AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523
BIBLIOGRAPHIC INPUT SHEET

FOR AID USE ONLY
Batch 49

1. SUBJECT CLASSIFICATION
A. PRIMARY: Food Production and Nutrition — AE10-0000-G302
B. SECONDARY: Agricultural economics--Latin America

2. TITLE AND SUBTITLE
Intercountry evaluation of A.I.D. land sale guaranty programs: Ecuador and Costa Rica

3. AUTHOR(S)
Goldstein,B.A.; House,R.A.

4. DOCUMENT DATE	5. NUMBER OF PAGES	6. ARC NUMBER
1975	72p.	ARC

7. REFERENCE ORGANIZATION NAME AND ADDRESS
AID/LA/DP

8. SUPPLEMENTARY NOTES (Sponsoring Organization, Publishers, Availability)
(In Program evaluation studies)

9. ABSTRACT

The land sale guaranty programs in both Ecuador and Costa Rica were based on two major premises. One was that there were land owners willing to sell land to small farmers at reasonable prices and on reasonable terms, provided they were given a guaranty of payment. The second premise was that there were numerous small farmers who had a strong desire to own land. In Ecuador the first premise was not tested, because a new government instituted programs that obviated the need for AID's land sale guaranty program. In Costa Rica the first premise did not hold, because landowners required large downpayments. The lack of money for downpayments was probably the single most significant factor in the limited use of the program. Only five campesino groups of 21 members each are participating. In both countries there were difficulties over the AID requirement which prevented guaranty funds from being disbursed until there was an actual call on the guaranty. Included in this report is a checklist of questions relating to potential problems a group may encounter in attempts to own and operate a farm collectively. They concern legal status of the group, its social composition, government, skills, past experiences, acquisition of land, use of government bonds for payment to landowners, work roles, capital investments, credit, training, auxiliary services and housing and management and administration.

10. CONTROL NUMBER
PN-AAD-112

11. PRICE OF DOCUMENT

12. DESCRIPTORS
Costa Rica
Ecuador
Evaluation
Financing
Land purchases
Land tenure
Technical Assistance

13. PROJECT NUMBER

14. CONTRACT NUMBER
AID/LA/DP

15. TYPE OF DOCUMENT

AID 590-1 (4-74)

AID/LA/DP
PN-AAD-112

PROGRAM
EVALUATION
STUDIES

Intercountry Evaluation of A.I.D. Land Sale Guaranty Programs

Ecuador
Costa Rica
July 1975

Agency for International Development

Bureau for Latin America
Office of Development Programs (LA/DP)

PROGRAM
EVALUATION
STUDIES

INTERCOUNTRY EVALUATION OF A.I.D.

LAND SALE GUARANTY PROGRAMS

ECUADOR
COSTA RICA

JULY 1975

A.I.D. Evaluation Studies represent the views of their authors and are not intended as statements of official policy.

TABLE OF CONTENTS

Intercountry Evaluation of

AID Land Sale Guaranty Programs

		Page
I.	Conclusions	1
II.	Recommendations	3
	Checklist for Helping Groups to Become Legal and Productive Owners of Farms	7
III.	The Land Sale Guaranty Program in Ecuador	15
	Summary	15
	1. Purpose	16
	2. Background	17
	3. The Target Group	20
	4. Original Project Design	21
	5. Financial Plan	22
	6. Revised Project Design	24
	A. Finance Mechanism	24
	B. Sub-Projects	31
	7. Land Tenure Developments	35
	8. Progress to Date	36
	9. Impact of Loan	41
	Table 1 - Activities of the Office of the Program to Promote Agricultural Enterprises, Guayaquil	43
IV.	The Land Sale Guaranty Program in Costa Rica	44
	Summary	44
	1. Background	44a
	2. Land Sale Guaranty Activity Design	45
	Table 2 - Steps in the Use of the Guaranty Fund in Costa Rica	51
	3. Progress to Date	53

FOREWORD

The subject of this report is an intercountry study, undertaken from November 10 through November 26, 1974, of AID land sale guaranty programs in Ecuador and Costa Rica. The review was jointly undertaken by Bernice A. Goldstein and Robert W. House of the Office of Development Programs of AID's Bureau for Latin America (LA/DP). While in Costa Rica, the review team visited the groups at Utauba and Tulga. In Guayaquil, where the AID project in Ecuador is located, the team visited the San Mauricio and Payo cooperatives.

I. Conclusions

The land sale guaranty programs carried out by AID in Ecuador and Costa Rica were modest "pilot" projects which attempted a private sector approach to land transfer, by providing a guaranty of payment to the private seller of land and a package of agricultural credit and technical assistance to the small farmer buyer to assure productive use of the land and, consequently, the income necessary for debt repayment. The programs have had limited impact insofar as the land sale guaranty feature is concerned, although the complementary portion of AID's assistance package under the two loans did benefit small farmers who otherwise might not have been reached. (In Ecuador, the loan is also credited with being the catalyst for drawing the Central Bank into the field of development finance). On the basis of this study we conclude that if similar projects are contemplated in the future, they should be undertaken only in the context of an active and supportive host government land tenure program and the clear identification of significant private land sale opportunities. Moreover, there should be full recognition that such projects are complex in design and that they require a range of services which may seriously overburden host government capabilities. There should also be full host

government involvement in the initial design of land sale guaranty projects, particularly regarding administrative and legal aspects.

In both Ecuador and Costa Rica the land sale guaranty programs were based on two major premises. One was that there were land owners who were willing to sell parcels of land to small farmers at reasonable prices and on reasonable terms, provided they were given an acceptable guaranty of payment of obligations. The second premise was that there were numerous small farmers who had a strong desire to own land.

In the case of Ecuador, the first premise was never really tested because a new government implemented policies and programs which substantially obviated the need for AID's land sale guaranty program, conceived under the previous administration. The AID loan in Ecuador is being implemented as a supervised agricultural credit program which is effectively supporting small farmer groups who are receiving title to land under the Government of Ecuador's direct land transfer effort.

In the case of Costa Rica the first premise did not hold, as detailed later in the chapter on the Costa Rican experience. The second premise probably held, but more than desire was needed. A down-payment was required to

satisfy the desire. The lack of money for down-payments was probably the single most significant factor which explains the limited application of the program. In Costa Rica the land sale guaranty has been utilized by only five campesino groups who, as in the case of Ecuador, are participating jointly with beneficiaries of the government's land transfer activity in an AID-financed program of supervised agricultural credit.

In both countries there were difficulties over the AID requirement which prevented the guaranty funds from being disbursed until there was an actual call on the guaranty. Another problem encountered in both cases resulted from the contradiction posed by the necessarily permanent nature of the fund, on the one hand, and the relatively limited disbursement period of the AID loan funds, on the other hand. Both loans were ultimately amended to shift AID funds from the guaranty to agricultural production credit.

II. Recommendations

Attached is a "Checklist for Helping Groups to Become Legal and Productive Owners of Farms". In general, when considering future proposals, the following factors should be taken into account:

1. Host Government Considerations

Obviously, land sale guaranty programs will have a better chance of prospering in a receptive host government environment where there is active official support for agrarian reform activities, both traditional and innovative. With respect to land transfer, any proposed AID project should not duplicate host government programs, but should be complementary to them.

2. Supply and Demand for Private Land Transfer

There should be a sufficient number of sellers identified who are prepared to sell, with guaranty of payment, at reasonable prices which can be repaid within a reasonable period of time. The reasons for willingness to sell may vary, but generally the major reasons are the threat of land invasions or the desire on the part of individuals to convert land into more liquid assets.

There should be "effective" demand (as distinct from "desire") to purchase land on the part of campesinos who are capable of managing an agricultural enterprise and who prefer the advantage of expeditious private purchase, even at possibly higher prices or less concessional terms, rather than the disadvantage of customary bureaucratic delays of government land transfer programs.

The land sale guaranty programs should be assured of transaction prices that are consistent with appropriate standards through some means, as a soil classification and land use survey.

3. Target Population--Campesino Groups

AID's mandate directs that priority be given to low-income small farmers. However, to assure success, farm units of an economically viable size may be necessary, but beyond the purchasing ability of an individual campesino. This coupled with the limited capabilities of many host governments to deliver services means that in most cases the programs will have to deal with groups of small farmers holding title as a group. In considering future proposals, therefore, AID should be aware of, and prepared for the complexities of nurturing campesino group enterprises (See attached checklist).

4. Host Government Supporting Infrastructure

The successful planning and implementation of a land sale guaranty program for campesino groups require the participation of a number of government agencies to provide an array of services with careful coordination and orchestration. Moreover, such a program requires from the participating government ministries skilled manpower, possessing not only technical know-how in

agronomy, accounting, extension work, etc., but also the ability to provide these services to campesinos.

5. The "Guaranty" Concept

Past programs have encountered difficulty over the concept of the "guaranty" mechanism. Governments have been troubled by the fact that the guaranty portion of the loan remains undisbursed until there is an actual claim against it to pay off guaranties, in accordance with AID policy. This prevents the fund from growing over time by earning interest or being used temporarily for short-term credit. In Ecuador the Central Bank was unwilling to initiate guaranty operations without first having AID guaranty funds in its own account, maintaining that it had no legal authority to carry out such operations without full funding coverage.

