such guarantee includes the due and punctual payment of the capital and any other responsibilities that may be derived form the issuance, service, amortization, or redemption of the bonds.

In accordance with the issued Law, the bonds will be utilized exclusively for the payment of the cost of lands and other assets acquired for the execution of the process of the Agrarian Reform and should be accepted at their nominal value; nevertheless, ISTA can place its bonds in the financial market or in official autonomous institutions, for up to 90% of their nominal value, in order to obtain the necessary financing resources to cancel the cash part of the land and other assets stipulated in the Basic Law of the Agrarian Reform.

BENEFITS

The bonds, according to the Law decreed by the Junta will have the following benefits:

a) The capital and interests will be exempt from payment of stamp, succession and donation taxes.

b) They will be accepted for 90% of their nominal value as guarantee for the payment of Customs and Consular duties, of direct taxes and any other taxes, payable to the State or the Municipalities; and will be also accepted for their nominal value as guarantee in any case in which by order of the Law or of Judicial or Administrative authorities, are required to yield bail.

c) The expired interest coupons will be accepted by the Government at their nominal value, for the payment of all kinds of taxes, tax rates and fiscal contributions.

d) They should be accepted at their nominal value in payment of succession and donation taxes, even though their term has not come due.

The bonds so acquired will be maintained in effect and the Government will have the right to retain them until they are due and negotiate them on the financial market when need be.

e) The Government may invest its own funds or the funds of others in its control, in the acquisition of the above mentioned bonds with the powers expressed in the last Clause of the previous paragraph d).

f) The state enterprises and official autonomous institutions will be able to acquire these Bonds, being able to retain them until they come due, use them to obtain advance payments or sell them when considered convenient.

g) The Central Reserve Bank of El Salvador, according to its Organic Law is authorized to buy or acquire, keep, and sell the above mentioned bonds, either at their nominal value or at the market value.

h) The Agrarian Reform Bonds may be accepted as guarantee to obtain financing from the official financial institutions for industrial, agro-industrial and agro-chemical activities, and rural housing activities in social the interest, up to the percentage of its nominal value approved by the Monetary Junta.

i) In the event that the holder of the bonds sells them at a higher price than their nominal value and invests the product of the sale in new basic welfare producing or strategic enterprises for the economic development, approved by the Executive Power in the Branch of Planning and Coordination of the Economic and Social Developemnt of the Ministry of Finance, the holder will be exempt from capital income taxes corresponding to the amount destined to such activities;

j) When the Bond holders desire to invest in the establishment of or participation in the enterprises referred to in clause h) of this article, which promotes the public sector, the Monetary Board will establish the financing mechanism to insure the liquidity of the same.

DECREE 221.

THE REVOLUTIONARY JUNTA OF GOVERNMENT

CONSIDERING:

I.- That the Basic Agrarian Reform Law establishes as main assignees of the acquired lands the Cooperative Associations, Communal Farmer Associations and other groups directly involved with agrarian activities;

II - That the same Basic Law has given the Ministry of Agriculture the power to develop and coordinate agrarian reform policy that the Executive Power in the Council of Ministers will enforce;

III - That the General Cooperative Law, it's Regulation and the Law Creating the Salvadoran Institute of Cooperative Development mandates that this latter organization will be empowered to confer official recognition upon inscription to and give legal status to, among others, the Agrarian and Fishing Production Cooperative Associations, inoperant procedure for an agrarian cooperative system, directed to give impetus to the Agrarian Reform process, with well defined characteristics;

IV - That it is imperative to facilitate the promotion, formation and declaration of legal status - with the rapidity that the Agrarian Reform process requires - to the largest number of farmer groups possible which are now organizing cooperatively on all the intervened properties, and also on those properties that in the future might be acquired for the continuation of the process, and on those cooperatives which form within the unaffected sector, among small and medium sized farmers that wish to organize themselves cooperatively to obtain the benefits of this Law:

THEREFORE,

Using the legal faculties granted by Decree No. 1 of October 15, 1979, published in the Official Newspaper No. 191, Volume 265 of the same date,

DECREES:

the following

SPECIAL LAW FOR AGRARIAN ASSOCIATIONS

Art. 1. The creation of the Department of Agrarian Associations as a Subordinate Agency of the Ministry of Agriculture, that will be in charge of the promotion, organization and official recognition and declaration of legal status of the Cooperative Associations of Agrarian and Fishing Production, and other similar associations that develop activities technically considered as agrarian.

Art. 2. The organized farmer groups on the existing expropriated properties and on other properties that in the future might be acquired in conformity with the Basic Agrarian Reform Law, will obtain their legal status as associations by virtue of the presentment of the constitutional act drawn at each occupied property, with the ISTA and MAG Delegates' intervention.

