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AGRARIAN REFORM IN EL SALVADOR

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And above all, we appreciate the generosity with which campesinos, the subjects of the reforms, and other landowners and agri-businessmen, gave their time to help us understand the complexities of their experience, hopes and concerns in El Salvador today.

GLOSSARY OF ACRONYMNS

ACOPAI	Rural labor and campesino organization.
BANAFI	Industrial Development Bank
BCR	Central Bank
BFA	Agricultural Development Bank
BH	Mortgage Bank
COPAL	Cotton export marketing agency (state monopoly)
COSAIN	Industrial Development Corporation
DIECRA	Agrarian Reform Research and Planning Department
FEDECAJAS	Federation of Savings Institutions (makes loans)
FINATA	Agency in charge of Phase III reform actions
GOES	The Government of El Salvador
INAZUCAR	Sugar export marketing agency (state monopoly)
INCAFE	Coffee export marketing agency (state monopoly)
IRA	Basic foodstuffs marketing agency (buys grains)
ISTA	Agency in charge of Phase I reform actions
MAG	Ministry of Agriculture and Grazing
OSPA	Agricultural Sector Planning Office
PERA	Agrarian Reform Research and Evaluation Program
UCA	Catholic University, San Salvador (Universidad Centroamericana)
UCS	Rural labor and campesino organization

Crop Years: May 1 through April 30. Crop Year 1982 began May 1, 1982 and will end April 30, 1983. (Ministry of Planning)

Exchange Rates: Official exchange rate: US$1.00 = 2.5 colones (₡2.50). "Parallel market" rate, Dec. 1982, US$1.00 = ₡ 3.75.

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PREFACE

On March 6, 1980, the Government of El Salvador launched an Agrarian Reform. In December, 1981, a study of that reform was prepared for AID/El Salvador, summarizing what had occurred up to that point, with evaluative comments and recommendations. The present report covers legal and procedural changes since December 1981, evaluates the present state of the agrarian reform in El Salvador, and presents recommendations for legal and procedural alternatives to increase its effectivenss.

The study was funded by AID, and was carried out by a team of independent consultants assembled by Checchi and Company, a consulting firm located in Washington, D.C. The members of the 1982 Study Team were:

John Strasma, Chief of Party, Senior Agricultural Economist
Peter Gore, Rural Sociologist
Jeffrey Nash, Cooperative Agribusiness Specialist
Refugio I. Rochin, Senior Agricultural Economist

Most of the information here presented was obtained in the field, in November and December, 1982, from land reform cooperatives and beneficiaries, from landowners, and from Salvadoran government agency staff members. Wherever possible, we attempted to verify the accuracy of the agency data, but in some cases this was not feasible because of lack of time or the civil conflict which prevented field work in about half of the country. In any case, we accept responsibility for the choice of what we regard as the best sets of data we could locate, among the various Salvadoran government agencies dealing with agrarian reform.

The evaluative comments and the views on agrarian reform policies and procedures contained in this report are strictly those of the study team. They may not necessarily coincide with those of USAID/El Salvador or the Government of El Salvador.

The study team and USAID/El Salvador would welcome comments and questions from those reading this report. Please direct correspondence to the Director, USAID, American Embassy San Salvador, APO Miami 34023.

EXECUTIVE SUMMARY

Somewhat to the Study Team's surprise, the Agrarian Reform is very much alive in El Salvador. After a setback following the March, 1982 elections, the process resumed in June, 1982 with the active backing of the armed forces. The army reinstated some 2,300 former tenants who had been evicted, and mobile teams signed up 9,000 more between June and December, 1982.

Appraisal, compensation and titling appear back on track, though ISTA needs more budget funds for the cash part of compensation and the titling process needs streamlining. Agency leaders are aware of the need to improve management and technical services to beneficiaries, and we found a refreshing lack of dogmatism about individual farming and production cooperatives; some projects we visited are going one way and some the other.

Productivity in the land reform sector is about the same as in the rest of agriculture, both holding at about the average for the five years before land reform, 1975-79. This is amazing, in view of the violence and guerilla warfare that plague much of El Salvador. Except where guerilla activity has forced beneficiaries to abandon farms, employment is up somewhat over previous levels. If peace is restored, Salvadorans will soon increase exports, replace food now being imported from Guatemala, and develop food processing and other agribusiness ventures.

We recommend a number of changes in policies and procedures, to enhance the effectiveness of the agrarian reform and help consolidate it in favor of the beneficiaries and of El Salvador. Some of these changes are already planned or are part of AID's intended program for next year; others would be new or would happen later. However, the entire process will be aided greatly if the level of violence and guerilla action drops and world prices for coffee, cotton and sugar rise.

Our principal recommendations follow:

Recommendations

1. Simplify the legal process for granting and registering land titles.
2. Complete the valuation and payment for the remaining expropriated farms.
3. Complete the assignment of these farms to their beneficiaries.
4. Create an insurance system for losses from both natural causes and acts of war.
5. Review the "emergency" loans of 1980, writing off those not recoverable.
6. Review the agrarian debt established for Phase I beneficiaries, reducing those land prices that exceed the true value of the land in production.
7. Find a way to pay promptly for export crops produced by beneficiaries, so members can know how their coop is doing financially.
8. Encourage cooperatives to hire professional managers, accountants and technicians where needed, while increasing their own skills as well.
9. Extend the signup deadline for Phase III in areas where violence has kept the numbers far below the potential beneficiaries.
10. Allow cooperatives to organize their own self-defense instead of quartering para-military troops, or fund these in some other way.
11. Allow the use of land reform bonds to buy shares of state enterprises.
12. Allow beneficiaries to pay annual installments of the land debt in land reform bonds, purchased at a discount in the market.
13. Conduct further research into farming systems and alternatives, in both Phase I and Phase II of the reform.
14. Move to create the agrarian courts contemplated in present legislation, as a vehicle for the peaceful settlement of rural conflicts.

In the report which follows, we describe our findings in some detail, including both the reasons for these recommendations and where possible, some indication of the possible cost or resources required.

CHAPTER 1

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

El Salvador has a long history of attempts at agrarian reform, and many observers would not be surprised if the most recent efforts, decreed in 1980, had also ended unsuccessfully. Members of the Study Team, while arriving with open minds and determined to establish objectively the facts on the matter, had read U. S. newspaper accounts earlier in 1982 and were under the impression that the conservative coalition that won the March 1982 election had attempted to annul the reforms. During two months of field work, however, we discovered that the reforms are still very much alive. More than that, between June and December 1982, significant further progress has been made. Compensation to ex-owners is being paid, titles are being issued, and another 9,000 beneficiaries have been brought in -- some 54,000 persons when family members are included.

Events after the March 1982 elections

The conservative coalition in the new Constituent Assembly expressed its views first with Decree 6, of May, 1982. This law barred new claims by tenants to land rented in the 1982/83 crop year, if planted to cotton, sugar cane, or grains, or used for grazing livestock. That covered almost all of the agricultural land, and appeared to be a major setback for reform. However, within weeks the political balance changed. The government was reorganized on a much broader base, including the Christian Democrats, and the social reforms were reaffirmed. Decree 6 was not annulled, but new decrees restated the rights of tenants to land they rented earlier, and removed procedural barriers in order to accelerate Phase III of the agrarian reform.

The armed forces also played a major role beginning about June 1982, notifying landowners, campesinos and the public that the agrarian reform was to be carried out and that the armed forces were behind it. To dramatize the shift, the military forcibly reinstated some 2,300 tenant families who had been evicted from their lands around the time of the March election.

The appointment of a dynamic, apolitical colonel to head FINATA, the agency in charge of executing Phase III, was also far more than symbolic support. ISTA, the agency in charge of Phase I, faces severe financial constraints, and is concentrating on consolidating and improving the management of the cooperatives it formed out of properties over 500 hectares. FINATA, on the other hand, seems t. ave adequate financial resources and is rapidly increasing the number of its beneficiaries and the amount of land it affects, with a program based on creating new, small, individual holdings out of land formerly rented.

These positive developments were not widely reported outside El Salvador.

Production.

About 31% of El Salvador's agricultural land is planted to basic grains (corn, beans, rice and sorghum), and 20% to export crops (coffee, cotton and sugar cane), with the rest in pasture, forest and minor crops. About one-third of the land is suitable for intensive use, and some of that is among the best in the world. However, slightly over half is so hilly or afflicted with other soil problems that it is only suited for grazing and forestry.