In future "guaranty" programs of this sort AID may want to consider alternative approaches, e.g., a partial advance payment by AID of the total amount allocated for guaranty purposes, to be replaced as soon as repayments of the accompanying production credit portion of the package are made, with such repayments eventually to constitute the guaranty fund. In any case, provision should be made, in any future programs, for the host government to establish or institutionalize the guaranty fund in order to provide continuity, once the disbursement period

of the AID funds has elapsed. This is particularly important in the context of AID's present limited loan disbursement periods, since land sale guaranty programs are very long-term in nature, both with respect to start-up periods, preliminary to an actual land sale, and once the sale is made, to the possibility of claims occuring after expiration of AID's disbursement period.

CHECKLIST FOR HELPING GROUPS TO BECOME LEGAL AND PRODUCTIVE OWNERS OF FARMS

The considerations made here are intended for those interested in helping groups of landless agricultural workers to become legal and productive owners of farms. They are given as a list of questions to be considered, to help insure that potential problems are anticipated and prevented instead of being encountered when it may be too late to solve them. For the most part the list is a sequence in time proceeding from planning into development and, finally, operations.

1. GROUP FORMATION AND ORGANIZATION

1.1 Legal Status of the Group

1.1.1 Does the juridical status planned for groups facilitate obtaining credit?

1.1.2 Does the juridical form for groups permit the size of the group to vary according to what the tract of land will support?

1.1.3 How is liability, if any, assigned to the members of the group?

1.1.4 As the group gains equity in the farm, how will equity be given to the members?

1.1.5 If the husband is the member of a group and he dies, what will happen to his membership?

1.1.6 How will disputes among the members be dealt with legally?

1.1.7 Will audits of the accounts of the group by outside auditors be required?

1.2 Social Composition of the Group

1.2.1 Do the prospective members have farming skills?

1.2.2 Have they been in previous groups? If yes, what happened that they are no longer in a group?

1.2.3 Does it appear that the prospective members are cohesive enough to make it through hard times?

1.2.4 Is it certain the group is interested seriously in farming as contrasted with politics or land speculation?

1.3 Government of the Group

1.3.1 How will work assignments be made? By whom?

1.3.2 How will discipline be effected?

1.3.3 How will the leader(s) be determined?

1.3.4 How can a member be expelled?

1.3.5 How can a new member be added?

1.3.6 How will members be paid for labor?

1.3.7 How will equity in the farm be given?

1.3.8 How will profits be distributed?

1.3.9 How will the land be distributed to the members?

1.4 Skills of the Group

1.4.1 Do some of the members have knowledge and experience in growing the types of crops planned?

1.4.2 Is there some experience in basic accounting?

1.4.3 If farm industry is planned, e.g., a sugar or rice mill, do some of the members have the required skills?

1.4.4 If structures are planned for housing or crop storage, do some of the members have the required skills to build them?

1.4.5 If farm equipment will have to be operated or maintained, do some of the members have the required skills?

1.5 Past Experiences

1.5.1 Have groups been settled previously in the target geographical area? If yes, what have been their experiences?

1.5.2 Do the government agencies needed to give support to the groups have the experiences, the skills, and the capacities required to do the job expected of them?

1.5.3 What have been the past mistakes made in settling groups and what is being done differently to avoid these mistakes?

2. ACQUISITION AND TRANSFER OF LAND

2.1 Acquisition of Land

2.1.1 Can land be expropriated? If it can, do the relevant authorities exercise their authority?

2.1.2 If land is to be purchased, do the land-owners demand cash for the downpayment? If yes, how much? Is the money available?

2.1.3 Are land values determinable in a rational way?

2.1.4 Do the tax laws and their enforcement encourage the sale of uncultivated lands?

2.1.5 Are the interest rates on land contracts reasonable?

2.2 Image and Effectiveness of Government

2.2.1 Are government bonds acceptable to land owners for payment?

2.2.2 Are the bonds discounted heavily by the market?

2.2.3 Do landowners believe the courts or other relevant government agencies will allow foreclosure if the buyers default on the mortgage?

2.2.4 Is the land tenure program advertised to potential buyers and landowners?

2.3 Farm Plan

2.3.1 Will farming offer full-time, year-round employment? If not, what will the members do during the remaining time?

2.3.2 What will be the roles of the women?

2.3.3 Are the crops planned suitable for the region? Have they been grown successfully in the region previously?

2.3.4 Will fertilizers or pesticides be required? If yes, will they be available when needed?

2.3.5 Will equipment be needed for land preparation and cultivation? If yes, will it be available when needed?

2.3.6 Will irrigation be required? If yes, will it be available?

2.3.7 Will additional manpower or equipment be required for harvesting? If yes, will it be available when needed?

2.3.8 Will there be an adequate market and a distribution system for the crops planned?

2.4 Feasibility of the Plan

2.4.1 Do the relevant and necessary agencies approve and agree to support the project?

2.4.2 Will the necessary processing, storage, and transportation for the planned crops be available?

2.4.3 Will unusual land preparation be required, e.g., dikes?

2.4.4 Will any heavy capital investments be required, e.g., tractors or pumps?

2.4.5 Will any infrastructure development be needed, e.g., access roads?

2.4.6 Will the farm plan support the debts that will be incurred?

2.5 Required Credit

2.5.1 If required, will credit be available for seeds, fertilizer, pesticides, land preparation, etc?

2.5.2 If required, will credit be available for housing, equipment sheds, crop storage structures, or shelter for fertilizer, pesticides, etc?

2.5.3 If required, will credit be available for building dams, dikes, canals, access roads, etc?

2.5.4 If required, will credit be available for tractors, jeeps, trucks, pumps, pipe, processing plants, etc.?

2.5.5 If required, will credit be available for wages, food, living expenses, etc?

3. IMPLEMENTING THE PLAN

3.1 Training and Monitoring

3.1.1 Will the farmers need training to implement the farm plan? If yes, are the arrangements made to provide the training?

3.1.2 Will the implementation of the farm plan be monitored to insure that any needed services are delivered in time to help?

3.1.3 Have arrangements been made for fuel and jeeps or other vehicles for instructors, agricultural extension agents, and any others who will need transportation to make the farm plan succeed?

3.1.4 If illiteracy is an expected condition, how will it be accommodated?

3.2 Auxiliary Services

3.2.1 Will schools be needed and available?

3.2.2 Will health or welfare services be needed and available?

3.2.3 Will shelter be needed and available?

3.2.4 Will marketing information be needed and provided?

3.2.5 Will processing facilities be needed and available?

3.2.6 Will farm-to-market transportation be needed and available?

3.3 Management and Administration

3.3.1 How will accounts be kept for income, expenses, wages, equity, taxes, etc?

3.3.2 How will accounts be audited?

3.3.3 How will coordination among relevant agencies be effected? Between A.I.D. and host country representatives?

3.3.4 What actions will be taken to help insure continuity of key personnel in the project?

3.3.5 What policies, budgets, or laws will the host government have to pass to assure success? What actions will be taken to obtain these?

3.3.6 What actions will be taken to insure continuity after the phase-out of A.I.D. support?

III. The Land Sale Guaranty Program in Ecuador

Ecuador:	Land Sale Guaranty Loan (Program to Promote Agricultural Enterprises)
Loan No:	L-032
Amount:	$3,600,000
Date of Loan:	October 16, 1969 (Loan Authorized) November 23, 1970 (Loan Agreement Signed)
Amendment No. 1:	July 27, 1970
Amendment No. 2:	October 25, 1974
Terminal Disbursement Date:	December 31, 1975

SUMMARY

The purpose of the Land Sale Guaranty Loan (L-032) in Ecuador was to create, on a pilot basis, an innovative guaranty mechanism to facilitate the direct sale of agricultural lands from private sellers to campesino cooperatives and to provide the buyers with agricultural credit and technical assistance. The loan was designed to provide a private enterprise approach to land reform and to complement the successful AID grant-funded Agricultural Cooperative Project in the area.

Because of legal and administrative obstacles and also as a consequence of the Government of Ecuador's decision to use an

alternative means of direct land transfer to campesino groups, the land sale guaranty mechanism of L-032 was never utilized, and the loan funds of the "Program to Promote Agricultural Enterprises", as it is more accurately described by the translation of the Spanish name for L-032, have been devoted entirely to supervised agricultural credit. Nevertheless, it can be said that the AID "package" of agricultural credits and technical assistance has effectively supported the land transfer effort and may have stimulated the governmental decision to adopt the direct land transfer approach in an agrarian reform program in the geographic area in which L-032 operated. Additionally, the Loan is credited with being the catalyst for bringing the Central Bank of Ecuador into the field of development finance.

