

A.I.D. EVALUATION SUMMARY PD-AAZ-185 PART I

(BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS)

IDENTIFICATION DATA

A. REPORTING A.I.D. UNIT: USAID/Guatemala <small>(Mission or AID/W Office)</small> (ES# 88-05)	B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN? yes <input type="checkbox"/> slipped <input checked="" type="checkbox"/> ad hoc <input type="checkbox"/> Eval. Plan Submission Date: FY <u>88</u> Q <u>2</u>	C. EVALUATION TIMING Interim <input type="checkbox"/> final <input checked="" type="checkbox"/> ex post <input type="checkbox"/> other <input type="checkbox"/>			
D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report)					
Project #	Project/Program Title <small>(or title & date of evaluation report)</small>	First PROAG or equivalent <small>(FY)</small>	Most recent PACD <small>(mo/yr)</small>	Planned LOP Cost <small>('000)</small>	Amount Obligated to Date <small>('000)</small>
520-0330	Pilot Commercial Land Markets	8/7/84	8/30/87	1,000	1,000

ACTIONS

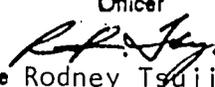
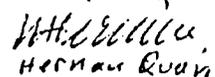
E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR	Name of officer responsible for Action	Date Action to be Completed
Action(s) Required		
1. Expand AID support for Penny Foundation voluntary Land Sale/purchase program	Mission Director	Completed
2. Establish formal guidelines for criteria for farm selection.	Penny Foundation	Completed
3. AID hire Project Liaison Officer to more closely monitor program financial controls, management information system and standardization of farm selection process.	ORD	Completed
4. Counterpart contribution schedule should be revised to recognize expanded Penny Foundation investments in beneficiary social services (schools, housing, clinics).	ORD	6/88
5. Expand training program for beneficiaries and Penny Foundation technicians	Penny Foundation	6/88

(Attach extra sheet if necessary)

APPROVALS

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION: mo 5 day 19 yr 88

G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:

Project/Program Officer Signature:  Typed Name: Rodney Tsaji Date: <u>6-3-88</u>	Representative of Borrower/Grantee Signature:  Typed Name: Hernan Quin Date: <u>21-4-89</u>	Evaluation Officer Signature:  Date: <u>25-4-89</u>	Mission or AID/W Office Director Signature:  Date: <u> </u>
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H. EVALUATION ABSTRACT (do not exceed the space provided)

The Pilot Project was initiated in order to address the increasing pressure for land distribution which has built up over the years within the rural sector caused by the distortion of the Guatemalan land tenure situation. The Penny Foundation was selected as the vehicle to execute the Pilot Project because of their experience in this activity. The goal of the Project was to demonstrate the feasibility of a private sector land commercialization program. The purpose of the Project was to establish a mechanism to permit small farmers to purchase arable land and provide production credit and expert technical assistance in a timely fashion to the participating small farmers.

This final evaluation was conducted by a three person team, led by Dr. Stephen Stewart, based upon the review of all previous studies, evaluations, documentation, Foundation reports and correspondence between the Penny Foundation and USAID, and also including interviews with Foundation staff, Project participants and Project personnel.

The purpose was to evaluate the performance of the Project in order to identify issues and constraints to be addressed in the then proposed expansion of the Project. Based upon previous evaluations, the specific concerns which had possible implications for the viability of the Project were: the participant selection process, the financial and logistical constraints associated with the farm purchase, the financial constraints and debt burden of the selected participants, the administrative capacity of the Penny Foundation to continue to expand the project, some short-run impact on the participants, and whether alternative organizations, similar to the Penny Foundation, have the capacity to implement a land market activity program.

The major findings and conclusions are:

- * The Pilot Project has achieved the major objectives, however, the program must be expanded to ensure long-term viability.
- * Formal guidelines must be established to define the criteria for farm selection.
- * Management information system must be improved, not only for internal use, but also external reporting to be able to analyze progress.
- * More effort should be made to educate the beneficiaries as to their rights and responsibilities involved in participating in the program.
- * Additional training and logistical support is required for the "técnicos" to enable them to provide basic instruction to the beneficiaries in the subjects of finance and accounting.
- * The Foundation should use their traditional resources to pursue the housing program on the Project farms to improve the poor living conditions during the initial years, which has been a cause for resistance to participation in the program and beneficiary turnover.
- * The program would benefit from the incorporation of social workers to provide guidance and counseling in the transition period of the beneficiaries who, based upon their increased income, achieve a higher social status.
- * The Foundation's existing regional offices should be utilized as logistical support centers to increase the effectiveness of the field technical staff.
- * AID should oversee the program more carefully as funding increases, particularly in terms of the program's financial controls, management information systems and the standardization of the farm selection process.
- * The experience of the Penny Foundation should be used to both expand the land market program with other organizations, or the Foundation itself. The program could be perhaps replicated with the Guatemalan cooperative federations and other private development organizations such as the "Movimiento Guatemalteco de Reconstrucción Rural" (MGRR).