Both production and the area cultivated peaked in 1979, falling back somewhat in 1980 and 1981, the first two years of agrarian reform. The drop occurred in both the reform sector and the non-reform sector. However, output is generally still at about the 1975-79 average levels, despite the guerilla warfare that has been going on since 1980.

The greatest drop among the grains was sorghum, which fell 20%, largely in response to the decrease in the number of cattle (off 23%). Among export crops, sugar output was steady but cotton fell sharply, and coffee slipped somewhat. It appears that world cotton prices as well as rural violence accounted for the drop in cotton, while coffee was affected by world prices and the presence of both coffee rust and coffee borers.

It is possible that investment in coffee and cotton was also affected by landowner fear that properties between 100 and 500 hectares would be expropriated next, but the Study Team was unable to document the importance of this factor, alongside falling world prices and a general lack of confidence because of the absence of peace in much of the countryside. Near the end of our field work, however, we did note a resurgence of optimism and a number of businessmen who, like many campesinos who have been burned out or forced to abandon their farms during the worst of the conflict, announced they were going to go ahead and rebuild their enterprises in spite of the violence and other problems.

It is particularly interesting that yields are largely still above the average for the last five years, though not yet up to the peak of 1979.

Phase I Area and Beneficiaries. Phase I has affected some 206,000 hectares, not including the 13,000 hectares that owners chose to retain as reserves. This is under 15% of the total agricultural area, but it includes almost all of the properties in excess of 500 hectares. Some 30,000 former hacienda workers and landless laborers, are beneficiaries, or about 180,000 persons when family members are included.

The Cost of Violence. Campesinos and agrarian reform agency staff, like many other Salvadorans, live in fear for their physical safety. In the areas with the greatest level of rural violence, it is no wonder that no one invests in new plantations or livestock. About 28 Phase I farms have simply been abandoned because of fighting this year, displacing some 1,550 beneficiaries (or some 9,000 with family members) to look for land or work somewhere else. The residents of 21 more coops live poised to flee at any moment, because they are in the areas through which the guerillas and the army move frequently. We estimate that the abandoned farms alone account for a drop of about 7% in the reform sector's production of basic grains and cotton. (Cotton is especially vulnerable to arson of fields and gins, and crop-dusting planes have been shot down.)

"Protection." Many cooperatives in the Western region -- even in areas with no guerilla activity -- are forced to pay wages and rations to support para-military units that provide some protection against armed robbery but do not help in farm production activities. In the Eastern region, cooperatives are frequently forced to pay a "War Tax" to guerillas or free lancers who claim to represent the guerillas. Either way, it is "protection" money.

Climate. Production in 1982 was also affected by a drought in some areas, and heavy rains and flooding in others. As with losses from violence, there is no insurance available and individual cooperatives may suffer great losses while others are relatively prosperous.

Compensation. Approximately 29% of the expropriated land has been paid for already, in cash and bonds worth the equivalent of about US$100 million. Another 24% has been appraised, but ISTA does not yet have the cash with which to make that part of the indemnization payments. The remaining 47% represents cases in which the owner is still disputing the appraisal. While part of the delay may represent ISTA administrative problems, clearly much of it is due to owner footdragging or inability to produce documents needed to prove their claims.

Bonds. Although critics of the reform sometimes still speak of the bonds as "worthless papers," the bonds are negotiable bearer securities, and a small market has sprung up. They trade between 42% and 75% of face value, depending on size and maturity, and some ₡2.1 million have already been used to pay gift and death taxes. This is just over 1% of all the bonds actually issued to date. Interest coupons are also usable for paying all taxes, at face value, on or after the date interest is due. They sell quickly at about 95% of nominal value.

Credit. Phase I cooperatives have received substantial credit through the banking system. Some ₡63 million was extended on an "emergency" basis in the first months of the reform, in 1980, and it is still unclear what some of the money was used for. Much of it is still unpaid, and accumulating penalty interest each year it is refinanced. We recommend that the part that cannot be traced to productive use, be written off.

Some 251 Phase I cooperatives currently receive production credit from banks; the BFA serves the largest number, and is the bank responsible for lending to coops that have severe problems. In general, the commercial banks lend to coops that farm land whose former owner dealt with those banks, and they report generally good repayment by these coops.

Overall, about 76% of the production loans made to Phase I coops in 1980 and 1981 were repaid, which is better than the record of other Latin American land reforms and also better than the repayment record of non-reform private landowner borrowers in El Salvador. As world interest rates have fallen, these production loans do not appear subsidized, at interest rates around 14%.

An important link in the loan collection process is the marketing agency, and coops generally sell export crops and basic grains to government marketing intermediaries. The loan replayment is deducted automatically in these cases. However, coffee growers (reform and others alike) are quite unhappy that the coffee marketing institute makes them wait for payment for more than a year after they harvest the coffee.

Detailed studies of the ability of a sample of Phase I coops to pay their debts, including the land debt, indicate that almost all coops can make a profit on current production. They often have problems covering the interest, let alone principal, of the 1980 "emergency" initial loans. And many cannot realistically expect to cover principal and 9.5% annual interest on the value of the land established by ISTA when it compensated the ex-owner. While we did not have time for a study in depth, it appears that in some cases land values declared by owners in 1976 and 1977 were greater than the true value of the land for production purposes. We recommend further study in this area, and perhaps a separation of the amount to be paid by the campesino beneficiaries from the amount paid to the ex-owners. (There appears also to be the possibility of an injustice, in that coops with similar land may be charged very different amounts for it, depending entirely on the degree to which the ex-owner under or overstated the land value on his tax declaration of 1976 and 1977.)

Beneficiary Attitudes. A random sample of beneficiaries was interviewed at a random sample of Phase I cooperatives; almost all stated that they were better off than before the agrarian reform. They split about evenly on the question of continuing to produce cooperatively, versus splitting the land into individual plots, and they had equally mixed feelings about the present system of joint management between the coop and ISTA.

Management. ISTA is planning a pilot project to upgrade the technical skills of farm mangers and accountants hired by the coops. We were also well-impressed by a grass-roots effort called CODIZO, wherein representatives of each coop in a zone meet weekly to learn simple cost accounting and talk about their common problems, needs and proposed solutions.

Phase III. FINATA, the agency established to administer the Phase III program which enables tenants to become owners of the plots they have been tilling, had approximately 30,000 applicants at the time of the March, 1982 elections. The rate of new applications fell almost to zero just after the elections, and landowners reportedly evicted some 4,800 tenants in reprisal for having filed applications.

In May and June, 1982, however, the Army announced its full support for the Phase III program. The government was reorganized on a broader base, including the Christian Democrats and the Popular Action Party. The new Constituent Assembly, by now functioning as a legislature, then enacted two decrees reaffirming beneficiary rights which had appeared to be imperiled by its earlier decree (no. 6) prohibiting tenant applications based on land rentals in 1982. The Assembly affirmed that tenants could still apply, until

March 3, 1983, for any land they had rented on the date of the basic agrarian reform law, in early 1980.

In October, 1982, FINATA began to send mobile teams into heavily populated areas, instead of waiting for campesinos to come to provincial capitals, and the pace of applications picked up. From June 28 to December 3, 1982, some 9,000 new applications were received, bringing FINATA to a total of 35,936 applicants seeking to buy 46,159 parcels they have been renting.

The army also reinstated some 2,300 Phase III beneficiaries who had been evicted from 216 different properties, mainly just after the March elections.

As to credit, a 1982 survey showed that only 22% of the Phase III beneficiaries, while farming as tenants, had previously been able to get bank credit. After they became agrarian reform beneficiaries, 36% were getting loans.

The follow-up to applications is complex, requiring field verifications and discussions with the landowner as well as various legal steps. Even so, through late November,1982 FINATA had completed field surveys of 367 landowner properties on which 12,346 separate parcels had been claimed. Some 177 of the properties have been appraised, and 77 owners actually have received compensation to date. This part of the process appears to be going smoothly, and we did not hear complaints of undue delay. The actual registry of new titles for beneficiaries is likely to take a long time, however. The Registry itself is swamped with its regular business and unless it changes century-old procedures designed for a country with only a tiny landowning elite, it will barely be able to begin recording the large number of additional titles that Phase III will generate in 1983.