END OF SUMMARY

1. Purpose

The Land Sale Guaranty Loan (Programa de Promocion de Empresas Agricolas -- Program to Promote Agricultural

Enterprises) in Ecuador was proposed as a pilot project "to develop a program to facilitate the private sale of agricultural lands to cooperatives capable of carrying out effective farming enterprise given access to land, production credit and technical assistance but which are unable under present conditions to secure credit on reasonable terms. The philosophy underlying the program is that appropriately assisted, free market private enterprise activities can be the basis for reform of the land tenure structure thus eliminating politically traumatic recourse to expropriation or other nonconsensual forms of land title transfer."

2. Background

The AID Mission (USAID) developed the Land Sale Guaranty Project (LSG) in late 1968 and early 1969, at a time considered to be particularly propitious for an effective and relatively low-cost initiative in agrarian reform. Physical invasion of lands, accompanied by violence, was increasing. The Government of Ecuador's land reform effort, up to that time, had proven itself to be inadequate to its task, owing not so much to failure of interest by the national leadership but because of opposition from powerful economic

interests, lack of resources to make redistributed land productive and the administrative incapacity of the agrarian reform agency. Studies conducted by the USAID confirmed that many land owners were interested in selling their lands before the threat became more pressing that their properties would be invaded by campesinos or appropriated by the government. The campesino generally understood and accepted the desirability of buying rather than taking land. The land for which the greatest pressure for redistribution existed, the rice growing areas of the Guayas River Basin, was highly productive and capable of producing incomes necessary to pay off land purchase obligations over relatively short terms. Thus, the need and the fundamental requirements of meeting the need existed. The problem was to combine these elements with assistance as appropriate in a workable program.

According to the USAID's reasoning, the requisites of the project seemed to be obvious: an assurance of payment of obligations credible to potential sellers of land and a program to provide reasonable assurance that the campesino buyers could carry out an enterprise which would permit them to pay their debts. Consequently,

the project proposed to provide guaranties of credit extensions by willing sellers of land for the purchase of land by campesino cooperatives and to provide the buyers a source of agricultural production financing. Technical assistance as appropriate to the particular case would be assured as a part of a "package" transaction.

What the USAID proposed was a new departure in agrarian reform -- in effect, a "private enterprise" approach to the problem. In contrast to most agrarian reform projects where landowners are paid immediately in cash or government bonds, the proposed transaction would be financed by the landowner, who would extend credit for five to ten years for the purchase of his land, subject to an absolute obligation to pay backed by the guaranty fund. Thus, the financing was basically a private-sector arrangement, with public-sector intervention limited to guarantying defaults of land-sale obligations. This program would also be distinguished from other agrarian reform projects in that the transaction would be voluntary. Additionally, the scheme employed a "viable economic enterprise" standard by providing to the campesinos the credit and technical assistance to assure the capacity of the buyers to pay

their land purchase obligations. If successful, it was expected that the project would lead to a shift from the traditional land tenure system of large absentee owners and landless campesinos towards a system of small agricultural entrepreneurs, organized in cooperatives, who live and work on the land.

Moreover, while the basic objective was social in nature, there was also an underlying economic rationale in support of the program. The balanced economic development of Ecuador was largely dependent on the improvement of agricultural production and rice was one of the key commodities, the production of which needed to be increased. The project would promote that objective.

3. The Target Group

It was noted in the Capital Assistance Paper that while projects under the proposed program might on occasion be undertaken in other parts of Ecuador, it was anticipated that all but a few would be located in the rice growing areas of the Guayas River Basin. There were a number of reasons for this. The immediate pressure of land invasions was primarily in that area. Land in the Guayas River Basin is particularly productive and hence would be land on which small buyers would be

most likely able to succeed. An effective technical assistance program was feasible with organizations that were already operating in that area. A tendency on the part of land owners to be willing to sell was strongly noted in that area. Most important, there were in existence campesino groups capable of qualification for support under the program, and the relative sophistication of campesinos in that area suggested that new group formations would take place rapidly and effectively there. In consequence, the expectation was that the program would focus at least at the beginning in the rice growing area of the Guayas River Basin and would have as its main beneficiaries the members of the rice growing and marketing cooperatives and credit unions formed under projects sponsored and financed by AID.

4. Original Project Design

Under the original design, the program was to be administered by the National Development Bank -- Banco Nacional de Fomento (BNF) -- which, with the assistance of the Ministry of Production (Agriculture) and USAID, would develop for each sub-project, a farm plan setting out all requirements of an effective economic enterprise.

In accordance with the farm plan, land would be purchased, production credit would be provided by the BNF and technical assistance would be provided under BNF direction and control by Government of Ecuador (GOE) extension personnel. Land purchase would be accomplished through a three party arrangement under which the seller would transfer title to the cooperative, the cooperative would agree to pay the purchase price less downpayment to the BNF over a period of 5 to 7 years, and the BNF would agree to pay the seller on the basis of the amortization schedule of the payment of the obligation of the cooperative to the BNF. Production credit would be provided by the BNF in an amount consistent with a farm plan. Finally, GOE technical personnel, under BNF direction, would provide and the cooperative would agree to utilize technical assistance in accordance with arrangements set out in the farm plan.

5. Financial Plan

Of the $3.6 million made available under the loan, $2,750,000 was to be disbursed to provide local currency for production credit purposes. $650,000 was to be held undisbursed, forming a fund to guarantee the payment of land purchase obligations undertaken by the beneficiaries

of the program. As agricultural production credit loan repayments were made, these funds would be substituted for the guaranty fund which would be drawn down for production credit operations, thus assuring full disbursement within three years, while maintaining a guaranty fund. $100,000 was to be used to establish a revolving fund to support technical assistance and extension services for cooperatives involved in the program; and $100,000 was to be disbursed for the purchase of commodities of U.S. source and origin for use in the program. In the event that a cooperative defaulted on its obligation to pay the BNF for land purchased under the program, the BNF would have the right to claim against the guaranty fund for the amount paid by the BNF to the seller of the land in accordance with the contract between the seller and BNF, provided that USAID was satisfied that the BNF had in good faith made all efforts appropriate under the circumstances to realize on available collateral. In addition to interest payments to the BNF, the cooperative was to pay certain user charges which would be paid into a revolving fund as described above for the payment of local currency non-salary costs of administration of technical assistance and extension services provided to the cooperatives

involved in the program by agencies of the GOE other than the BNF. The project would thus be maintained as a self-financing operation in so far as possible. It was anticipated that the loan inputs would result in the sale of approximately $2,500,000 worth of land (25,000 hectares) to be farmed by 50 cooperatives of 50 families each. The projected figure of cooperative membership of 2,500 families, over a three year period, represented approximately twenty percent of farmers who were potential beneficiaries of the project.

6. Revised Project Design

A. Finance Mechanism

After AID/Washington authorized the Land Sale Guaranty Loan (LSG) but before the loan agreement was signed, the BNF, the intended implementing agency, withdrew from participation in the program. The USAID then explored the use of alternative implementing agencies, including the possibility of more direct involvement by the Central Bank of Ecuador in development programs. The mechanism devised, after examining the operation of the Mexican Central Bank in this field, was to establish within the Central Bank, a Trust Fund Division which would administer internationally funded programs through the mobilization of credit institutions to undertake

sub-lending, and through the clear identification and assignment of the resources of other Government of Ecuador (GOE) entities needed for the program's success.

Toward the end of 1970, official approval for the Central Bank's new role was granted by the GOE, and the Monetary Board authorized the General Manager to organize in the Central Bank a new Development Loan Trust Fund, as a Cerencia or department, reflecting a major commitment to development by the Monetary Board and the Central Bank. Authorization for the LSG loan was amended by AID/W to incorporate the Central Bank as implementing agent and, on November 30, 1970, the loan was signed.

Reflecting this revision, the loan agreement provides that to implement the Project, a Trust Fund for the Promotion of Agricultural Enterprises would be established in the Central Bank of Ecuador, which would act as the administrator of Project resources. The Central Bank Trust Fund would, through participating financial institutions (PFIs), extend agricultural credit to beneficiaries of the Project and guarantee land purchase obligations and agricultural credit. Through the Trust Fund the following institutions would be

provided an opportunity to participate in the Project: the National Development Bank (BNF), the Cooperatives Bank, the Ecuadorean Financial Corporation for Development (COFIEC) and other interested public and private financial institutions. As in the original financial plan, approximately $2,750,000 of the Loan was to be disbursed to provide local currency for agricultural credit to participants in the Project and approximately $650,000 of the Loan was to form a source of funding to guarantee the payment of land purchase obligations undertaken by the beneficiaries of the Project. The disbursements from this source were to be used for two purposes:

(a) claims made against the guaranty fund in the event of failure to pay land purchase obligations by the beneficiaries of the Project;

(b) for agricultural credit subloans in amounts equivalent to repayments of agricultural credit previously disbursed. With the disbursement of the $650,000 guaranty source, the Trust Fund would become responsible for the land purchase guaranty obligations in an equivalent amount of disbursements from this source. Approximately $200,000 of the Loan would be disbursed into a revolving fund to finance technical assistance services, vehicles and commodities required by the Project.