I. EVALUATION COSTS

1. Evaluation Team

Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (US\$)	Source of Funds
Stephen Stewart		P10/T	\$6,900	PD&S
Peter Fairhurst		520-0000-0-00 7288-00		

2. Mission/Office Professional Staff Person-Days (estimate) 10

3. Borrower/Grantee Professional Staff Person-Days (estimate) 5

A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Try not to exceed the 3 pages provided)

Address the following items:

- Purpose of activity(ies) evaluated
- Purpose of evaluation and Methodology used
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: ORD/USAID/Guatemala

Date this summary prepared: May, 1987

Title and Date of Full Evaluation Report: Final Report Evaluation of Commercial Land Mkts. Project, May/87

1. Purpose of Activities Evaluated: The Pilot Project was initiated in order to address the increasing pressure for land distribution which has built up over the years within the rural sector caused by the distortion of the Guatemalan land tenure situation. The Penny Foundation was selected as the vehicle to execute the Pilot Project because of their experience in this activity.

Since August 1984, USAID/Guatemala had provided three grants of one million dollars each to the Penny Foundation (Fundación del Centavo) to implement a pilot Commercial Land Market Project. The subject of this evaluation (Grant #84-0330) was the first of these three Grants. The grants provided funds for farmland purchase, technical assistance, and production credit, as well as covering part of the Foundation's administrative costs to manage the Project.

The goal of the Project was to demonstrate the feasibility of a private sector land commercialization program. The purpose of the Project was to establish a mechanism to permit small farmers to purchase arable land and provide production credit and expert technical assistance in a timely fashion to the participating small farmers. The following objectives were to be achieved within the three year Project life:

a. Establish a mortgage guaranty program for the sale of land, such that land sellers would receive a maximum of 50% of the purchase price of the their lands in currency and the remainder in mortgage guaranties.

b. Establish a small farmer purchase program where participants must provide at least a 10% down-payment of the selected land parcel and pay the balance in installments, leaving the land as a mortgage guaranty.

c. Establish a financial mechanism within the Foundation for the issuance and sale of mortgage bonds, based on collateral provided by the small farmer mortgages, such that additional financial resources can be obtained from the private sector to continue the land commercialization program.

d. Provide approximately 375 participating small farmers with title to a minimum of 3.5 hectares of arable land per family for cultivation. Approximately 1,400 hectares are to be sold and put under cultivation during the first year, and 350 hectares each year thereafter.

2. Purpose of the Evaluation and Methodology: This final evaluation was conducted by a three person team, led by Dr. Stephen Stewart, based upon the review of all previous studies, evaluations, documentation, Foundation reports and correspondence between the Penny Foundation and USAID, and also including interviews with Foundation staff, Project participants and Project Personnel.

The purpose was to evaluate the performance of the Project in order to identify issues and constraints to be addressed in the then proposed expansion of the Project. Based upon previous evaluations, the specific concerns which had possible implications for the viability of the Project were: the participant selection process, the financial and logistical constraints associated with the farm purchase, the financial constraints associated with the farm purchase, the financial constraints and debt burden of the selected participants, the administrative capacity of the Penny Foundation to continue expand the Project, some short-run impact on the participants, and whether alternative organizations, similar to the Penny Foundation, have the capacity to implement a land market activity program.

3. Findings and Conclusions: The evaluation was focused primarily on the functioning of the Penny Foundation Project in terms of the beneficiaries of the program. From this point of view, as a pilot project it had made a promising beginning. Landless "campesinos" are farming their own land and have the possibility of achieving a standard of living equivalent to that of middle class urban residents. The extensive technical assistance and credit components are essential parts of the program. The recommendations set forth were to improve the services to this target group with an eye to expanding the program beyond the pilot phase.

An expanded land market program also must of necessity confront issues such as the organization of the program within the structure of the Foundation, the financial viability of the program as a whole, the functioning of the land registry, and financial mechanism to ensure the long-term viability of the land market activities being developed for small farmers. These issues, which were beyond the scope of the evaluation, are discussed in depth in the project paper.