The FINATA beneficiaries were initially mostly small tenants, farming thin soils on steeply-sloped terrain. However, landowners are beginning to approach FINATA about selling farms between 100 and 500 hectares, including some good land along the coast. Other owners have offered to sell FINATA their entire holdings when tenants claim the marginal areas the owners did not bother to farm themselves. For the future, FINATA envisions a number of large farms, mostly along the coast, divided into individual parcels by inconspicuous corner markers, with central management, heavy machinery and intensive production of export crops. The beneficiaries would do the weeding, and each would harvest his own plot.

This model has been used in Taiwan and in the Gezira, in northern Africa. The Team recommends further study, and careful analysis of the merits of group farming (the Phase I model) and this variant on individual ownership under central supervision. In principle, it appears sound because the individual beneficiary has an incentive to see to the tasks best done by hand, while the plowing, pesticide application and other capital-intensive tasks are mechanized and directed by professionals. However, we would like to explore the subject further before making any recommendations.

Phase II. The basic reform laws announced that holdings over 100 hectares would be expropriated, but to date only those over 500 hectares have been affected. Meanwhile, owners of the 100-500 ha. group cannot sell, mortgage, or even give away their land, except to ISTA or FINATA. The Team heard various suggestions, ranging from repeal of Phase II to its immediate implementation. In our judgment, ISTA has its hands full with its present task and cannot take this on at this time. FINATA is already buying some of these properties directly, and should continue to do so.

A group of progressive agribusinessmen has urged that the Phase II owners be allowed to sell off the land above 100 hectares privately, and has indicated its willingness to have owners themselves finance the sale over 10 year payment periods. To make it clear that this is not merely a sham, they would be willing to prohibit sales to relatives of the owners. (The owners could transfer land to their relatives out of the 100 hectares, but only after selling the rest to genuine campesinos buying individually or in groups.) Government would not be involved in either selecting the campesinos or financing the transaction.

A compromise proposal would allow the estimated 1,200 persons owning between 100 and 200 hectares to sell the excess privately, while requiring the 600 owners of properties between 200 and 500 hectares to deal with ISTA or FINATA. We also see considerable merit in this proposal.

Linkages with the non-reform sector. The Team found very substantial business ties already established between the reform sector and the rest of the economy. The Phase I reform cooperatives receive about 1/3 of all credit extended agriculture by Salvadoran banks, and they buy fertilizer, pesticides and farm implements from private agribusiness firms, just as the non-reform sector does. They sell to private intermediaries as well as to the state marketing agencies. We identified potential investment projects in agri-business areas such as meat processing, contract growing of vegetables for freezing or for counter-seasonal shipment to U.S. markets, and the like.

New uses for Bonds. Agrarian reform bonds can be used at face value to pay death and gift taxes, post bond in legal proceedings, and the like. The law also authorizes their use to purchase shares in new enterprises, but the implementing regulations have not been issued. There is little prospect that this will happen, because the Central Bank does not have the liquid resources to monetize (cash in) the bonds prior to their due date without inflationary pressure. However, it is possible that the government will sell off a number of deficit-ridden state-owned industries, including textile mills, a cement plant, a hotel, and a printshop, among others. There is some interest in accepting agrarian reform bonds in exchange for these industries, following the Taiwan precedent, and the Team believes this would be worth serious consideration.

If former landowners are given new uses for the bonds, which will increase the market value of the bonds, the Team suggest that the campesino beneficiaries also be allowed to benefit. One way to do this would be to allow the campesino cooperatives and Phase III beneficiaries to make their annual land debt payments to ISTA and FINATA in bonds, which they could buy on the market at 42 to 75% of face value. Since that would create a serious cash flow problem for ISTA and FINATA, the beneficiaries might also still pay in cash, but at the discount at which agrarian debt bonds were then trading.

Conclusions. The Report concludes with recommendations drawing on the earlier chapters, stressing the need to re-evaluate overdue loans made in the first year of the reform, to create an insurance system, and to reappraise the land being transferred to Phase I cooperatives according to its potential income generation. The Team also recommends several areas for further field research in some depth, as a guide to future agrarian reform policy. We recommend study of the establishment of rural tribunals, contemplated already in the agrarian reform laws, as a non-violent method of resolving conflict among campesinos and between them and others. And finally, the Team suggests that some method be sought to enable foreign observers to obtain a more accurate view of what is happening in El Salvador's agrarian reform.

RECOMMENDATIONS

PHASE I COOPERATIVES

1. Pay compensation to landowners for whom the terms have already been set and approved by ISTA's board. This requires the GOES to provide budget support during 1983, or ISTA to collect outstanding loans, or to discount bonds or otherwise obtain funds from the BCR.

2. Complete the valuation and compensation process for the remaining ex-landowners in Phase I. Where delay is caused by the landowner's failure to provide needed documents, publicize that fact to make it clear that the GOES is not the party dragging its feet on compensation.

3. Study needed changes in laws or procedures, to enable government to complete the valuation and title transfer process, when former owners refuse to negotiate or to present needed documents.

4. Simplify the present legal procedures for granting titles. (This study is already underway under AID auspices.)

5. To deal with losses caused by natural disasters and by acts of war, study alternative methods of creating and funding insurance for crops and farm buildings. This could be provided for both the reform and the non-reform sectors.

6. Analyze the "emergency" credits extended in 1980, in the first months of agrarian reform, cooperative by cooperative. Where there is no clear evidence that the money was received or was used productively, write it off as uncollectible. This will require negotiation between AID, BFA and ISTA, as to the criteria to be used and as to how the write-down shall be accounted for. Our tentative recommendation is that it be deducted from that part of the BFA's capital which was created by USAID donations, or alternatively that it be forgiven by USAID from long-term loans used to fund BFA credit programs.

7. Seek new methods of organizing the self-defense of cooperatives, so that they no longer have to support a guard force that does not help in production. This would require a joint effort between the military and ISTA and the cooperatives, perhaps through FESACORA. It would require that some of the cooperative members, presumably those who had completed their military service obligation satisfactorily, be authorized to carry arms. It might also be appropriate to consider whether members of the Defensa Civil now quartered on many coops might be discharged into civilian life, and simultaneously admitted as new members of the cooperatives.

8. Seek a mechanism to enable cooperatives to receive a tentative liquidation of their earnings from coffee and other export crops within a few weeks of delivery, rather than a year or more later. This will increase member confidence in their enterprises. Implementation of this recommendation would require that the export marketing agency find another source of funding to carry its inventories, or that it liquidate stocks promptly instead of speculating that the world price will rise later on.

9. Encourage the cooperatives to meet, work together, and organize training programs of their own, as "grass roots" efforts. The CODIZO model was particularly impressive to the Study Team. Funding might well be provided to enable the CODIZOs and other FESACORA activities to reimburse coop members who take part in their activities, for per diems and the normal agricultural daily wage which they forego in order to take part.

10. Encourage cooperatives to hire professional managers where they see a need, as well as specialized technicians for the growing of high-value crops. The banks and ISTA might well help by specifying formal qualifications for such personnel, but leaving the actual choice to the coops unless the coop asks for help in identifying a candidate. The object is to promote

flexibility, have the cooperative make the key decision to hire, and to avoid any possibility of political qualifications being introduced through a list of eligible candidates prepared solely by a government agency. Such lists would be helpful, but should not be exclusive unless they are in fact open to all interested candidates without political screening.

11. Once the valuation and compensation process is complete for all the Phase I cooperatives, restudy each case individually in relation to the soils, improvements, and other factors of productive potential. Where it appears that the land or improvements were over-valued, reduce the price and hence the amount of the agrarian debt assigned that cooperative. If not already done, the price should also be reduced for the land which is assigned to natural resources units or otherwise unavailable to the cooperative for farming.

12. To further encourage payment of the agrarian debt by coops, change the law so that they may make annual payments of principal by acquiring agrarian reform bonds on the open market at a discount, receiving them at face value in payment of the debt. Such bonds generally trade between 42 and 75% of face value at present, with the smaller denominations going for 75%. (They are used to pay gift and death taxes, for which they are accepted at par.)

PHASE III

13. Study and simplify titling procedures, as for Phase I.

14. Continue the mobile sign-up teams and extend the enabling legislation past March 1983, at least for those departments in which the number of beneficiaries to date is far below the potential.

15. Encourage the formation and strengthening of solidarity groups, already used for farm credit to many of these beneficiaries, and explore their use as transmitters of farming ideas and experience, between beneficiaries and state agencies.

16. Experiment with nontraditional extension methods, such as radio and videotapes, as the only economically feasible method of reaching large numbers of beneficiaries of Phase III.