By early 1971 significant progress had been made in establishing the new Trust Fund concept. A mechanism for chanelling three AID loans (L-032, Land Sale Guaranty; L-033, Agricultural Diversification; and L-034, Small Enterprise Assistance) and other external credits through the banking system had been legally established at a high level in the Central Bank, with well qualified people to staff the operation. Various government entities and the private banking community supported the concept.

Within a year, however, major developments occurred which signaled modifications in the Trust Fund concept. According to a USAID report of December 7, 1973, the changes were brought about by a combination of the following factors:

(a) the discontent of a new General Manager of the Central Bank over the Bank's involvement in and responsibility for supervising the technical or field aspects of the programs;

(b) the growing interest of monetary authorities in adopting the Colombian system of portfolio allocation requirements of private banks as a means of encouraging increased production;

(c) the appointment of a new Minister of Production (Agriculture) who considered it essential that the Ministry have operational control over the programs as part of a reorganization of the Ministry to centralize administration of all its activities; and

(d) the increasing concern, as reported in the press, of the apparent complexities of Trust Fund operations in view of the felt need to have a more agile mechanism in order to have rapid and sufficient impact on national production.

On April 5, 1973, Presidential Decree 374 created the Financial Funds, in lieu of the Trust Fund, establishing an agricultural fund and an industrial fund in the Central Bank. These funds, from which the new name Financial Funds is derived, are to be used exclusively for financing credits extended by private or public banks for agricultural or industrial purposes. Moreover, only those agricultural or industrial credits meeting certain specific criteria are eligible for financing from the funds. New funds for other purposes can be established as needs arise by action of the Monetary Board (essentially the Board of Directors of the Central Bank).

The external loans (including the Land Sale Guaranty Loan) formerly being channelled through the Trust Fund are part of the new Financial Funds. The credits financed from these sources must of course comply with the terms and purposes stipulated in the respective loan agreements and related documents. In addition, the Central Bank may add domestic or internal resources to the Financial Funds by the creation of lines of credit. Such lines of credit can only be established for specific purposes as requested and justified by the operating Ministry and only with the approval of the Monetary Board.

The decree creating Financial Funds very clearly removes from the Central Bank all responsibility for the supervision of technical program operations. Under Decree 374, the Program Offices established for the external loans are placed under the complete jurisdiction of the respective operating Ministry. These Ministries are free to establish the appropriate administrative structure for the execution of the programs. The principal role of the Financial Funds unit in the Central Bank with respect to the external loans is to act as a financial conduit.

Private banks are now required to extend credits meeting the Financial Funds criteria in amounts equalling a minimum percentage of their commercial portfolio. (This minimum percentage rose to 20% for national banks and 25% for foreign banks on January 31, 1975). To the extent a bank does not meet the portfolio allocation stipulated at any period of time, the shortfall in the percentage requirements is to be made up by the bank's purchase of Central Bank bonds. The proceeds from the sale of such bonds become available to the Financial Funds for financing eligible credits.

The maximum relending interest rate in Financial Funds credit operation is currently 9%[1/]. The cost to participating banks is 5%, thereby permitting a 4% interest spread. Of the 5% earned by the Financial Funds, 1% is retained to cover costs and 2% is allocated to the Ministries for the costs of the Program Offices. The remaining 2% services interest payments of the AID loans. After the AID grace period expires, the amount allocated for the Program Office is only 1% to account for the increase in the AID interest rate. Similarly, any credits financed with Central Bank line of credit are made available to the participating banks at 5%,

1/ The LSG loan originally offered a 10% rate of interest with an additional 2% charge to the client for guaranty.

with 2% of the earning allocated to the Ministries. The above rates are not established by the decree, but by Monetary Board regulation.

B. Sub-Projects

With the substitution of the Central Bank for the BNF as Project Administrator, the project was to be implemented as follows: Technical assistance was to be provided mainly by the Ministry of Agriculture which, in effect, was also the Project Coordinator. The Project Coordinator would be responsible to a "policy-making" board composed of the Ministry of Agriculture and the Central Bank.

While it was recognized that the experimental nature of the project would result in certain variations in the implementation of sub-projects, it was the intention that planning of sub-projects along the following lines would always be insisted upon.

Identification, formation and qualification of a cooperative for assistance under the project would be the responsibility of Ecuadorian organizations, although USAID would usually be consulted.

When the cooperative was found to be qualified for assistance under the program by reason of its capacity to carry out an effective enterprise, it would identify a property it wished to purchase from a willing seller at a reasonable price. The technical services of the Ministry of Agriculture, under the direction of the Central Bank, would be called upon to analyze all aspects of the situation. If it appeared upon analysis that the sub-project had the potential to achieve a viable enterprise in a manner consistent with the objectives of the program, appropriate personnel of the Ministry of Agriculture and the participating financial institution (PFI) would undertake a detailed analysis of technical agricultural considerations as well as financial planning. The proposed land tenure pattern for the property would be submitted in accordance with law to the Ecuadorean Land Reform Institute (IERAC) for approval. The project would then be submitted to the PFI management for its review and approval. USAID would satisfy itself as to the fairness of the purchase price through independent appraisal based on a land use and soil classification assessment.

When the qualifications of the cooperative, the farm plan and the purchase price of the land had been approved, the PFI would handle the execution of all necessary transactions to initiate the sub-project. Personnel of government agencies would continue to provide technical assistance in agricultural matters in accordance with the farm plan.

The financial transaction to be handled by the PFI would be as follows. With respect to the purchase of land, the buyer cooperative would be expected to invest a minimum of 10% down-payment. The farm plan would reflect an appropriate period for amortization of the land purchase debt. Rather than a direct transaction between the seller and the buyer, the PFI would undertake to pay the purchase price to the seller over the same period as the buyer's amortization schedule for payment for the land. In turn, the buyer would undertake to pay to the PFI an amount equivalent to the purchase price less downpayment in accordance with financing arrangements set out in the farm plan. This obligation would be secured by a mortgage on the land, crop liens and other appropriate forms of security. Thus, the land sellers would have the guaranty of payment from a bank which in turn was to receive a guaranty from the Central Bank. A portion of the AID loan was to be held back undisbursed as an ultimate

guaranty against losses sustained by the PFI's, should a buyer cooperative fail to pay its debt and should it prove impossible to realize fully on available collateral.

In a simultaneous transaction, the PFI would enter into an agreement with the cooperative to relend to them AID loan funds made available for production credit found necessary under the farm plan to assure the economic viability of the enterprise. Production credit lending by the PFI would be secured by crop liens.

To assure that all necessary services would be obtained by the buyer, a contract would be entered into between the buyer, the PFI and the Ministry of Agriculture in which the obligations of all parties concerned would be stipulated. This would include not only financial obligations but also the obligation of the Ministry of Agriculture to provide technical assistance, the obligation of the cooperative in good faith to utilize the assistance provided, and the agreement of the cooperative to handle marketing arrangements and similar aspects of farming operations during the period of the amortization of the land purchase obligation as agreed in the farm plan.

7. Land Tenure Developments

In addition to the changes described above related to the finance mechanism, important developments were also occurring in Ecuador's agriarian reform movement which had implications for the LSG Loan. In December 1970, two decrees were issued: the most conspicuous feature of the first, Decree No. 373, was to grant possession to tenants or others who had worked a piece of land three years or more; the second, Decree No. 1001, recognized rice cultivation as a special sector in the system of precarious tenure and specified as a first priority, the abolition of precarious tenure on rice lands, declaring them to be subject to expropriation and immediate occupation by the IERAC. The expropriation price of lands was to be the evaluation made by the National Office of Cadastre and Evaluations, the former owners to be paid in Agrarian Reform class "B" bonds in annual payments, 5 year terms. Campesinos would be required to pay IERAC for the lands acquired from IERAC on the basis of the price of the expropriated lands. (The subject of payments for expropriated lands is also treated in Decree No. 352 of April 12, 1973 which gives more specific details on evaluations of expropriated lands).

A new Agrarian Reform Law, published on October 11, 1973 stipulates that land will be expropriated provided that 1) it was not efficiently exploited; 2) not owner operated; 3) does not meet its social responsibility toward labor; and 4) is excessive in amount. Generally, campesinos are required to form cooperatives, and the cooperatives become the owner of the lands. When lands are granted to campesino groups with corporate personality, the organization will be expected to pay for the land over a period of years as agreed, comply with the social function of the property, not sell the property or parts of it without the authorization of IERAC, and not mortgage the property, except for obtaining credit, without the authorization of IERAC.

8. Progress to Date

Although the land sale guaranty feature of L-032 has never been utilized, cooperatives obtaining land through the procedures established in the 1970 agrarian reform law are eligible to receive credit and technical assistance under the Program, even if land is obtained outside the guaranty system. Twelve cooperatives of the 44 cooperatives in the Program have final title to their land (including five cooperatives that were able to

purchase their land directly from the private seller). Although determination of compensation to the previous owners has been slow, and there are administrative delays within the IERAC, cooperatives operating on expropriated land have provisional title and are not required to pay rent while awaiting the completion of all legal procedures for transferring land. Moreover, the BNF, the most active PFI in the Program, regards the provisional title or certificate, given to legalized cooperatives on expropriated land, as evidence of permanent tenure (although the BNF will no longer grant credit for infrastructure improvements without a title, as it did earlier under the Program).