4. Principal Recommendations:

- a. Procedural changes are needed in the purchase process to expedite the rejection or purchase of the farm. The second evaluation visit to a farm being considered for purchase, which is made by the Foundation general manager and the director of the Land Purchase Program, could be eliminated and the agricultural engineer who makes the initial agronomic evaluation of the farm could become more involved in the price negotiation process.
- b. A series of guidelines, both agronomic and socio-economic should be drawn up and established as primary criteria for the initial evaluation of the farm in question. These guidelines should be sensitive to the set of agronomic variables encountered in different areas of the country as well as the corresponding crop possibilities.
- c. If the program is to embark on a new phase which includes a possible expansion, it is imperative that reliable and complete data be managed in a responsible and comprehensive manner allowing in-depth progress analysis.
- d. Both the vegetable and the coffee farms appear to be profitable within the context of this program. The Penny Foundation is currently exploring alternative crop possibilities for developing Montelmar, a farm which does not fit the profiles of other Foundation farms. By exploring a variety of options this farm could be used by the Foundation as a proving ground for expansion beyond the traditional activities in coffee and vegetables.
- e. The Highlands are precisely the area of greatest civil conflict in recent years, and the implementation of the Penny Foundation program for people in this area should help alleviate the pressures which led to this conflict. Both the acquisition of farms for distribution in the Highlands as well as the purchase of coffee farms where the beneficiaries are primarily from in the Highlands should be attempted.
- f. The Foundation has purchased both producing and non producing farms for coffee production. There should be greater emphasis given to producing farms, since there is less risk involved for both the beneficiaries, who do not have to survive three years without income, and for the Foundation, because of the lower beneficiary turnover and lack of need to build the entire operation from nothing.
- g. The questionnaire used to collect information from applicants for selection of beneficiaries is adequate for this purpose, but the computer capabilities for recording and processing this information are rudimentary and both the hardware and software should be up dated.
- h. The process of educating beneficiaries about their rights and responsibilities could be improved by preparation and use of some form of standardized information packet, either a printed information sheet or audiovisual material which could be incorporated into on farm question and answer sessions.
- i. The Foundation's flexibility in devising special arrangements for collection of the down payment is important to insure that the intended beneficiaries are served by the program, and it should be continued.
- j. Additional training and logistical support for the técnicos in educating the beneficiaries about credit and in the collection and accounting of payments.
- k. The técnicos should produce written reports about beneficiaries who leave, which include reasons given for leaving, time spent in the program and how well they seemed to fit in the program.
- l. The Foundation's plan to construct schools and hire teachers on the farms is an excellent solution to the problem of providing education, a priority for the beneficiaries if they are to reside on the farm. The program should be expanded.

n. The Foundation might attempt to establish its own system of health-promotion, perhaps through a mobile health unit, staffed by a doctor and nurse and carrying health supplies. The unit could provide direct medical services and train local promoters among the beneficiaries. However, to be effective any initiative in the area of health and sanitation should have the active support of the beneficiaries.

o. The program would benefit greatly by the participation of social workers to monitor the program's progress toward its social goals, to provide experience in group dynamics needed to build successful Directivas and a sense of community, and to search for additional sources of assistance for community improvement programs. The social workers also could provide important counseling and training in how to use additional income for improving living standards. This type of training may be particularly important in working with the women of the farms.

p. The Foundation's regional offices should be utilized by the land market program as centers to identify potential beneficiaries, to provide administrative support (relieving the agronomists of much of the responsibility of carrying messages from the capital to the farms, providing more direct support to the técnicos in the region, assisting in the logistics of arranging the agronomist; farm visits), and to serve as training centers for the técnicos in the region, both for short courses and for monthly meetings to discuss problems on their farms.

q. Although AID has successfully allowed the Penny Foundation a free hand in developing the program to date, it would seem wise for AID to oversee the program more carefully as funding increases, particularly in terms of controls on the program's finances and in the implementation of information management systems and in standardized evaluation of farms for purchase.

r. In expanding the land market program, the experience of the Penny Foundation should be used both to expand the program with the Foundation and through other organizations. Other institutions which might be viable candidates for parallel programs are Guatemalan cooperative federations and other private development organizations such as the Movimiento Guatemalteco de Reconstrucción Rural (MGRR).

Lesson Learned

1. Down-Payment Requirement

Due to the limited resources of the Project beneficiaries FUNDACEN has been required to exercise a great degree of flexibility in requiring that the 10% down-payment be paid by the beneficiaries upon receipt of the provisional title.

2. Parcel Size

Over the life of the initial project, FUNDACEN has determined that the fixed 4 "manzanas" parcel size established by the original project design is an untenable condition. Given the variation in terrain, soil conditions and soil quality, FUNDACEN has been required to modify the parcel size to be able to equitably distribute the parcels. The crop selected for the particular farms also affects the parcel size, especially vegetable crops in the Highland Region. The labor intensive nature prevents the individual beneficiary family from being able to work the full 4 manzanas.

3. Housing Situation

The creation of a new farming community, often times far removed from existing communities, has necessitated the financing of housing sooner than contemplated in the original project design. The harsh living conditions during the initial phase of the farm's development has resulted in health problems, deaths and desertion of the program.

4. Education

As indicated above, the location of the new farm community is a major factor in the Project's implementation. Some prospective beneficiaries refuse to participate, as generally there are no schools located in the proximity of the new farm community. FUNDACEN has thus been required to place schools and teachers as a priority item in the farm development plans. Adult education, e.g. literacy and Spanish has also been determined to be a necessity in FUNDACEN's effort to convert farm laborers into commercial farmers.

5. Seasonal Vegetable Crops

FUNDACEN has diverged from the original project crop mix of 40/60% for lands dedicated to permanent crops and seasonal crops, respectively, due to problems encountered in the marketing of the export vegetable crops. In addition to the marketing difficulties, problems were also encountered in meeting the production and quality standards of this particular market sector. As a consequence, FUNDACEN opted to dedicate more of the lands purchased to permanent crops such as coffee, which do not have such rigid quality and production standards, and

Cont. Lessons learned

for which there exist a well established marketing channels. The perception was that permanent crops represented a lower risk investment for the beneficiaries and for FUNDACEN.