17. Study further the farming practices of both landowners and tenants in Phase III areas, in order to adopt appropriate policies to conserve soils and otherwise adapt to the change from shifting cultivation to fixed parcels. PERA should establish a major project to observe and analyze the Phase III process, which is relatively newer than Phase I.

OTHERS

18. Study further the feasibility of agribusiness investments by coops and by private investors near agrarian reform projects, in order to create more employment, increase exports and reduce imports.

19. Reorganize the land Registry, recording all transactions in regard to each property unit rather than in folios for each landowner. The present method was appropriate a century ago, when landowners were few, but it is not appropriate at this end of the 20th century, and much less after a land reform has created more than 67,000 new landowners.

20. Enact a law authorizing the owners of more than 100 hectares to sell the excess voluntarily, to genuine campesinos, in small farms. The seller would have to finance the transaction, and relatives would not be eligible buyers.

21. Create the agrarian tribunals contemplated in the existing laws, to enable campesinos, land reform agencies and anyone else to resolve land-related disputes quickly and fairly. We believe this will remove one basic cause of rural violence, encourage investment, consolidate the reform and make it irreversible, and improve the welfare of everyone in rural areas.

CHAPTER 2

BACKGROUND AND BRIEF HISTORY OF

AGRARIAN REFORM IN EL SALVADOR

El Salvador's history of attempts at agrarian reform date back to early peasant uprisings between 1872 and 1899, and to the massive outbreaks of violence in 1931 and 1932:

> The events of January 1932 -- the murder of land owners resident on their estates, the revolutionary demands made by the rebels, the large number of peasants involved, and the fact that their march was stopped only within miles of the capital -- left the government in no doubt about the problems inherent in the new agrarian structure so recently introduced, or about the deep discontent among the rural population. After order had been restored, the government hastily legislated a series of reforms.*

The reforms attempted after the 1932 uprising are usually considered failures. Browning attributes this to:

> insufficient financial resources for land purchase or conversely an unwillingness to use powers of expropriation, an inability to regulate settlement and land use on the few estates that have been redistributed; administrative incompetence that is heightened by frequent changes of programme following changes of government; the resistance of commercial and landowning interests on the one hand and the conservative traditions of the subsistence farmer on the other.**

By 1976 another attempt at agrarian reform was made, under the government of Colonel Molina. A newly-formed Agrarian Transformation Institute (ISTA) was to expropriate some 56,000 hectares of land in the Department of Usulutan.

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* David Browning, El Salvador: Landscape and Society (Oxford: Clarendon Press, 1971), p. 273.

** Ibid., p. 292.

However, the plan was successfully opposed by special interest groups like the cotton growers of the area, and the law which created ISTA was repealed.*

On October 15, 1979, General Carlos Romero was ousted from the presidency and replaced by a military and civilian Junta Revolucionaria de Gobierno. Between the time of the coup and January 1980, repression and violence dramatically increased and basic reforms were not attempted. Three civilian members of the Junta resigned and were replaced by others. This brought the Christian Democrats to political power, joining the two military men remaining on the Junta.

The new Junta agreed on a three-part program, of which agrarian reform was the central component. (The others were nationalization of the banking system and nationalization of export trade in agricultural commodities.)

On March 6, 1980, the new Junta issued Decree 153, proclaiming an agrarian reform affecting land belonging to one or more individuals, estates or associations, exceeding 100 hectares for land in classifications I, II, III, and IV; and exceeding 150 hectares for land classified V, VI and VII. These limits now impose a ceiling on the right of land ownership. Persons who own more will be affected, but they may keep (reserve) 100 to 150 hectares and continue farming that land after the rest is expropriated.

Decree 154, along with Decree 153, established ISTA as the implementing authority to execute the first stage of the Agrarian Reform throughout the country. This stage, usually called Phase One, includes land holding in excess of five hundred hectares, either as a whole or a combination of several units belonging to one or more individuals, estates or associations. Thus

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* Simon, Lawrence, J. C. Stephens Jr. and Martin Diskin, El Salvador Land Reform 1980-1981, Impact Audit, Oxfam America, Inc., 1982.

far, no decree has been issued to execute a second stage of reform, covering land holdings over 100 or 150 hectares, but under 500 hectares.

Land rental agreements between owners and tillers were supposed to be regulated under Decree 44 of December 11, 1979, amplified by Decree 171 of March 17, 1980. Except for tenants on some state-owned lands (those owned by ISTA), Decree 44 was ineffective in terms of assuring tenants a "low" government-controlled land rental rate. No adequate mechanism had been set up to enforce the level of cash rents based on the soil classifications established by Decrees 44 and 171.

On April 28, 1980, Decree 207 was promulgated by the Junta Revolucionaria de Gobierno. This decree establishes the right for all renters who tilled up to 100 hectares to purchase the land they tilled, up to seven hectares (about 10 manzanas or 17 acres). Decree 207 provided a cut-off date of March 3, 1982 (one year after the publication of the Decree) for receiving applications for land purchase from potential beneficiaries or tillers of land. On February 9, 1982, Decree 970 was issued to extend the Decree 207 deadline to March 3, 1983.

CHAPTER 3

CHANGES IN LAWS AND PROCEDURES SINCE 1981

Decree 207 originally assigned ISTA the primary responsibility for Phase III, land reform for tenants. However, ISTA had its hands full with Phase I, so by the time the enabling decrees for 207 were promulgated, a "Financial" institution (FINATA) had been created by Decree 525 on December 11, 1980, to assume the job of receiving applications, titling land and arranging compensation to former owners and collection of land payments from beneficiaries. On February 9, 1982, Decree 970 was issued, extending the Decree 207 deadline to March 3, 1983.

Since the creation of the Constituent Assembly in March 1982, there has again been a parliamentary forum available to discuss issues such as the agrarian reforms. Since enactment of the basic Agrarian Reform Law on March 5, 1980, so many laws and regulations have been approved that it will soon be appropriate to enact yet another, to codify the laws already on the books. A synopsis of the relevant laws, in chronological order, appears as an Appendix to this chapter, as Exhibit 3-1.

1982 Decrees

Most of the legal changes underlying agrarian reform occurred before December 1981. Decree 124 (January 19, 1982) added regulations for the governance of cooperatives, the membership, and the responsible administrative parties. It set standards for cooperatives and listed acceptable reasons for the expulsion or reinstatement of members.

Decree 970, which followed in February 1982, extended Decree 207 for one year to allow registration of potential Phase III beneficiaries until March 3, 1983.

The Constituent Assembly elected in March 1982 produced another highly controversial law. Decree 6 (May 18, 1982) allowed rentals for one crop season (1982-1983), of land for cotton, sugar cane, cereals and cattle production without application of Decree 207. However, the law did not disqualify the potential beneficiaries of 207 who had rented, share-cropped or had land purchase arrangements on the early 1980 date of the basic agrarian reform law on any of that land, even if they had not yet applied to become owners.

Many landowners (and other observers as well) erroneously assumed that the March 1982 election victory by a coalition of center-right parties meant that Agrarian Reform was dead. However, after much discussion, the Constituent Assembly decided to form a broad-based government, and elected Dr. Alvaro Magaña (an economist not linked to any political party) as Acting President of the Republic. The agrarian reform was to continue. Almost at once, the Assembly enacted Decrees 11 and 13 (May, 1982), to define eligible beneficiaries and reaffirm their rights while implementing Decree 207.

The members of the Study Team had followed events in El Salvador as reported in the U. S. press, and arrived with a general impression that agrarian reform had probably come to a halt following the victory of a group of parties whose campaigns had often been overtly hostile to the reform. We were mistaken. Some appointees of that party spoke to us at length in ideological terms, criticizing the "intervention" of the U.S. Congress and State Department that effectively prevented them from reversing the agrarian reform. However, many other appointees of the same party have come to see merit in social reform as they administer the programs left in place by the previous government.

In fact, a common theme in conversations with the higher-ranking ISTA and FINATA field staff was that they now hope to demonstrate their competence, honesty and effectiveness in the administration of those agencies, and to remove the reform process from political party debates.

This does not mean that the Study Team found great enthusiasm at all levels of management, nor that there are no critical problems of resources, both human and financial. Yet the problems we found were problems typical of agrarian reforms anywhere, problems that would have existed had the other major party won the March 1982 elections. They are "growing pains," such as are perfectly normal for a 2-year-old child -- or for a 2-year-old agrarian reform.