The 44 cooperatives receiving credit to date under the Program have a total of 1,490 members cultivating 6,595 hectares. Although data are incomplete and unreliable, it is estimated that land under cultivation represents about 50 percent of the land actually occupied, which would average out to approximately 11.3 hectares for each farmer, slightly larger than the 10 hectares estimated in the loan paper in 1969. Of the total credit authorized from 1972 through September 1974, approximately 60 percent has been for short-term operating credit, 18 percent for machinery (tractors,

pumps, and other machinery and equipment), and 22 percent for infrastructure (land clearing and levelling and construction of dikes and irrigation canals). Most of the machinery and infrastructure loans have been for five years (sometimes with an additional year of grace), although some cooperatives obtained terms of 8-10 years.

Despite data problems which make economic and financial analysis difficult, there is some evidence that actual performance of borrowers in the Program with respect to yield and income levels has improved over what it was before entering the Program, although it may be lower than that projected in the farm plans (one AID review has characterized the plans as being too optimistic[1/]). So far this lower than planned performance has not caused any problems, since the margin of profitability or the difference between costs and returns has been large enough to meet loan repayment costs. While some cooperatives have been a month or two late in their payments, because of delays in planting or use of slow-maturing seed varieties, they have been able (though sometimes with some difficulty) to obtain extensions until their crops are harvested and sold.

1/ Wade F. Gregory, Report of the Fourth Visit to Review the Land Sale Guaranty Program and the Agricultural Development and Diversification Program, February, 1973, p 4.

In recognition that members must have an adequate income to care for their family and that work on the cooperative is the main source of income, a daily wage is paid for each day worked, with the calculation of the wages included in production costs, and covered by the production credits obtained by the cooperative under the Program.

Approximately half of the cooperatives are affiliated with one of several federations. Most of the cooperatives have been in existence only a few years, with only about nine having met the requirements for legal registration before 1970. The majority of the cooperatives are affiliated with the National Federation of Rice Cooperatives (Federacion Nacional de Cooperativas Arroceras -- FENACOOPARR), an organization established in 1970 with AID assistance. Now financially independent, FENACOOPARR purchases, mills and markets its members' rice production. With its earnings, FENACOOPARR provides educational services and technical assistance in rice production to its affiliates.

Approximately 75-80 percent of the land in the cooperatives under the Program is farmed as individual plots. However, considerable variation in the pattern of exploitation exists, with some groups farming private plots only, some groups following collective farming only, and some groups having mixes of the two. There

is a discernable trend toward collective farming, a trend that is likely to continue, it has been suggested, as the campesinos acquire more experience with collective farming and as the rising price of labor makes mechanized harvesting more attractive. In any case, in accordance with GOE policy to prevent the build-up of a large number of small marginal farms, the cooperatives receiving land titles through the government's agrarian reform program are required by law to hold the tract as a cooperative for ten years, after which the tract can be subdivided into individual farms if the cooperative so desires.

The Ministry of Agriculture's Program Office, under which L-032 is being carried out, is located in Guayaquil and has on its staff agronomists and other agricultural specialists, accountants, and cooperative extensionists. It has been estimated that 80 percent of staff time is devoted to cooperatives currently receiving loans and 20 percent to those being considered for future participation in the Program.

With a staff of about 60 and a budget for 1974 of just under $200,000, the Program Office is hard pressed to meet the many and complex demands made on it and is considered by some to be in serious danger of overextending itself. (See Table 1, page 43 for a list of 35

separate steps or activities undertaken by the Program Office in carrying out its responsibilities).

The main task of the Program Office staff is the preparation of farm plans, which provide the basis for the loan requests made by the cooperatives. While attitudes of cooperative members toward these plans and the technicians preparing them were reportedly mixed, a USAID review early in 1973[2/] suggested that the farm plans and record system were much too complex for the Program at that stage and that aside from serving as the basis for the loan application, little other use was being made of the farm plans and records, possibly because of their complexity and the lack of comprehension by project personnel on how to use them. The recommendation was made, therefore, not to forgo collecting useful information, but rather to keep the forms and process simple and as the need for more information is recognized, to expand the record system to fill the need.

9. Impact of Loan

Because of a reduction in the anticipated demand for the guaranty transaction, reflecting the changes in the environment described above, and also because of legal and administrative obstacles which prevented the mechanism from becoming operational, the land sale

2/ Ibid.

guaranty provided for in Loan L-032 was never utilized. As a consequence, the loan authorization was amended for the second time on October 25, 1974 to provide for GOE funding of the guaranty account for land transfer and credit guaranties and to concentrate AID resources on medium and long-term credits.

Despite the non-utilization of the land sale guaranty feature of L-032, the rest of the program -- in effect a supervised agricultural credit program -- has been effective in assisting campesino cooperative organizations and is facilitating their acquisition of land under GOE agrarian reform provisions.

L-032 is also credited with being the catalyst for bringing the Central Bank into development finance; through its Financial Funds, the Central Bank is now managing $70 million dollars of resources, mostly destined for agriculture and livestock purposes. Moreover, private commercial banks are becoming increasingly involved in development since they are required to invest a specified percentage of their portfolios in agriculture or industrial development loans for small scale farmers and entrepreneurs.

TABLE 1

Activities of the Office of the "Program to Promote Agricultural Enterprise," Guayaquil, Ecuador

1. Send personnel to the area.
2. Locate quarters for the office.
3. Attend a General Assembly.
4. Compile group socio-economic data.
5. Undertake evaluation of group resources.
6. Tabulate and evaluate compiled data.
7. Select enterprise that has basic requisites.
8. Make technical assistance agreement.
9. Draw up publicity program and training plans.
10. Provide agronomic technical assistance.
11. Motivate group.
12. Train group.
13. Provide accounting administration and management assistance.
14. Make legal and financial study for land administration.
15. Make down payment on land.
16. Conduct preliminary negotiation of land.
17. Make soil samples and physical-chemical analysis.
18. Carry out topographic studies.
19. Complete land transfer transaction.
20, Do field planning.
21. Develop production and investment plan.
22. Present credit request to Program Director.
23. Present farm plan and request to financial institution.
24. Approve farm plan and requests.
25. Process legalization of documents.
26. Review results and training plans.
27. Conduct contacts and negotiations for infrastructure.
28. Provide inputs, purchase equipment and tools (preliminary contacts).
29. Develop credit contract.
30. Sign contracts and credit documents.
31. Complete first credit disbursement.
32. Supervise implementation plan.
33. Make market contacts.
34. Modify farm plans.
35. Review results.

IV. The Land Sale Guaranty Program in Costa Rica

Costa Rica:	Agricultural Development Program
Loan No:	L-022
Amount:	$16,400,000
Land Tenure Project a) Land Titling b) Guaranty Fund	$ 3,450,000 (2,700,000) (750,000)
Date of Loan:	June 30, 1970 (Loan Authorized) August 11, 1970 (Loan Agreement Signed)
Amendment No. 1:	December 5, 1973
Amendment No. 2:	December 13, 1974
Amendment No. 3:	January 29, 1975
Terminal Disbursement:	March 31, 1978 (Revised)

SUMMARY

The purpose of the Land Sale Guaranty Activity (L-022) in Costa Rica was to supply the Institute for Lands and Colonization (ITCO) the means to provide guaranties to landowners to encourage them to sell their lands to campesinos under reasonable terms.

Because of several contributing factors, the Activity has resulted to date with loans to only five small cooperatives. Chief among the contributing factors has been the lack of funds for down payments. Also important has been the high inflation in Costa Rica which has encouraged landowners to hold their lands

as a hedge against inflation. For the same reasons the downpayments requested have been as high as 66% of the total price and those paid have been 40% on the average.

Once the land is purchased the new owners have had problems getting established. All five of the cooperatives under the activity have used the guaranty at least once to make payments. Getting the new owners through the first year is the major hurdle.

An amendment to L-022 permits the dual use of $750,000 from the Loan's Land Tenure Project for agricultural credit as well as for land sale guaranty purposes as originally intended.

END OF SUMMARY

1. Background

The Land Sale Guaranty Fund Activity in Costa Rica was one of two parts of the Land Tenure Project. This project was one of seven which together comprised a Costa Rica Agricultural Development Program (L-022). The total program was planned for $30,955,000 of which AID was to provide $16,400,000. The Land Sale Guaranty

Activity was planned for $1,000,000 of which AID was to provide $750,000. The Loan Agreement L-022 was signed August 11, 1970.

Although the major concern here is with the Land Sale Guaranty Activity, some of the other parts of the Agricultural Development Program are important for the success of the Guaranty Activity and will be referred to as appropriate.