6. Cash-flow Sensivity

As indicated above the original project design called for a crop mix of 40/60%, and was based upon programmed inflow of funds from the respective crops, which were to be timed to coincide with the disbursements required for land purchase and production loans. By changing the proportion of the crop mix, FUNDACEN affected the scheduling of the cash-flows. The season crops were expected to generate inflows of funds to the Project the year following disbursement e.g upon harvest of the seasonal crops, whereas the permanent crops would have a grace period until the first harvests, 2-3 years from the date of the first disbursement.

7. Participant Selection Process

Having had over 20 years of experience in the field of rural development, FUNDACEN was well aware of the importance of carefully selecting participants for programs. In the case of the Land Markets Project this element was even more critical because of the financial and social implications for the beneficiaries and FUNDACEN. The selection process was designed to screen-out speculators and those who could not interact with others under very difficult conditions, nor function under the patriarchal approach of the FUNDACEN. The success of the program is very much determined by the participants, how they respond to the situation and work together with the direction provided by the FUNDACEN.

8. Beneficiary Training

In addition of the Project funded components of Land Purchase, Production Credit, and Technical Assistance for crop production, a very significant component which is the primary responsibility of FUNDACEN, is the complementary training in basic accounting and finance. As the Project goal is to convert unskilled farm laborers into commercial farms, using credit to finance this endeavor, the participants must acquire basic skills in accounting and finance in order to properly manage their farming operation. In comparison to subsistence farming, the beneficiaries will have to concern themselves with cost and anticipated profits to arrive at business decisions. Also, without this knowledge and understanding, difficulties with FUNDACEN will be encountered during the program, and later when they are on their own, problems with any party with whom they transact business is certain to arise.

9. Need for Social Workers

The Project is designed to make a major change in the economic and social stature of the beneficiaries within a relatively short period of time, based upon the projected income from the farms. It is now perceived that efforts will have to be made to provide guidance to the beneficiaries during this transition period. The program participants will rise from subsistence farmers to commercial farmers earning the equivalent of a lower-middle class urban dweller, with disposable income and the potential to increase their living standards and improve the future of their heirs. The experience with the Project thus far has been that the increased financial benefits has spawned higher expectations on the one hand, but also created social problems due to the inability of some of the participants to cope with their improved economic conditions.

10. Information at the Farm Level

The volume of information handled at the individual farm level encompassing the crop production activities as well as the farm community has created difficulties for the resident FUNDACEN extension agents. These records and control are presently maintained manually, with the complexity determined by the size of the farm and the number of beneficiaries (ranging from 10-280 beneficiary families). Although the direct responsibility for establishing and maintaining these controls is that of the farm community beneficiary committees, FUNDACEN has had to implement the required system of controls and record-keeping since the participants lack the requisite skills. While FUNDACEN does maintain accounting records at the administrative office on a consolidated farm basis, as well as for individual beneficiaries, this information is not readily accessible at the farm level. This situation will be further exacerbated as the program expands and the volume of transaction increases, as more of the beneficiaries commence to repay their loans. Unless easily accessible and adequate information is available to the beneficiaries at that time, FUNDACEN will likely experience problems with beneficiaries who disagree with the loan activity information provided by FUNDACEN.

11. Health Services

As stated previously, the location of the farms and the lack of adequate health facilities represents a significant problem. In many cases FUNDACEN is establishing new communities with relative high population densities in places where no facilities or services exist. A system of potable water must be installed, as well as primitive sanitation facilities. The program presently lacks any provision for preventive health care or emergency medical services, with the exception of lectures on primary nutrition and sanitation given by the FUNDACEN technicians and teachers, when available, or services of the nearest government health center. The relative isolation of some of the FUNDACEN farms indicates that the health needs of the program participants should be addressed, either from FUNDACEN resources or possible USAID intervention.

K: ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

- Final Report Evaluation of Commercial Land Markets Project
Contract 520-0000-0-00-7288-00

L COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRANTEE

EVALUATION COST DATA

USAID/ Guatemala or Bureau/Officer _____

Form completed by R.K. Tsuji ORD 5-29-88
Typed Name Office Date

1. No. and Title of Project/Activity: Program Development & Support
(or Title of Evaluation Report) _____
520-0000.1 (F and N)

2. Date of Evaluation Report: May 21, 1987
Date of PES (if different): May 1988

3. Mission Staff Person Days Involved in this Evaluation (estimated):
- Professional Staff 10 Person Days
- Support Staff 2 Person Days

4. AID/W Direct-Hire or IPA TDY support funded by Mission (or office) for this evaluation:

<u>Name</u>	<u>Period of TDY (Person-Days)</u>	<u>Dollar Cost: (Travel, Per Diem, etc)</u>	<u>Source of Funds*</u>
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5. Contractor Support, if any, for this evaluation:**

<u>Name of Contractor</u>	<u>Contract #</u>	<u>Dollar Amount of Contract</u>	<u>Source of Funds*</u>
Stephen Stewart	PIO/T 520-0000-0-00-7288-00	6,900	PD&S

*Indicate Project Budget, PD&S, Mission O.E. or Central/Regional Bureau funds

**ICC, RSSA, PASA, PSC, Purchase Order, Institutional Contract, Cooperative Agreement, etc.

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**PROJECT ASSISTANCE
COMPLETION REPORT**

**PILOT COMMERCIAL LAND MARKETS
PROJECT 520-0330**

PROJECT ASSISTANCE COMPLETION REPORT PILOT COMMERCIAL LAND MARKETS PROJECT 520-0330

I. INTRODUCTION

This document describes the results of the Pilot Commercial Land Markets Project 520-0330.