Once recovered from our surprise at finding the agrarian reform to be very much alive in El Salvador, we turned to analyze the reform process in some depth, and to evaluate its accomplishments and its problems. Most of what follows is our effort to report our findings, and share our recommendations. These impressions are based on just under two months of field work, and on the analysis of reams of reports prepared in recent months by AID, BFA, DIECRA, FINATA, ISTA, MAG and PERA. It would not have been possible to do a study of this type at all without the superb assistance of PERA and DIECRA, as well as the full support and generous sharing of time by the leadership and staff of ISTA and FINATA, MAG and the BFA.

The Government of El Salvador is to be congratulated on having created PERA and DIECRA, and on having obtained for them resources with which they do effective field work to establish what exactly is happening out on the land, with the campesinos who are the true subjects and principal actors in the reform. When an agrarian reform is launched suddenly and implemented massively, there are bound to be problems and a need to adjust the process in specific areas or sectors. PERA and DIPERA give the reform agency leaders the means to learn what is actually happening, and to make needed adjustments.

APPENDIX

EXHIBIT 3-1

EL SALVADOR: AGRARIAN REFORM LAWS SINCE OCTOBER 1979

Decree No.	Date	Title or Essence of the Law
1	15 Oct 79	Revolutionary Junta of Government: Assumption of Legislative and Executive Powers.
7	3 Oct 79	Revolutionary Junta of Government: Reaffirmation of the Constitution of 1962, continues the suspension of Congress.
43	7 Dec 79	Prohibiting transfer of rural property over 100 hectares until agrarian reform laws enacted.
44	11 Dec 79	Establishment of new annual maximum rental rates for agricultural lands.
580	26 Jan 80	ISTA will have a board of directors with the members assigned by various associations.
114	11 Feb 80	Recognition of validity of political constitution, but facilitating expropriation.

153	5 Mar 80	Basic Law of the Agrarian Reform:
		- acknowledgement of private property within communal framework.
		- transformation of existing system into a more just system:
		  - equitable distribution of land
		  - adequate credit system
		  - assistance to producers
		- lands to be affected/size/type
		- acquisition of lands
		- compensation to be paid, largely in negotiable bonds.
		- evaluation and payment.
		- provisional administration.
		- persons affected.

154	5 Mar '80	Established maximum amount of property allowed to an individual in Phase I of the Agrarian Reform.

165	10 Mar 80	Change wording of Art. 3, Decree 154.
171	17 Mar 80	Regulates rents for agricultural lands used to cultivate basic grains -- by soil category.
207	28 Apr 80	Law governing the expropriation and transfer of agricultural lands to tenants.
209	28 Apr 80	Instituto Salvadoreño de Transformación Agraria (ISTA). Covers financial programs, sale of bonds, and the use of funds generated.
667	4 May 80	Payment of the expropriated land to the former owners.
220	9 May 80	Law concerning ISTA's Agrarian Reform Bonds and their uses.
221	9 May 80	Creation of the department of Agrarian Association, a subordinate agency of the Ministry of Agriculture (MAG). Aims: - aid legal status of cooperative associations for agrarian and fishing production. - aid from ISTA and MAG. - opening of a registry. - incorporation of "de facto" associations.
222	12 May 80	Ammendments to Decree 153.
256	3 June 80	Amendments/clarifications of Basic Agrarian Reform Law 153 -- especially Art. 4, 6 and 7.
33	17 June 80	Special law enacted on Agrarian Reform Bonds: - face value. - issue place and date. - interest, installments and amortization/capital - guarantees. - printing, registration and transfer of title.
761	10 Aug 80	Establishment of which land areas are to be used in the Agrarian Reform for what, and which will be used for tourism.
378	1 Sep 80	Dealing with various Agricultural and Agrarian organizations obtaining credit for cultivation.
451	29 Oct 80	Further clarification of Basic Agrarian Reform Law (regarding Article 3).
473	11 Nov 80	Further clarification of Basic Agrarian Reform Law (regarding Article 27).

525	11 Dec 80	Purposes of a new association: "Finata" (Financiera Nacional de Tierras) created in this Decree.
71	22 Dec 80	Rule for the application of the law for the affectation and transfer of agricultural land to the direct cultivators. - "FINATA" responsible for planning, directing and taking action. - Agricultural committees formed by the Ministry of Agriculture and the National Geographic Institute. - 10% annual interest to be paid to the owners of the expropriated land. - were bonuses to be given and for what.
538	22 Dec 80	Reforms and additions to the Decree 207 about the transfer of the land to the tiller and the payment for that land to the former owners.
539	22 Dec 80	The expropriated lands to be legally owned by "FINATA".
842	28 Oct 81	The Law to award the land obtained by ISTA, prior to the Basic Law of the Agrarian Reform to "FINATA". Also covers everything necessary for the management of this land. States where the profit will be used; individually and cooperatively.
876	26 Nov 81	Clarification of another decree.
124	19 Jan 82	Governing Statutory Regulations of the Agricultural Cooperative Associations covering: 1. Nature, name, duration, principles and objectives of cooperatives. 2. Minimum size of Cooperative set at 25 members. 3. Qualifications for membership and registration. 4. Rights of members and obligations. 5. Causes for expulsion, resignation and/or reinstatement. 6. Administrative structure, responsibilities of Governing Units and Members. 7. Payment of Debt. 8. The role of "Co-gestores." 9. Dissolution and causes. 10. General dispositions.
970	9 Feb 82	Extension of Decree 207 for one year to permit registration of tenants until March 3, 1983.)

3	26 Apr 82	Revoked Decree 114, which allowed expropriation without prior compensation.
6	18 May 82	Allowed rentals for one crop season, of land for cotton, sugar cane, cereals and cattle production (for 1982-1983) free of Decree 207 intervention. All previous rental and sharecrop arrangements still qualify for Decree 207 benefits.
11	27 May 82	Affirms the rights of Decree 207 beneficiaries and defines who is a beneficiary.
13	26 July 82	Revised the implementing regulations of Decree 207.

CHAPTER 4

GENERAL RURAL CONDITIONS IN EL SALVADOR

Several data sources are available, describing the characteristics of the rural population of El Salvador. Such a description helps place the agrarian reform process in a social context, and provides a baseline with which to measure the social progress of reform beneficiaries. In announcing the agrarian reform, the government stated that a fundamental objective was to improve the relative position of the campesino in the countryside. One measure of the eventual success of the reform will be to see, some ten years from now, how the campesino's living conditions have changed since the reform.

Literacy

According to data from the Planning Ministry (INDICADORES Económicos y Sociales 1981), 58.1% of the population of El Salvador lives in rural areas. The best El Salvador government source put the rural illiteracy rate at 51.7% in 1980, significantly higher than in urban areas.* This could be a major obstacle to transforming the traditional peasant quickly into a modern small farm manager.

Perhaps just as serious as the problem of basic illiteracy is the large number of rural people who have attended only a few years of school. For many purposes, these people may be functionally illiterate and have just as much difficulty with printed materials as a person who did not attend school at

* Encuesta de Hogares de Propósitos Múltiples II 1980, Ministerio de Planificación, hereafter cited as ENHOPRO 1980).

all. If the 28 percent of the rural population who attended three or fewer grades of school is added to the 51.7 percent classified as illiterate, the total is 79.7 percent. This poses a grave challenge to the traditional training and extension methods of transferring new agricultural technology.

School Attendance

A companion variable to literacy is school attendance, which could be a long-range indicator of whether the literacy rate is improving. The figures for rural El Salvador are discouraging: as of 1980, an estimated 42 percent of the children 6-14 years old in rural areas were not attending school.

EXHIBIT 4-1

School Attendance in Rural El Salvador, 1980

Age	% Attending
6	17.4
7	41.7
8-9	65.9
10-14	67.7

Total number attending, ages 6-14	409,467
Total number not attending, ages 6-14	300,903

Source: ENHOPRO 1980.

Health

One indicator of primary interest to families in all parts of the country is infant mortality. The published statistics for El Salvador on this variable are: 49.5/1000 live births (SALPRIND 1980) and 42.0/1000 live births (ALLDATA 1982). In spite of the disagreement in exact numbers, the rate is alarmingly high, and this was corroborated by our field visits where we found that strikingly high percentages of the informants had lost one or more children in infancy.

Two major correlates of rural health, aside from nutrition, are water supply and waste disposal. In both, facilities in rural El Salvador are inadequate. According to U.S. AID data, (AIDDATA 1980) only 28% of the rural population have reasonable access to safe water supplies and even fewer, 17.0%, have a latrine. These proportions were confirmed by our field observations.