Art. 3. The MAG's Agrarian Associations Department will open a Register in which will be inscribed the constitutional act referred to in the previous article, based on which, legal status will be granted, by virtue of Executive Decree, in the Field of Agriculture and Livestock.

Art. 4. For the granting of production credits and verification of legal status, the certification of the act to which the previous article refers, extended by the Department's chief, will be sufficient, and the indorsement of ISTA will be accepted to be responsible in a subsidiary manner for the obligations of the Cooperatives.

Art. 5. For the Register and granting of legal status to other agrarian worker groups organized in different cooperative systems, federations or "de facto" associations that still lack legal recognition, it will be sufficient that they present to the MAG's Agrarian Associations Department the Statutes and Certifications of Acts of the General Assembly, in which the groups representatives have been elected.

If the federation of groups to which reference is made in the previous article assemble several pre-cooperatives, each group must be inscribed separately, for the purpose of giving each one it's own legal status under the same procedure accounted for in Art. 3 of this Law, and will enjoy the same benefits in the granting of production credits.

Art. 6. All other legal dispositions that contradict this Law are derogated.

TRANSITORY

Art. 7. The Agrarian and Fishing Cooperative Associations already inscribed with the Salvadoran Institute of Cooperative Development, as well as the Communal Farmer Associations to which the Law creating ISTA refers, register with the MAG's Department of Agrarian Associations for that purpose shall submit to it all pertinent documentation, and the MAG shall recognize the legal status requested, by Executive Decree that encompass all of them, requisite by which they will be legally inscribed, by consequence of the Basic Agrarian Reform Law.

Art. 8. During the time that the General Agrarian Reform Law is in force, the Department of Agrarian Associations created by Article 1 of this Law, will be enforced in that which is applicable, and does not contradict the Basic Agrarian Reform Law, by the Cooperative Associations General Law and by the precepts of the Salvadoran Institute of Cooperative Development Creation Law, issued on November 25, 1969, by means of the General Assembly's Decrees number 559 and 560, respectively, published in the Official Newspaper number 229, volume 225, of December 9 of the same year, especially in that which refers to attributions, activities to be executed, inspection and vigilance of the agrarian associations to which this Decree refers:

Art. 9. The MAG is authorized to integrate an Agrarian Associations Administration Council with the Ministry's personnel and representatives from other organizations involved in the Agrarian Reform process.

Art. 10. The Agrarian Cooperative Associations, ninety days after their inscription, will be obliged to elaborate their statutes, which shall be approved by the Department of Agrarian Associations and these will be ruled by the Cooperative Association's General Law, in those cases which do not contradict the Basic Agrarian Reform Law.

Art. 11. The present Decree will be in force eight days after it's publication in the Official Newspaper.

GIVEN AT THE PRESIDENTIAL PALACE: San Salvador, May 9, 1980.

Signed by all five members of the Junta and the Minister of Agriculture.

DECREE 222

AMENDMENTS TO THE BASIC LAW OF AGRARIAN REFORM (DECREE 153)

For the information of the interested parties, the following are the amendments and additions promulgated:

(Art. 1) to Art. 3., the following clauses are added:

"This law will also affect cattle, machinery and equipment permanently located in the intervened property, which have been used directly for the normal and efficient development of the productive works of this unit.

Exception is made on the machinery and equipment which is temporarily located on the intervened property, which belongs to a third party, and which provides this type of seasonal service to the farmers of the region.

For the verification of the facts established in the previous article, ISTA is authorized to obtain all the evidence considered necessary.

Let it be understood that the machinery and equipment belong to the owners of the affected land, if one or more of the associates of the legal entity which provide the service of the machinery and equipment are the same individuals who receive it."

(Art. 2) Clause No. 3 of Article 14 is amended as follows:

"3) The cattle, the fixed and movable property referred to in Article 3 of this Law, 25% in cash and the rest in Agrarian Reform bonds. These bonds will have preferential treatment in relation to the terms and interests."

(Art. 3) Add Clause No. 4 to Article 14, as follows:

"4) Those fixed properties which constitute an industrial, agricultural and livestock complex, such as sugar mills, coffee processing plants, slaughterhouses, milk processing plants and others, will be paid with Serial A bonds."

(Art. 4) Clause 5 of Art. 11 is amended as follows:

"If the owner, holder or legal representatives are not present when the minutes are signed on the term indicated in Clause 3 of this Article, a footnote will be added to the minutes which indicates these circumstances and registration of the corresponding titles will proceed. The minutes and the footnote referred to in this Article will be authorized by a representative of ISTA."

(Art. 5) Article 36 is amended as follows:

"The right of reservation recognized in this Law, will be exercised by the affected land-owner within the year following the intervention of the property.

If he does not make use of this right within the term indicated in the previous clause, it is understood he waive, the right to it."