The Project was initiated on August 7, 1984 with "La Fundación del Centavo", a PVO, founded in 1962, to provide support for a pilot commercial land markets project by means of a \$1 million AID/Guatemala grant. The Project was initiated in order to address the increasing pressure for land distribution which has built up over the years within the rural sector, caused by the distortion of the Guatemalan land tenure situation. The Penny Foundation was selected as the vehicle to execute the Project due to their experience in this activity, having been relatively successfully engaged in land purchase/sale with small farmers since 1968.

A. Project Goal:

The goal of the Project was to demonstrate the feasibility of a private sector land commercialization program.

B. Project Purpose:

The purpose of the Project was to establish a mechanism to permit small farmers to purchase arable land and provide production credit and expert technical assistance in a timely fashion to the participating small farmers.

C. Project Objectives:

The following objectives were to be achieved within the three-year (August 7, 1984 - August 30, 1987) project life:

1. Establish a mortgage guaranty program for the sale of land such that land sellers would receive a maximum of 50% of the purchase price of their lands in currency and the remainder in mortgage guaranties.
2. Establish a small farmer land purchase program where participants must provide at least a 10% downpayment of the selected land parcel and pay the balance in installments, leaving the land as a mortgage guaranty.
3. Establish a financial mechanism within the Foundation for the issuance and sale of mortgage bonds, based on collateral provided by the small farmer mortgages, such that additional financial resources can be obtained from the private sector to continue the land commercialization program.
4. Provide approximately 375 participating small farmers with title to a minimum of 3.5 hectares of arable land per family for cultivation. Approximately 1,400 hectares are to be sold and put under cultivation during the first year, and 350 hectares each year thereafter.

II. PROGRAM ORGANIZATION STRUCTURE

The organizational structure of the "Penny Foundation's" Commercial Land Markets Program Department is comprised of the Director and six support units performing their respective functions and activities. (See Exhibit I). The Department consists of 34 employees, both technical and administrative.

III. OVERVIEW OF THE PROGRAM'S OPERATIONAL PROCEDURES

The initial step of the Land Market procedures is the preliminary topographical survey and the agrolological study of the prospective property,

to ascertain whether the subject property meets the Program's criteria for consideration as an acquisition target and to determine the basis for negotiating the purchase.

Subsequent to the acquisition of the property, the Foundation then performs a detailed topographical and agrolological study to determine the definition of the sub-divided parcels, common areas, access roads and the watershed and forest reserves. Simultaneously, the Foundation proceeds with the social aspect of the program: i.e. promoting the sale to the small farmers, selection of the beneficiaries, drawing for the individual parcels, delivery of the provisional titles to the beneficiaries. With regard to the technical aspect, the Foundation's technical assistance staff performs and evaluates the production analysis to prepare the crop budgets to determine the amount of credit required to execute the production plan.

A. Farm Selection

The following sources provide the Foundation with prospective candidates for acquisition: direct offers from the owners, newspaper classified ads, real estate brokers, interested groups representing potential beneficiaries who refer the Foundation to the owners.

After identifying the target property and performing a preliminary title search to ascertain the ownership and the legal description of the property, the Foundation's internal appraiser prepares an analytical report for each prospective purchase, with emphasis on the actual use and potential use of the farm, outlining the feasibility of the purchase to pursue negotiations with the owner.

Those properties which receive a positive initial evaluation are referred to the Land Purchase/Sale Program Director, whom together with the General Manager of the Foundation, proceed to perform follow-up visits to confirm the potential of the property and to establish contact with property owner to proceed with the negotiation process within the parameters defined by the Project Agreement. The Foundation maintains a record of all of the farms that have been evaluated. During the period 1984-1987, the

Foundation evaluated 285 farms located in the four areas of activity of the Program. Exhibit II is a detailed listing of the farms evaluated during the period, and an analysis of the variation of the trend in the land prices.

B. Farm Purchase

Of the total number of farms evaluated during the period 1984-1987, the Foundation acquired a total area of 2,764 hectares, representing 18 farms whose name, location, area, purchase price and purchase date is detailed in Exhibit III. The negotiation strategy and purchase price for each farm was authorized by the Board of Directors of the Foundation and recorded in the minutes of the Board. The aggregate amount of the land purchases was Q. 3,412,500, of which Q. 2,782,500 corresponds to Phase I of the Program, and Q. 630,000 to Phase II, as the funds available under Phase I were insufficient to cover the purchase price of the last farm purchased.