Of course, these problems may be found in other countries as well. Exhibit 4-2 presents similar data for Central America, giving an idea of the range of improvement that is needed if these countries are to achieve adequate progress in these areas.

Exhibit 4-2

Central America Social Data

COUNTRY	POP	INFMORT	LITERACY	SCHOOL
Costa Rica	2.3	27.8	90	54
El Salvador	5.0	59.5	63	50
Guatemala	7.2	77.0	47	31
Honduras	3.9	31.4	58	42
Nicaragua	2.4	37.0	58	48

Panama	2.0	27.8	82	69
Mexico	69.4	49.0	74	64
United States	226.5	14.0	99	85

Source: The World Almanac, 1983. New York, NEWSPAPER ENTERPRISE ASSOCIATION, INC., 1982, 976 pp. Data were checked in the Statistical Abstract for Latin America, UCLA, 1982 and were found to be the same.

Notes: POP = Millions of persons found in latest Census.
INFMORT = Infant death rate per 1,00 live births.
LITERACY = National adult literacy, as a percent.
SCHOOL = Percent of children, 5-19, attending school.

CHAPTER 5

THE AGRICULTURAL SECTOR: RESOURCES, PRODUCTION AND TRENDS

Traditionally this sector has been divided into two classifications: one part consists of the staple crops, called basic grains, and the other is a group of export crops. The agricultural economy has been specializing along these two lines and remains rather similar today to what it was before the agrarian reform was begun.

Land Resources

Taking the national averages for 1975-1980 as a representation of the use of land resources within El Salvador's agricultural sector, a rough breakdown would be as follows:

Exhibit 5-1

Use of Agricultural Land in El Salvador

	Hectares	Percent
Basic Grains: Corn, beans, rice, sorghum	455,000	31%
Export Crops: Coffee, cotton, sugar cane	285,000	20%
Minor crops	40,000	3%
Pasture lands	410,000	28%
Forest lands	260,000	18%
Total in Agriculture	1,450,000 ha.	100%

The country has a definite limitation on agricultural possibilities based on its land use classification:

- 6 percent of the land is without major restrictions on utilization
- 27 percent has some restrictions but is apt for intensive use
- 11 percent has severe restrictions but is suitable for permanent crops
- 53 percent is appropriate only for grazing and forestry
- 3 percent is presently used for nonagricultural purposes.

- It is likely that the majority of"unused" lands, nearly 580,000 hectares, is of the type appropriate only for grazing and forestry. Its utilization would require a significant investment of productive resources and change the structure of the agricultural sector away from the traditional basic grains and export crops.*

Trends in Major Crops

Official agricultural sector statistics report a surge in the area under cultivation and production for both basic grains or staples and major export crops in 1979, followed by a drop in 1980 and 1981 back to the average levels of 1975-1979 (see Exhibit 5-2). The balance between the area in basic grains and export crops has also returned to the 1975-79 average ratio, after a temporary increase in corn during 1979 and 1980. Projections for the present crop cycle indicate that MAG expects a general recovery in cultivated area to 1979 levels, despite the bad weather in 1982, which MAG says it took into account. It is not clear, however, what assumptions were made concerning the timely provision of agricultural credit and inputs and the level of rural violence for this period. These projections are included here primarily as MAG's preliminary expectations of agricultural activity, and are not endorsed by the Study Team.

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* Conclusions drawn from Ministry of Agriculture land use tables "Plan Agropecuario 1980-1983" and "Capacidad de las Tierras-Cifras Preliminares, Febrero 1981." Cropping patterns from the Anuario de Estadísticas Agropecuarias and the World Bank No. 4054-1982 "El Salvador Up-dating Economic Memorandum" for past areas planted with coffee.

Exhibit 5-2

El Salvador: Area Cultivated in Basic Grains and Export Crops
(Thousands of hectares)

Basic Grains	Averages 1975-1979	1979	1980	1981	1982
Corn	253.1	276.0	291.9	276.5	281.1
Beans	53.6	55.1	52.5	49.7	53.2
Rice	14.4	14.8	16.8	13.9	16.8
Sorghum	134.0	143.5	119.5	115.5	140.0
Total	455.1	489.4	480.7	455.6	491.1
Percent of Total*	31	33	33	32	33
Export Crops					
Coffee	165.0	185.0	186.0	186.7	185.8
Cotton	87.9	34.6	58.2	52.5	70.0
Sugar Cane	32.7	27.3	28.0	29.6	37.4
Total	285.6	296.9	272.2	268.8	293.2
Percent of Total*	20	20	19	19	20
Other Crops	40.0	46.3**	50.2	36.8	56.4
Pasture	410.1	397.4**	397.4	397.4	397.4
Forest	260.2	260.2**	260.2	260.2	260.2
Total Land in Agricultural Uses	1,450.0	1,490.2**	1,460.7	1,418.8	1,498.3

% of total agricultural land in basic grain.
% of total agricultural land in export crops.
* The crop year in El Salvador runs from May 1 of the year named, through April 30 of the following calendar year.
** This area is probably inflated because of the procedure used by MAG to make the yearly figures compatible. The total agricultural land for 1980 was estimated to be 1,460,700 hectares, of which 260,200 was identified as forest and 397,400 as pasture (Plan Agropecuario). These areas were considered as constant for 1979 through 1982 for lack of information with which to change it yearly. Crop areas for each year were specifically stated in the sources, but the increase in 1979 may have reduced the land in pasture, forest or other crops for 1979.

Sources: MAG/DGEA, Anuario de Estadisticas Agropecuarias.
Coffe production area, PERA and World Bank No. 4054-1982 "El Salvador Updating Economic Memorandum."
1982 estimates from MAG/OSPA and PERA, made well before actual harvests were in.

Although the total cultivated area fell from the 1979-1980 level for both basic grains and export crops, a closer investigation by crop shows that most of this decline is in sorghum for staples and in cotton for export crops. As could be expected from a permanent crop, the area with coffee in production was steady. The area in sugar cane, relatively profitable, rose by 8 percent over the area of the year before agrarian reform, 1979.

During the first year of agrarian reform (1980-81), more land was planted to corn and rice, a little less to beans, and a lot less to sorghum and cotton. In the second year, corn fell back to the 1979 level while beans, rice and cotton dropped further from the 1980 levels. Corn remained well above the 1975-79 average area, while sorghum and cotton were well below the hectarage of that period.

Since much of the sorghum crop is used for animal feed, its decline of 20 percent can largely be explained by the 23 percent decrease in the number of head of cattle from 1979 to 1981 (See Exhibit 5-3). The area in cotton, a high risk annual crop requiring a lot of operating capital, decreased by 38 percent under falling market prices and the threat of arson for fields and gins. Also, a sizeable portion of El Salvador's cotton used to be grown on rented lands averaging 50-100 hectares in size. Landlords may have refused to rent land in 1981, fearing that their tenants would somehow be able to claim that land under Decree 207, even though they were generally businessmen rather than campesinos. It is not clear yet whether enactment of Decree 6 increased the supply of rental land for cotton in 1982; cotton prices were low on world markets, so demand was weak in any case.

Agricultural production data in Exhibit 5-3 show an absolute decline for all crops in the two year period following the reform. Only sugar cane came close to reaching the 1979 level. Average yields for several crops appear in

Exhibit 5-3

El Salvador Basic Grains and Export Crops Production and Head of Cattle
(Thousands of Metric Tons)

Basic Grains	National Average 1975-1980	1979-1980	1980-1981	1981-1982	1982-1983
Corn	433.0	516.6	520.4	494.0	538.5
Beans	40.1	46.0	39.4	37.8	46.3
Rice	47.1	57.6	60.0	49.5	63.0
Sorghum	159.0	158.4	138.2	134.1	169.8
	679.2	778.6	758.0	715.4	817.6
Export Crops					
Coffee	155.1*	173.9*	143.3	139.4	163.3
Cotton	188.9	183.9	115.5	112.0	161.1
Sugar Cane	2,604.7	1,995.3	1,802.5	1,925.0	2,596.6
	2,948.7	2,353.1	2,061.3	2,176.4	2,921.0
Cattle (Thousands)**	---	1,440.2	1,210.7	1,105.7	---

* Calculated from data on area cultivated and estimated average yield.
** Yearly surveys as of October 1.

Source: 1. MAG/DGEA "Anuario de Estadisticas Agropecuarias" 21st edition, August 1982.
2. 1981/82 coffee production provided by PERA.
3. 1982/83 estimates as of December 1982 from MAG/OSPA.