The overall structure of the Agricultural Development Program as extracted from the Capital Assistance Paper (CAP) is shown in Figure 1. Similarly, the structure of the Land Sale Guaranty Fund Activity is shown in Figure 2. This activity was "premised on the existence of landless agricultural laborers whose strong desire to own land is aggravated by a keen awareness of the existence of numerous, large tracts of unused (or undercultivated) privately owned lands."1/

A second premise implicit in the CAP was that the Institute for Lands and Colonization (ITCO), would serve as an effective ally in implementing the plans of the CAP.

2. Land Sale Guaranty Activity Design

Under the terms of L-022, ITCO would establish and administer the means to provide guaranties to landowners to encourage them to sell their lands to campesinos under reasonable terms. This would involve, as described in the Loan Agreement, "(1) a land purchase agreement between the buyer, the seller and ITCO (guarantor), (2) an ITCO regulation governing the application of the land sale guaranty fund, (3) an agreement between one of the commercial banks and the buyer regarding the provision of agricultural production credit, and (4) an

1/ Vol. II of the CAP, AID-DLC/P-916, p. 15

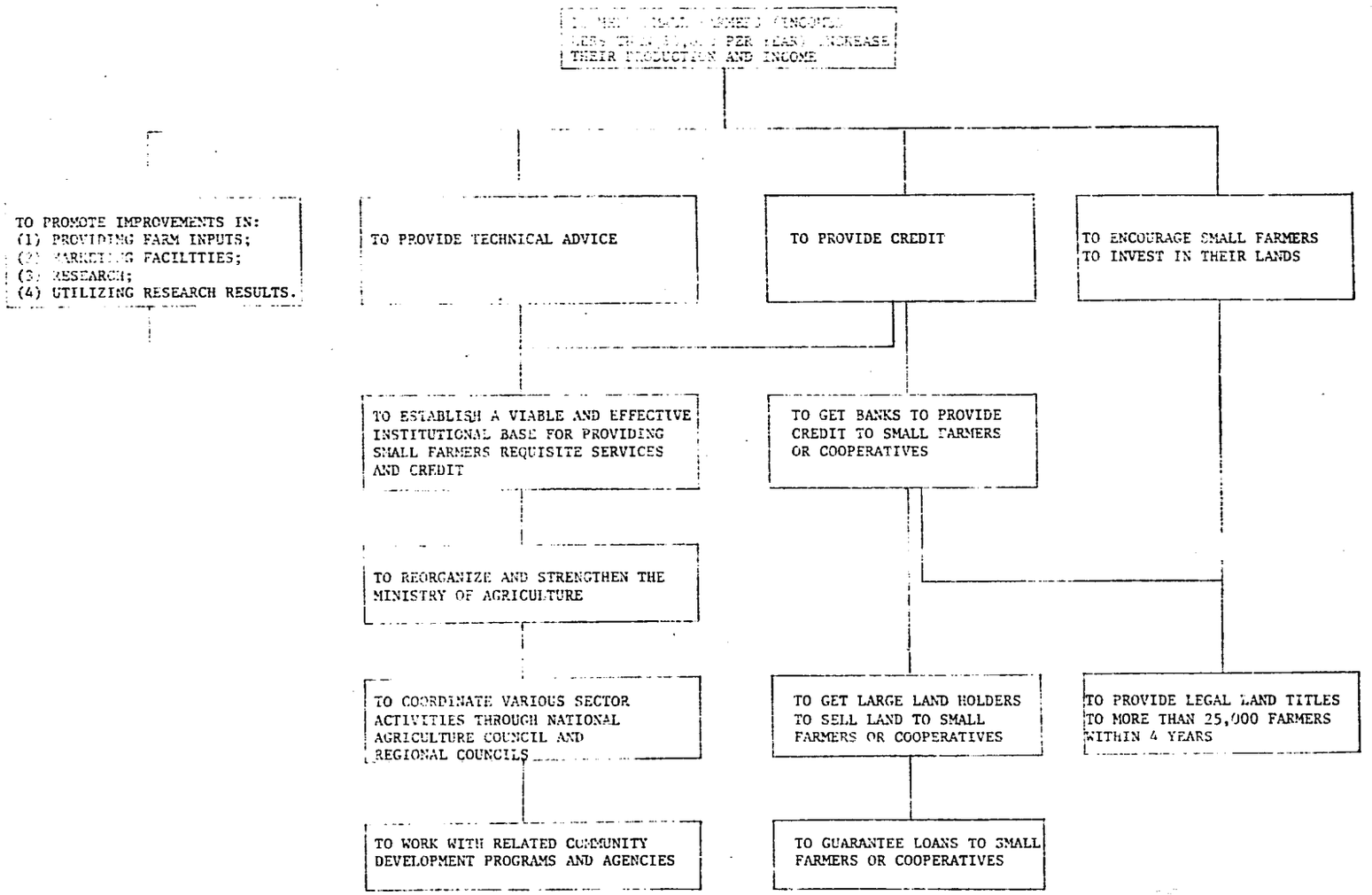
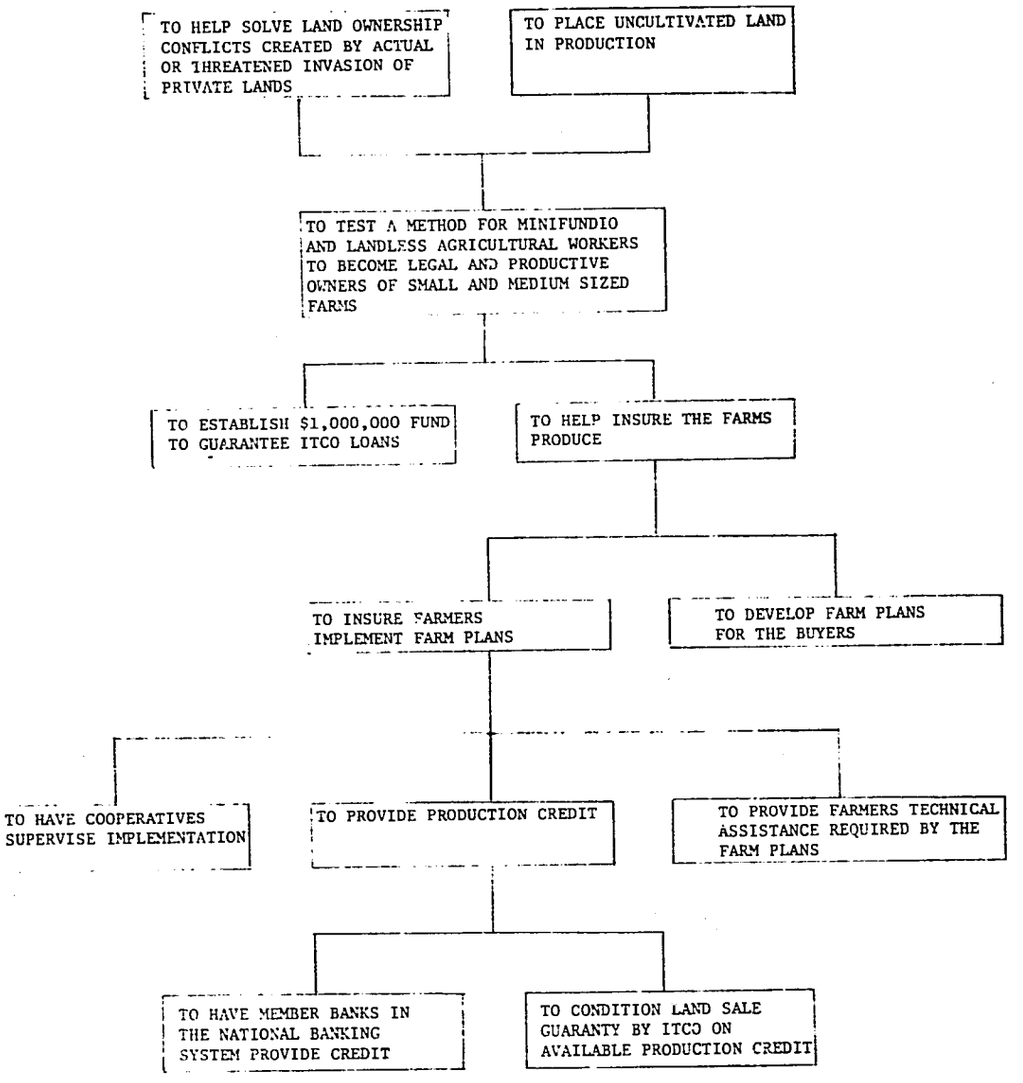


FIGURE 1
OBJECTIVES OF THE
AGRICULTURAL DEVELOPMENT PROGRAM
(LOAN 022)

Legend

Achievement of any given objective is supported by achievement of objective(s) connected to the given objective from below



Legend

Achievement of any given objective is supported by achievement of objective(s) connected to the given objective from below

FIGURE 2
OBJECTIVES OF THE
LAND SALE GUARANTY ACTIVITY
(LOAN 022)

agreement between the buyer and the Ministry of Agriculture (MAG) regarding the provision of technical assistance." Furthermore, "ITCO will be responsible for preparing a farm plan for each buyer. The participating bank and a designated MAG extensionist or extension officer would have to concur in the plan and agree to participate in the particular plan by providing credit and technical assistance as warranted."