C. Topographical Survey

For each of the 18 farms purchased under the Program, the Foundation had a survey performed to verify the legal description of the properties and determine the actual area of the farms purchased, as well as to define the physical characteristics of the farms, such as the course of rivers, springs, roads, paths, area and location of the farm's main structures, and the area and location of the unusable land. This information is used to design the lay-out of the farm to arrive at the sub-division of the individual parcels. The Foundation has contracted the services of a professional surveyor to perform the topographical studies and to provide technical assistance in the definition of the sub-divisions as stipulated in the Project Agreement.

D. Social Aspects

Concurrently with the topographical study, the technical staff of the Program initiates on each farm the social program which basically includes, the promotion of the sale of the farm, screening of the applicants,

selection of the beneficiaries, drawing for the parcel distribution and the formal delivery of title to the beneficiaries. The social aspect is a fundamental part of the Program, as the success of the Program is dependent upon the careful initial selection of the participant in the Program.

In order to execute the selection process, a socio-economic evaluation is performed, utilizing a questionnaire for the purposes of eliciting complete information from each applicant. The applicant is required to provide information regarding personal data, i.e.: land ownership, level of education, credit history, organizational experience, income level, structure of the immediate family, and any other information that the Foundation deems necessary to determine the composition of the group representing the prospective beneficiaries.

Based upon the information from the questionnaires, the Foundation screens the applicants and identifies the potential participants in the program. The Foundation holds informational meeting to disseminate information about the objectives of the Land Purchase/Sale Program, and clearly define the degree of participation for each beneficiary, their rights, privileges and responsibilities so as to motivate them to initiate a change in attitude to make the transition from farm laborers and tenant farmers to that of a landowner.

The group of potential participants are invited to work as day laborers on the farm for a four to six month trial period for the purposes of observing the individual's degree of participation, experience, leadership ability and interpersonal relationship skills. During this period the Foundation makes the final selection of those who meet the requirements for participation in the Program. (See Exhibit IV) The Foundation then assigns to the selected participants their parcels based upon a drawing. The delivery of the titles is done in a formal ceremony in the presence of the local authorities who legally sanction the proceeding by registering the delivery of the provisional titles to the individual parcel in the local registry.

D. Agricultural Technical Assistance

Having completed the agrological study, topography and selection of the beneficiaries, the technical staff then formulates the development plan based upon the findings of the agrological study to determine the potential and best use of the farm. The development plan covers the entire area of the farm, addressing the various alternative crops which could be cultivated, to determine the amount of production credit required. The development plan also includes the planning and programming of the production activities in order to bring the entire farm into production as quickly as possible, transforming it into a productive enterprise capable of improving the living standards of the beneficiaries.

To achieve this goal, the Penny Foundation provides direct and constant technical assistance to each farm for a period of 5 years, commencing when the parcels are distributed, then providing indirect technical assistance in the form of supervision and follow-up monitoring for another 5 year period. It is assumed that at the end of the 10 year period the farms will be in full production and the organization of the farms will be fully integrated. The program also assumes that at the end of the 10 year supervised period, each farm organization will have the financial capacity to directly contract technicians that they require to continue the development process.

The Penny Foundation provides technical assistance to the farms by contracting agronomists and agriculture technicians with the requisite experience for the respective crops. Each agronomist, is responsible for 1,000 hectares and under his supervision are the agricultural technicians. Each agricultural technician is directly responsible for 250 hectares. The objective of the technical staff is to impart to the beneficiaries the required skills and techniques for their respective crops, by means of talks, meetings, observation or whatever means necessary to achieve a degree of specialization for each type of crop.

F. Production Credit

The original Pilot Phase of the Project included production credit for the beneficiaries of the Land Purchase Program, in the form of direct loans to beneficiaries to finance the costs of supplies and for a portion of the labor required for each project.

Production credit provided during the Project period, 1984-1987, was in the aggregate amount of Q. 1,499,920.06, which is detailed in Exhibit V.

G. Education and Housing

With the objective of establishing an integrated rural development model on the farms acquired, the Penny Foundation implemented on some of the farms, with their own funds, educational and housing programs, which were not contemplated in the original Project. This emerged out of the necessity of the communities and has served to further unify the beneficiaries, while meeting their basic needs.

The education provided to the children of the beneficiaries, as visualized, will be the foundation for their future for better opportunities. As their parents have income producing properties, they will have the required resources to realize better opportunities in other fields if they so chose.

The educational component has allowed the Penny Foundation to include in the technical team, a Rural Primary Education teachers who have the following objectives: provide formal education to the children of the beneficiaries, literacy to the adults and guidance in community development to the participants in the program.

In those farms which have achieved an advanced stage of production, it is perceived that the beneficiaries need to move their families to the designated urban areas of the farms. In order to address the existing housing problem, the Penny Foundation has assisted by providing financing for basic dwellings on some of the farms.