Exhibit 5-4

El Salvador: Basic Grains and Export Crops Yields
(Metric tons/Hectare)

Basic Grains	National Average 1975-1979	1979[1]	1980[1]	1981[1]	1982[2]
Corn	1.71	1.87	1.78	1.79	1.92
Beans	0.75	0.83	0.75	0.76	0.87
Rice	3.27	3.90	3.57	3.57	3.75
Sorghum	1.19	1.10	1.16	1.16	1.21
Export Crops					
Coffee	0.94	0.94	0.77	0.75	0.88
Cotton	2.15	2.18	1.98	2.13	2.30
Sugar Cane	55.83	73.09	64.37	65.01	69.38

Notes: 1. The crop year in El Salvador runs from May 1 of the year named, through April 30 of the following calendar year. The land reform began approximately March 15, 1980.
2. MAG/OSPA estimates made prior to actual harvest.

Source: MAG/DGEA, Anuario de Estadísticas Agropecuarías, except for 1982. Coffee average yields are for only 4 years; source, MAG.

Exhibit 5-4, to help analyze the interplay between area cultivated and production. Except for sorghum, the immediate pre-reform yields have not been regained in the last two years. Yet in corn, beans, rice and sugar cane, they exceed the 1975-79 averages. Coffee yields fell, but not particularly because of agrarian reform, nor even fear that eventually Phase II would be implemented, expropriating landholdings between 100 and 500 hectares. While that was one factor, coffee producers told the Study Team that depressed world coffee market prices, rural lawlessness, and even the fear that the reform-minded Christian Democrats would win the 1984 elections, all led them not to invest the money in 1982 that would have been needed for fertilizing and controlling coffee rust (la roya) and coffee borer (la broca) in the plantations for maximum yields.

MAG/OSPA has projected higher yields and increased area under cultivation for the current year (1982/83). Whether these are attained will depend upon the level of rural violence, expected prices, weather, and the availability of inputs, credit, and technical assistance.

The limited data available on technologies utilized would indicate that there has been little change from 1979-1980. Use of hybrid seeds for corn and sorghum has been stable, as has the reported incidence of inter- and double-cropping of corn, beans and sorghum. Only the level of fertilizer imports has fluctuated significantly, dropping over 40 percent in 1979 and then rising to nearly the previous high level by 1981.

The result of the reduced level of agricultural activity in 1980 and 1981, by no means solely a result of agrarian reform, is that per capita output fell as population continued to rise. Production of both basic grains and export crops was down about 8 percent from 1979-1980, while population increased by nearly 7 percent (about 3.3 percent annual change). This signifies a drop in production per capita of about 14 percent. Even if the substantial recovery of 19 percent in production projected for 1982-1983 occurs, the net effect on a per capita basis will be only a modest 8 percent net gain over 1979-1980 because of the 10 percent estimated increase in population. Actually, this would be a very good performance in the face of widespread violence and civil conflict which destroyed investor confidence as well as physical capital, and led to a general downturn in the nation's whole economy.

CHAPTER 6

PHASE I AGRARIAN REFORM COOPERATIVES

El Salvador's agrarian reform was structured to deal with three distinct situations:

I. Farms whose owners each had 500 hectares or more of property in the country. (Many owners had more than one farm.)

II. Farms whose owners each had a total of between 100 and 500 hectares of property in the country.

III. Tenants or sharecroppers, farming not more than 70 hectares, regardless of the area owned by the landlord.

Since the reform was not implemented simultaneously in all three categories, and since Phase III depends on land tenure, while I and II depend on the amount of land an owner posseses, some overlap can occur. For example, though nothing has been done to implement Phase II, tenants have filed claims and received parcels from Phase II farms, under Phase III, which is going forward at a steady pace.

The first phase of El Salvador's agrarian reform is largely completed, and few or no further expropriations are expected. Very few properties over 500 hectares remain in private hands, some with such poor quality soils that they are apparently of little interest to the agrarian reform agencies. We turn now to describe and evaluate Phase I.

A. AREA, PRODUCTION AND EMPLOYMENT IN THE PHASE I REFORM SECTOR.

To date, the largest share of lands affected by the reform comes from the first phase, totalling 207,794 hectares from 262 properties. To this, we add another 11,347 ha. coming from 66 properties of persons who owned less than

500 hectares, but agreed to sell to ISTA "voluntarily," after their farms were seized and the workers were told the farm would henceforth belong to them. (Most of these cases were intervened in the belief that the owner had more than 500 hectares of farmland, as was indicated in the official land Registry. The Registry is about two years behind in recording land transfers. However, the transfers are legally valid when the documents are delivered to the Registry for recording, regardless of how long it takes the Registry to change its records.) Finally, the reserve rights claimed during this time period (13,337 ha.) are subtracted, leaving an area of 205,804 hectares, often referred to as the Phase I reform sector.

Exhibit 6-1

Area in Phase I Reform Sector

262 properties over 500 ha. expropriated	207,794 ha.
66 properties under 500 ha. purchased by ISTA	11,347
Subtotal	219,141 ha.
"reserves" returned to former owners	13,337
Total Area of Phase I Reform Sector	205,804 ha.

This total does not include the 81,590 ha. in the cooperatives ISTA controlled as a result of earlier government programs, often called the "Traditional ISTA Cooperatives." Yet for practical purposes, in many respects ISTA manages these in exactly the same way as it handles the cooperatives it formed with farms expropriated in 1980. Several such properties are UCS cooperatives, formed when the UCS bought haciendas with ISTA, BFA or FEDECAJAS financing in 1977 and 1978. Other cooperatives in this group have been in existence for as many as 20 years or more.

The area of the Phase I reform sector may vary slightly in the future when final surveys are made, recent voluntary offers are incorporated, and some land which is of no productive use is turned back to the state as "national reserves." In the 1980-1981 crop year, the Phase I reform sector represented 14 percent of the agricultural land in use. (The sector had only 6% of the land planted to basic grains, but 19% of the land in export crops.) Later references to the reform sector area under crops will be less than this 14% by an amount considered to be fallow or unusable, except for grazing, of approximately 50-60,000 hectares.

<u>Production in the Phase I Sector</u>

The larger farms in El Salvador, now the Phase I reform sector, traditionally specialized in cattle raising and export crops. Many units included the installations required to process the crop for export (cotton gins, sugar mills, coffee processors, slaughterhouses). Some of these installations were separated from the farm units upon expropriation, and are not part of the cooperative structure that replaced the previous management.

Exhibits 6-2 and 6-3 list the utilization of land within the reform sector and its production from the time of intervention (early 1980) through the end of the present crop cycle. The overall trend is a small decrease in crop areas and production both for basic grains and export crops. To a lesser degree the same is true for the national agricultural sector except that MAG projects an upturn for 1982, to a 2.6 percent rise in area over the 1980 level. For the reform sector, MAG projects an 8.8 percent decline during this same period.

This loss in area cultivated and production of the reform sector is presented in Exhibit 6-4 as a percentage of the national levels. The second crop cycle (1981/82) showed a predictable increase in the area planted to

Exhibit 6-2

Hectares Planted by Crop on Phase I Reform Sector Farms

	1980	1981	Percent Change	Projected 1982	Percent Change
Basic Grains					
Corn	15,192	16,047	+ 5.6	11,270	- 29.8
Beans	5,289	4,240	- 19.8	3,290	- 22.4
Rice	3,335	4,108	23.2	3,955	- 3.7
Sorghum	5,247	2,985	- 43.1	3,360	+ 12.6
Export Crops					
Coffee	21,795	18,992	- 22.9	18,340	- 3.4
Cotton	19,612	19,095	- 2.6	16,310	- 14.6
Sugar Cane	10,618	11,006	+ 3.7	12,670	+ 15.1
Other Crops	10,273	10,205	- 0.7	8,470	- 17.0
Pasture*	34,094	34,094	0	34,094	0
Forest*	29,808	29,808	0	29,808	0
Total	155,263	150,580	- 3.0	141,567	- 6.0

* Pasture and forest lands assumed unchanged from 1980 level, for lack of information.

Source: PERA, 1982-1983 estimates from MAG/OSPA.