If a buyer were unable to pay, it was planned that ITCO would draw on the guaranty fund to pay the seller. Then "if the buyer is later able to repay the fund, such repayments will be used to build up a new guaranty fund which, it is anticipated, will grow to the point of providing the backing for continuation of the Guaranty Activity after the termination of this Project."

The procedure followed by ITCO in implementing the loan is shown in Figure 3. In practice the times shown on the chart have not proved representative. The variations from the times shown have been quite large in some cases. As a consequence the critical path shown with heavy arrows may not agree with experience to date. On the other hand, the events indicated by the circles and given in Table 2 are still representative. These also

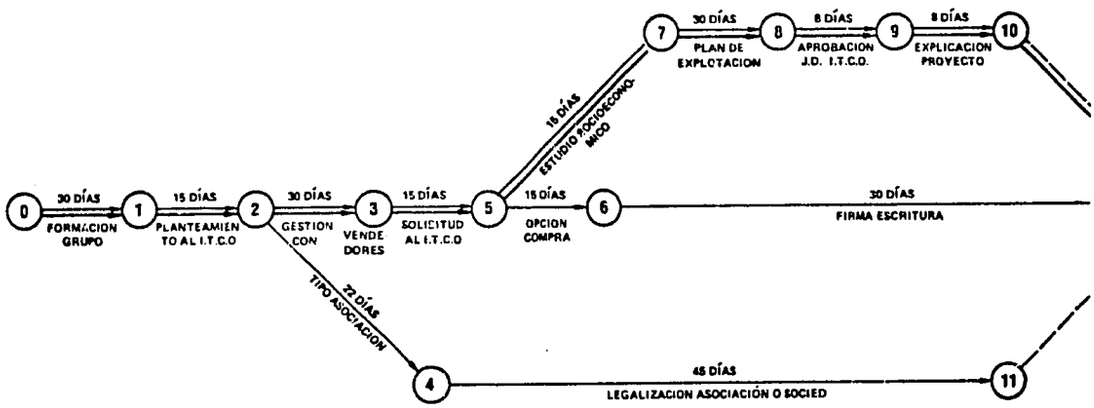
indicate the need for the importance given in L-022 to a National Agricultural Council for coordinating activities. In particular, there is a need in the Land Sale Guaranty Activity for good coordination between ITCO, the Ministry of Agriculture, and the National Banking System to provide their respective services to insure that the land is transferred, that plans are made to use it well, and that various types of credit required are extended. If one or more of these services are not provided, the chances of the purchase succeeding are greatly reduced.

USO DEL FO

FIGURE 2.

DIAGRAMA

INSTITUTO DE TIERRA Y COLONIZACION
OFICINA PROMOCION DE PROYECTOS



IDO DE GARANTIA

IE FECHAS (CPM)

PLAN DE DESARROLLO AGROPECUARIO NAL.
CONVENIO AID 515-L-022
PROYECTO VI 8

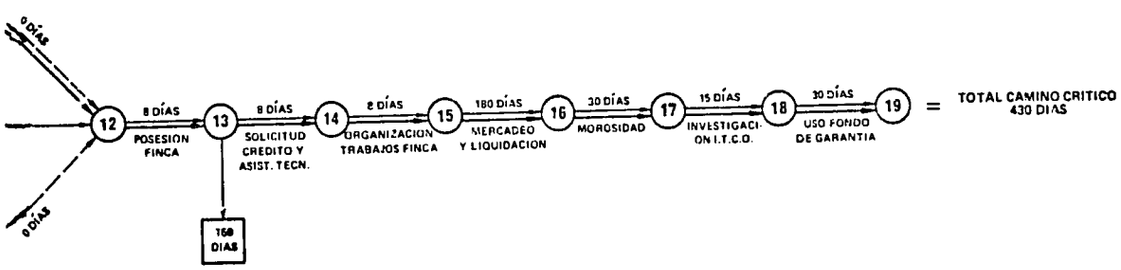


TABLE 2

STEPS IN THE USE OF THE GUARANTY FUND IN COSTA RICA

A. Organization

1 - Formation of small farmer group.

2 - Presentation to ITCO of a plan for purchase of land with guaranty funds.

3 - Negotiations by the group with possible land sellers.

4 - Decision on the type of association or society to be established to obtain the group's legal standing. Definition of the type or organization or enterprise.

B. Farm or Land Purchase

5 - Presentation to ITCO of the land purchase request, including information on the farm, possible production, price and payment terms which have been agreed to with seller, and any appraisal that has been received.

6 - Establishment of a purchase option for the group.

7 - Preliminary ITCO study to determine the social and economic feasibility of the purchase.

8 - Preparation of Farm Production Plan in coordination with the Ministry of Agriculture Extension Agent, the representative from the Rural Council or Credit Agency and National Production Council Representative.

9 - Presentation to and approval by Executive Board of ITCO of the Production Plan and the purchaser's request.

10 - Explanation of the project to the purchasers before technicians of the Ministry of Agriculture, Financial Bank, and National Production Council for their final approval.

C. Legalization of Purchase

11 - Establishment of the organization or society.

12 - Signature of the documents transferring ownership to the buyers and the drafting of mortgages in favor of the seller and ITCO.

13 - Possession of the farm by the purchasing party.

D. Implementation

14 - Request by the new owner group for credit and technical assistance to the Bank and the Agricultural Extension Agency of the area.

15 - Organization for the handling of credit, the distribution of work by teams, and the bookkeeping of the association.

16 - Harvest, marketing of products, and payment of debts by the association.

17 - Notification to ITCO of arrearages by the Bank, the seller, or the Association.

18 - Investigation by ITCO of cause of non-payment.

19 - Presentation of the study to ITCO's Executive Board to determine the applicability of the Guaranty Fund.

3. Progress to Date in Costa Rica

Under the Land Sale Guaranty Fund Activity of Loan 022, five cooperatives have purchased land totalling $167,000 as of November 1974. This has not changed in over a year.[1/] However, under separate efforts ITCO has formed seven cooperatives that are purchasing land. What is the difference between these seven and the five under Loan 022? The answer given by ITCO: If the landowner accepted ITCO Bonds for the downpayment for the land, it is one of the seven. If he required cash for the downpayment, it is one of the five. However, in an internal USAID memo of August 8, 1973, it was noted that: "Because of the irregularity in the manner in which the land was acquired, these farms do not qualify for Land Sale Guaranty protection". The irregularity included farms expropriated by ITCO, farms invaded by farmers, and lands recuperated by ITCO. The relation to ITCO seemed to be the same for both owner groups.

This raises the question of what are the important factors for a landowner considering participation in a land sale guaranty program. The following are probably some of the more important.

1/ See "Informe Sobre Actividades Realizadas Durante el Mes de Agosto de 1973," Departamento de Titulacion, ITCO, 27 August 1973.

(1) If the country has a high rate of inflation, land may be one of the safest ways of protecting capital.

(2) If campesinos are invading or are threatening to invade the holdings of landowners, or if the government is going to expropriate the land, then it may be prudent for the landowners to participate in a land sale program.

(3) If the courts and/or other relevant government agencies have indicated an unwillingness to allow foreclosure when payment is not made when due, a landowner may be unwilling to participate.

(4) If the bonds offered for payment are discounted heavily by the market and/or have a low yield then a landowner may ask for a greatly inflated downpayment before selling.

(5) On the other hand if the bonds in (4) are accepted at face value by the government for payment of taxes on other lands owned by the landowner he may accept the bonds.

(6) If the loans are supposed to be backed by a "guaranty" to insure payment to the landowner, he will probably be more assured if the guaranty funds are held in a trust than if the guaranty is a promise from the government.

(7) If taxes are high on uncultivated land and such taxes are collected, this might stimulate sales.

The considerations above are important for landowners who might participate in a land sale guaranty program. With regard to (1), in Costa Rica inflation has been high in recent years, but the price of land rose at an even higher rate through 1974 due in part to the open door policy of Costa Rica to foreign investors. However, recent declining beef prices have lessened demand causing weakness in land values. Nevertheless, many landowners are reluctant to sell hoping for even higher prices. One of those we spoke with suggested it might help the LSG activity to get land if the debt were pegged to a cost-of-living index.

With regard to (2), the pressure of invasion, the majority of those interviewed seemed to feel this was not a consistent stimulant to landowners to sell. Sometimes and in some regions it occurred but not often and not in very many places. On the other hand, with growing numbers entering the labor market, invasion will probably increase. Expropriation has been used in Costa Rica by ITCO to obtain land and probably is a small stimulant.

In regard to (3), the landowners' faith in being allowed to foreclose, the authors were told this is not relevant in Costa Rica because ITCO would always insure the payments due the seller would be made. Viewed in

the light of the tremendous increase in land prices in Costa Rica in recent years, one can appreciate why ITCO would make the payment.

Excessively high downpayments, Item (4), is a problem and not only in the case when bonds are used. In the recent past one owner asked for $1 million for the downpayment. This was 67% of the price asked. To date the downpayments have been near 40% of the total price. IRCO's bonds are discounted about 30% in the market.