IV. RESULTS ACHIEVED:

The overall goal of the Project was the creation of a Land Purchase/Sale model, capable of incorporating the small farmer in the Land Market, whereby they are able to purchase arable land, providing them with technical assistance and production credit, for the purpose of establishing productive enterprises. In view of the results obtained thus far, this goal has been achieved. Within the organizational structure of the Penny Foundation is the Land Purchase/Sale Department which has its own separate staff, responsible for the tasks necessary to perform their function. These tasks commence with the initial selection of the farms and end with final sale of the individual farms to the selected beneficiaries, including delivery of technical assistance and production credit, as well as, education and housing.

The organizational model designed by the Penny Foundation has managed to operate effectively, with the establishment of operational procedures and administrative controls, which have contributed to achievement of the stated goals of the Project. The results achieved during the Project period are the following:

A. Land Purchase

During the period 1984-1987, Project funds were used to acquire a total of 18 farms suitable for agriculture, with a total area of 2,764 hectares, situated in the 4 regions designated in the original Project design. The total amount of Grant funds utilized was Q. 1,813,250 (Q. 1,498,250 of Phase I and Q. 315,000 of Phase II), with the balance due to the sellers (Q.1,599,250) financed by means of 41 Guaranty Certificates issued by the Penny Foundation based upon their net worth, bringing the total investment in land to Q. 3,412,500. The detailed list of the outstanding Guaranty Certificates appears in Exhibit VI.

In comparison to the original project goal of 2,100 hectares, and the actual acquisition of 2,764 hectares, the Penny Foundation managed to exceed the goal by 31.62%. This was achieved due to their negotiating skill.

therefore, did not exclude from the Program those individuals who demonstrated a genuine interest in the Program, but did not have the financial resources to qualify.

The average age of the population of the beneficiaries of the Project, which numbers 610, is 35 years. Of this group, 340 can read and write (55%). In addition to these direct beneficiaries, there are 2,644 indirect beneficiaries, which are the spouses and children of the participants. Due to the illiteracy rate for this group, 90%, the Foundation deemed it necessary to implement an educational program for the participant of the program.

The average annual income of the beneficiaries is in the range of Q.800-1,200 per year. Prior to their participation in the Program, the majority were resident farm workers on the respective farms or workers on the neighboring farms. Presently, due to the fact that the beneficiaries are in process of establishing permanent crops, the exact amount of their income is difficult to determine; however, based upon their income derived from participation in the Program earning day wages, their average net annual income is Q. 5,741. Comparing this income to their previous annual income of Q. 800, represents an increase of 717%.

D. Credit Assistance

In accordance with the project model established by the Penny Foundation, credit assistance constitutes the critical element that drives the execution of the development plan for the farm. In the formulation process of the production plan, the required level of investment for the crop or crops is established. The investment is in the form of production credit destined for the beneficiaries, whereby the entire group is jointly and severally liable. The loan bears interest of 12% per annum, simple interest, and is documented by means of a notarized private contract.

The structure of the credit is determined for the most part by the type of crop to be produced on the farm.. Short term loans are granted for annual crops, such as vegetables, basic grains; while longer term loans are made

thus they were able to purchase the farms for an average price of Q.1,234.62/hectare.

B. Land Use

Of the total land acquired, 70.85 hectares are dedicated to the production of vegetable crops in the Highland region; 1,710.12 hectares are either producing or are scheduled to produce coffee and cacao on farms located principally in the Southeast, Verapaces and the Pacific Piedmont regions; and the remaining 441.17 hectares dedicated to the production of tropical fruits (pineapple and mango) and basic grains on farms situated in the Southeastern region and the South Coast.

C. Distribution of the Land

Of the 18 farms purchased during the Project period, 16 of the farms have been legally sub-divided into parcels of 2.1 to 3.5 hectares and delivered to 610 of the previously selected beneficiaries. Once the legal process is completed to sub-divide the 2 remaining farms and delivered to the estimated 201 beneficiaries, the total number of beneficiary families will then be 811. A detailed list of the distribution, area, location and sale price is presented in Exhibit VII.

Comparing the results achieved to the original goal of delivery of property titles to 375 beneficiary families during the Project period, the Foundation has managed to far exceed the target.

Of the 610 beneficiaries who received title to the parcels, only 452 participants were able to meet the minimum 10% down-payment as called for in the original Project design. This fact is indicative of the limited ability of the participants to generate sufficient earnings to be able to set aside some money for the future while meeting their subsistence requirements.

Because of the foregoing, the Foundation perceived the necessity to modify this requirement, to be more flexible in the payment of the minimum down-payment as stipulated in the original Project design. The Foundation;

for semi-permanent and permanent crops such as coffee, cacao, mango, pineapple, etc.

In addition to the production credit, loans are also extended for improvements, primarily infrastructure, such as improvement of access roads, construction of internal roads, processing plants for coffee and cacao, and also construction of minimum rural housing, with the tenor determined by the nature of the investment. The long term production loans should begin to be amortized once the harvest commences.

The aggregate amount of production credit extended during the project period is broken-down in the tables below:

Projected:

Phase I	\$	225,000
Phase II	\$	<u>250,000</u>
	\$	475,000

Actual:

Total Production Credit		
Grant		
Phase I	Q.	631,182
Phase II	Q	743,813
Penny Foundation	Q	124,924
	Q	1,499,919

Breakdown of Production Credit by tenor

Short -term	Q.	218,266
Long-term	Q	<u>1,219,653</u>
	Q	1,499,919

In comparison to the forecasted goal, the Foundation met the production credit goal. Additional credit will be granted to the farms once they begin to produce a return on the investment.

E. Education and Housing

In regard to education, as a result of the identified needs of the beneficiaries, beginning in 1987, three private schools commenced operation on the farms, providing Rural Primary Education. These schools are completely legal, recognized by the Ministry of Education, which are attended by 132 children of the beneficiaries, who receive first and second grade primary education. These schools are located on the following farms: Las Victorias in Santa Barbara Suchitepequez; Sam Greene in San Miguel Tucuru, Alta Verapaz; and Venecia in Guanagazapa, Escuintla. The program also includes a school lunch in an attempt to improve the diet of the children of the beneficiaries.

In the same fashion, in 1987, the construction of minimal rural housing was commenced, having now completed three projects on the following farms: Patzunuy in Parramos, Chimaltenango with 10 units; San Juan Monte Real in Taxisco, Santa Rosa with 45 units; and Venecia in Guanagazapa, Escuintla with 64 units. The total number of unit constructed, 119, represents 19.5% of the total number of beneficiaries of the Program, having required a total investment of Q. 202,549.84, which were provided by the Foundation.

V. FINANCIAL SUMMARY

A. Financial Plan

Exhibit VIII reflects the Original Financial Plan, the Modified Plan and the Actual Results. As a result of the fluctuation in the exchange rate, the actual amount of funds received in local currency varied significantly from that which was originally forecasted to be derived from the US\$ 1,000,000 Grant Agreement 520-0330,

Consequently, as of August 7, 1987, the final disbursement date of the Project Period, the funds utilized totaled Q. 2,689,425. Of this amount Q. 1,639,094 correspond to funding used for land purchase, which is broken-down as follows: Q. 1,498,250. representing the purchase price and Q. 140,844 for documentation fees, taxes and legal fees. Of the remainder Q. 618,400 was used for production credit; Q. 21,544 for technical assistance; Q. 333,470 for administrative expenses and Q. 76,917 for the purchase of equipment.

A detailed break-down of the funds used for land purchase and production credit appears in Exhibits III and V.

The funds provided for technical assistance enabled the Foundation to contract outside professional services, primarily to perform topographical and appraisal work. The amounts corresponding to administrative expense includes the salaries of the technical field staff, office administrative personnel, fuel and maintenance of the vehicles, field personnel travel expenses, and other expenses, such as stationery and supplies for the office during the 3 years.

The equipment purchased was one off-road vehicle and 10 motorcycles for the field personnel.

B. Penny Foundation Counterpart Contributions

The original Project contemplated that the Foundation would contribute counterpart funding in the aggregate amount of Q. 4,208,000. over the course of 10 years, of which Q. 3,300,000 was to be used for land purchase (Q. 1,950,000 in the form of Guaranty Certificates and Q. 1,350,000 by means of Mortgage Bonds) Q. 890,000 for administrative expenses and Q. 18,000 for the purchase of equipment.

As of the date of this report, the Foundation has issued Q. 1,599,200 in Guaranty Certificates, of which Q. 190,100 has been amortized, leaving an unpaid balance of Q. 1,314,700 (see Exhibit VI).

With respect to the issuance of the Mortgage Bonds that were to be sold to the local banks to generate funding, a problem has been encountered in their acceptance by the banking community. The Foundation has been unable to obtain classification of the Mortgage Bonds as securities of "First Class or Order" by the Guatemalan Securities Commission, as required by Articles 43 and 64 of the Banking Law, thus preventing the local banks from investing in this type of security.

Toward this end, in March 1987 a petition was submitted to the Securities Commission to classify a Q. 1 million issue of Mortgage Bonds of the Foundation, accompanied by a study covering the goal of the Program, the financial condition of the Foundation, and the prospectus covering the issuance, trading and redemption of the Mortgage Bonds of the Foundation. In November of 1987, approval was denied.

The Foundation has provided counterpart funding in the amount of Q. 153,200 for administrative expense versus the 10 year requirement of Q. 890,000. While only 17% has been provided thus far, it must be noted that these expense are proportional to the amount of the land purchased, therefore it is expected that as the Program grows, the administrative expenses will increase accordingly.

On the other hand, the 10 year plan calls for the Foundation to provide Q. 18,000 in counterpart funding for the purchase of vehicles, which as a result of the necessity of the field personnel, Q. 78,300 has been expended.

The 10 year plan requires that the Foundation provide Q. 390,000 to be derived from the 10% down-payment paid by the beneficiaries of the land purchase program. Thus far the Foundation has received Q. 137,800.

In conclusion, with the only exception of the Mortgage Bonds, the Foundation either met or exceeded most of the financial goals established in the 10 year Project Financial Plan and can conceivably meet the remaining as the Program continues to develop.