With regard to item (5), we were told one fruit company had sold a large tract to ITCO for bonds. They were then allowed to use the bonds at face value to pay taxes owed on other lands owned.

With regard to item (6), the original loan agreement did not permit disbursing funds for the establishment of a guaranty fund. Later, through Amendment Number 2, the loan was amended to permit the dual use of $750,000 from the Loan's Land Tenure Project for agricultural credit as well as for land sale guaranty purposes as originally intended. To meet the concern that adequate resources be provided to the Fund as required and simultaneously to address the concern of the National Bank of Costa Rica (BNCR) that it be permitted to make full use of the funds consistent with prudent banking practices, the BNCR entered into an Agreement on June 11, 1975, with ITCO, the executing agency, whereby it will guarantee to return to ITCO up to

$117,000 per annum to cover ITCO's responsibilities under the Land Sale Guaranty Program. A further assurance of liquidity is provided by the GOCR's contribution of $250,000 to the Land Sale Guaranty Activity most of which is deposited in the Central Bank, invested in liquid assets and will be immediately available to ITCO. As mentioned above, there are presently five sales agreements in force totalling $167,000. Although numerous projects are under consideration, the BNCR/ITCO arrangement should provide the resources the Fund might require for years to come.

In regard to taxes (7) they are not motivating sales at present, but one person interviewed predicted they would in the future.

Once the problems of getting landowners to sell are overcome, a new set of considerations come into play. One of the first relates to the market for a land sale guaranty program. Some of those interviewed felt that the rural poor were not interested in land ownership because of the risks involved. Others felt that the rural poor were unaware of the assistance offered by the government. There is probably an element of truth in both views. It is known that at COOPETULGA, which was visited, only five of the original twenty-one families were still in the cooperative. For the others in the original organizing group, land ownership was apparently not motivating enough

to remain. Their places are now filled by others. It is also known that ITCO was not well equipped to mount a vigorous advertising campaign about the program. In this regard conflicting views were given about the lack of knowledge among landowners about the existence of the program. Regardless of which was right, both potential buyers and potential sellers must hear about and understand how to participate in a land sale guaranty program for it to succeed.

Once a group becomes interested in purchasing land, the next barrier to be overcome is the downpayment. Lack of money for the downpayment has been the biggest problem in the Costa Rican program according to several interviewed. From all the evidence obtained, not one of the cooperatives had the money for the downpayment. ITCO has provided it in every case. This is probably the most important reason the program has not expanded beyond five in over a year. Moreover, there was little indication that ITCO would soon have any appreciable increase in money for downpayments. However, as noted earlier, if the seller will accept ITCO bonds for the downpayment then the transaction is not included in the land sale guaranty program. The interest on the bonds is paid from a tobacco tax and from ITCO's annual budget. At some point in the future it is conceivable that the income from the tobacco tax could be used to build up a fund for downpayments. However, it

would appear that more leverage could be gained from this income by using it to pay the interest on bonds instead of downpayments so long as sellers will accept bonds.

Coupled with the need for the downpayment is the need to insure that the land will support all the requirements of the buyer groups. (ITCO uses its limited resources to work with groups instead of individuals.) This requires a feasibility study to consider such factors as the number of members in the group and the amount of debt to be incurred, if any, for such items as downpayment, remainder of the total cost, seed, fertilizer, pesticides, housing, land preparation, living costs for the initial years, infrastructure development, etc. on one side. And on the other side consideration must be given to the amount of land and its productive capacity, the climate, the crops planned, the projected market conditions for such crops, the costs of marketing, etc. In Costa Rica these considerations are included in Section B of Table 2. In addition, Item (7) in Section 2 refers to certain social feasibility considerations which are made.

The need for such considerations was clearly evident at COOPETULGA. This cooperative was described by several

interviewed as having many problems. As mentioned earlier this was the first group formed under the land sale guaranty fund. As such it is to be expected it would encounter the most problems. One problem was that the land was too small to support the number of families who settled on it. Another was that the members tried to farm the land in small parcels. Later they changed to farming the land in common. (ITCO now requires collective farming in all of the groups under its auspices). At the time we visited, the membership included five single males, twelve husbands and four of their wives (who were listed as members to make the total add up to the legal requirement of 21 members for a cooperative). The group had only four houses so one member walked 1.5 hours each way each day and the rest of the members commuted on week-ends to their families 14 km away. During the week they lived in a bunkhouse. Cooking and other household chores took time away from farming. Food and other necessities had to be brought in from the nearby town. When the group was first formed the members received only 10 colones a week in wages and the round trip bus fare to their families' village was 6.5 colones. (They now receive 80 colones per week.) Being away from their families was cited as their major problem.

In addition to the need for the social feasibility study indicated by this example, there was some indication ITCO was concerned also to insure that the prospective members had the abilities required for farming and a sincere interest in land ownership (as contrasted with political motivations or land speculation as examples).

Another consideration requiring attention is the legal status of the group. Legal status is important for obtaining title and credit. So far in Costa Rica the cooperative has been the legal entity. Some of those interviewed expressed the need for other possibilities because the 21 members required for a cooperative was too many for some available tracts of land to support. On the other hand there is a danger that if the number of groups becomes too large (because the number of required members is decreased), ITCO's technicians and those of the other relevant agencies may be too few to provide adequately the services needed by the groups to be successful. Another factor may be equally important in seeking alternatives to the cooperative structure, namely, the rights to justice and equity. Of course in the Costa Rican case none of the members has any equity initially. As payments are made for the debts incurred in gaining ownership, equity should be gained. However, in the interviews the authors had, it seemed that

if the other members chose they could vote out a member by simple majority vote. The important consideration is to safeguard the rights to equity for all the members of the group. One alternative to the cooperative for the legal entity might be a limited partnership. Other possibilities would probably occur to those familiar with business law in the country of interest. Alternatives are currently being explored by the Government of Costa Rica.

Once the group is on the land a new set of factors becomes important to insure the debt is paid. As was mentioned earlier, one of the steps to ownership is the preparation of a farm plan. Helping the new owners to understand and implement the plan is a major function served by ITCO and MAG technicians. There were several indications that this has been something of a problem because ITCO lacked the required resources to provide adequate follow-on services to groups of farmers and also because the groups lack within their ranks the administrative and managerial skills needed. Moreover, there may be too many government agencies interacting with the groups. In addition to ITCO and MAG, other agencies involved are IMAS (Combined Institute of Social Welfare), IFAM (Municipal Administration Development Institute), INFOCOOP (National Institute for Cooperative Development), FEDEAGRO (Federation of Agricultural Cooperatives), UNACOOP (National Union of

Cooperatives) and the banks. Each probably looks at only one aspect, and it is quite possible the views and recommendations are conflicting or confusing at times. Credit has been a problem sometimes -- both for production and for housing. The authors were told of one case where the National Bank in San Jose had approved the farm plan including production credit but when the group went to get the credit from the regional branch near them they were refused. More than one of those interviewed complained that the local banks still act like conservative commercial banks instead of helping social development. However, some believed this situation was improving and that AID's Agricultural Development Program L-022 was a major reason.

Marketing is also needed before payments on the loan can be made. For the most part this has not been a problem because the cooperatives have had a ready market and good prices for their sugar cane. One group had some trouble because a sugar mill was delayed in getting into operation.

Once the crop is produced and sold, problems in accounting must be handled. Members' income is based on the man-days worked by each member of each family. Amounts received for crops have to be accounted for.

Amounts due to creditors need to be paid. The members are farmers, not accountants, and assistance from ITCO is not readily available whenever it's needed. Accounting and administration were reported to be problems by several of those interviewed.

All of the groups under the Land Sale Guaranty Fund Program in Costa Rica have called on the fund at least once to make a payment that was due. There were a number of factors that contributed to cause the guaranty to be used. In one case the size of the farm was not as large as it was thought to be when the plan was made for paying the debt. So the expected returns on the crops were not as large. Moreover, the loan was signed late causing the new owners to miss the peak planting season. In addition, the construction of housing was delayed causing the men to be without their families. As a result the labor of the families was lost and the men didn't always come to work; and when they did, the travel time was lost. Also plant diseases caused part of the crop to be lost and transportation was not available to take the crop to the location required to obtain the export prices. So it had to be sold locally at lower prices.

In another case the cooperative bought an old farm and didn't realize adequate revenues the first year to pay the debt.

In a third case, the production plan wasn't realized because of lack of housing, finances, and organization. So the planned crop was not obtained the first year.

In a fourth case, it was planned that cutting lumber would realize the money to make the loan payment. It wasn't. Lack of housing for the members and problems with administration of the group also contributed to the need to use the guaranty.

In a fifth case ITCO had to reorganize a coop after most of the members deserted. The new members didn't have time to realize a crop before the payment was due on the loan.

From these cases one might conclude that ITCO should provide for a grace period on these loans of about two years. This is reminiscent of a comment made by one of those interviewed that serves as a conclusion to this section, namely, if the problems of the downpayment and getting the groups through the first year could be solved, the numbers affected by the program would probably expand considerably.