Exhibit 6-3

Production by Crop on Phase I Reform Sector Farms
(Metric Tons)

	1980-1981	1981-1982	Percent Change	1982-1983	Percent Change
Basic Grains					
Corn	44,437	36,350	- 18.2	28,175	- 22.5
Beans	3,938	4,127	+ 4.8	3,098	- 24.9
Rice	10,190	13,642	+ 33.9	12,841	- 5.9
Sorghum	9,206	4,158	- 54.8	5,018	+ 20.7
Export Crops					
Coffee	18,367	19,999	+ 8.9	17,387	- 13.1
Cotton	44,127	38,837	- 12.0	32,832	- 15.5
Sugar Cane	773,534	799,062	+ 3.3	763,636	- 4.4

Note: 1982-1983 data are estimates by MAG/OSPA, prepared before harvests were all in.

Source: MAG/DGEA, and calculations by the Study Team.

corn, reflecting its prominence as a staple food. The area in sorghum dropped dramatically, probably because of a several-year decline in livestock population and the 1981 halting of purchases by the government commodity purchasing agency (IRA). The increase in the area with rice represented the only notable change in the reform sector share of any crop for this year.

The estimate for 1982-1983 would indicate a very different situation, should the MAG forecast be accurate. Even though the area sown by Phase I coops to sorghum and sugar cane is projected to increase (Exhibit 6-4), the share of the reform sector in area and production continues relatively small. MAG projects a huge increase in the non-reform sector's area cultivated and yields for sugar cane in 1982, causing the Phase I reform sector's share to fall despite a modest increase in its own area planted to sugar cane.

According to data presented by PERA in its May 1982 evaluation, the number of beef and dairy cattle in the reform sector rose 6.6 percent between late 1980 and late 1981. Dairy cattle accounted for 45 percent of livestock, and were up 13 percent over the previous year. Pasture lands were considered to remain virtually unchanged in both type and extension. It is probable that animal production figures will drop during the present year. One factor frequently cited to the Study Team was the fear of theft, incident to the violence and civil conflict. The non-reform sector ranchers feared that, and also worried about their future if Phase II were to be implemented, affecting holdings between 100 and 500 hectares.

Examination of production yield data in Exhibit 6-5 indicates that there are several distinct differences between the reform sector's and the nonreform sector's average land productivity. However it must first be noted that the national average yields in 1979 were above the following year's nonreform

Exhibit 6-4

Cooperative Farms: Percentage of Total Agricultural Area and Production

	Reform Sector Area (Phase I only)			Reform Sector Production (Phase I only)		
	1980	1981	1982	1980	1981	1982
Basic Grains (total)	6.0%	6.0%	4.5%	8.9%	8.1%	6.0%
Corn	5.2	5.8	4.0	8.5	7.4	5.2
Beans	10.1	8.5	6.2	10.0	10.9	6.7
Rice	19.9	29.6	23.6	17.0	27.5	20.4
Sorghum	4.4	2.6	2.4	6.7	3.1	3.0
Export Crops (total)	19.1%	18.3%	16.1%	40.6%	39.4%	27.9%
Coffee	11.7	10.2	9.9	12.8	14.3	10.6
Cotton	33.7	36.4	23.3	38.2	34.7	20.4
Sugar Cane	37.9	37.2	33.9	42.9	41.5	29.4
Other Crops	20.5	28.3	15.0	-	-	-
Pasture*	8.6	8.6	8.6	-	-	-
Forest*	11.5	11.5	11.5	-	-	-
Total Area	10.6	10.6	9.4	-	-	-

Note: 1982-1983 percentages are based on MAG/OSPA estimates made before harvests were actually in.

* MAG assumed these to remain unchanged from 1980-1981, for lack of data.

Source: MAG/DGEA.

Exhibit 6-5

Comparison of Reform Sector and Non-Reform Sector Yields
(Metric Tons per Hectare)

	National Average 1979-1980[1]	1980-1981[1]		1981-1982[1]		1982-1983[2]	
		Reform	Non-Reform	Reform	Non-Reform	Reform	Non-Reform
Basic Grains							
Corn	1.87	2.93	1.72	2.27	1.76	2.50	1.89
Beans	0.83	0.75	0.75	0.97	0.74	0.94	0.87
Rice	3.90	3.06	3.70	3.32	3.68	3.25	3.91
Sorghum	1.10	1.75	1.13	1.39	1.15	1.49	1.21
Export Crops							
Coffee	0.94	0.84	0.76	1.05	0.71	0.95	0.87
Cotton	2.18	2.25	1.85	2.03	2.19	2.01	2.39
Sugar Cane	73.09	72.85	59.20	72.60	68.51	72.73	83.06

Notes: 1. The crop year runs from April 1 through March 31 of the following calendar year.
2. 1982-1983 yields are based on estimates from MAG/OSPA made prior to the actual harvests.

Source: MAG/DGEA Anuario de Estadísticas Agropecuarías, except for 1982, which are MAG/OSPA estimates.

sector yields (see Chapter 5). This initial drop did not continue into the second year except to a minor degree in rice, beans and coffee. Rather, production was stable or increased substantially (cotton up by 18% and sugar cane up by 16%). Also, MAG expects yields to rise in this sector during 1982-1983. If this happens, they would surpass the pre-reform levels for all crops except coffee. (Ideally, of course, we would like to have pre-reform data for production on the expropriated farms instead of national averages. Unfortunately, such data are not available.)

The Study Team did not have the time or resources to make its own projection of 1982-83 output. If the MAG estimates turn out to be reasonably accurate, one could conclude that initially yields declined a little for beans, rice and coffee, compared to 1979, while yields rose for corn and held stead for cotton and sugar cane. We conclude that the implementation of agrarian reform does not appear to have reduced average productivity in either the reform or the nonreform sector. The civil conflict and violence are clearly more important than any uncertainty introduced by the agrarian reform. In fact, since Phase I is virtually complete, and most owners have received reserves if they asked for them, there is less uncertainty now than two years ago. In addition, since owners now put all their capital and attention into the 100 hectare reserve, one would <u>expect</u> their yields to be higher than when they owned more than 500 hectares.

The reform sector's yields have been nearly equal to or better than those of the nonreform sector for most crops. However, the great year-to-year variation makes it difficult to judge the trend until more time has passed. For corn, sorghum, cotton, and sugar cane, MAG expects yields to be slightly lower in 1982-1983 than in the first year of reform. This may be a reflection of several factors remaining in flux: bad weather, violence, weak management capability, problems of learning to work together, etc. It must be remembered that the Phase I coops are new businesses with no initial capital of their own except their labor, managing relatively large assets with the aid of heavy bank loans. This makes them more vulnerable to unforeseen problems than a non-reform landowner with substantial net worth, long administrative and banking experience, working with relatively less borrowed capital. It will take much longer than three years to establish any definitive difference in average productivity between the reform and nonreform sectors.

Employment. The issue of employment within the agricultural sector is of great importance, especially when the limitations of economic land use, the dependence on international markets, and a high rate of rural population growth (estimated at 3.6 percent annually) are considered. The Ministry of Agriculture's Plan Agropecuario 1981-1983 calculated that about 46 percent of an economically active population totalling 1,523,000 persons in 1980 was in the agricultural and livestock sector. The planners calculated that 79 percent of the man-days worked corresponded to raising crops and 19 percent for livestock activities. According to the Ministry's data, the average person employed in agriculture worked 159 days in 1980, which only amounts to about 53 percent employment (based on 300 days per year). Although this cannot be considered any more than a rough estimate, it does indicate a substantial amount of unemployment or underemployment.

There are no comparable data for the reform sector, although a comparison of days worked was prepared by PERA, the Agrarian Reform Evaluation Agency of MAG (in Evaluación del Proceso de la Reforma Agraria), which was based on crop areas. Exhibit 6-6 is an abridged version, to which we have added activities for 1982-1983 estimated in a similar fashion.

Exhibit 6-6

Employment in the Phase I Reform Sector
(millions of man-days worked)

	1980-1981		1981-1982		1982-1983	
	#	%	#	%	#	%
Basic Grains	2.1	16	2.1	16	1.6	14
Export Crops	9.2	69	8.4	67	8.1	69
Other	2.0	15	2.0	17	2.0	17
TOTALS	13.3		12.5		11.7	

The obvious conclusion to be drawn from this is that for each successive year, the reform sector appears to be losing about 6 percent of its employment potential. In fairness, it must be noted that initial employment -- when the cooperatives were first organized in 1980 -- was often much greater than the employment on the same farm before expropriation. Resident workers were generally incorporated, and additional workers were accepted as new members.

The dilemma of the reform sector (as well as for agriculture in general) is that the crops with the higher potential for employment generation (for example, coffee with a work day factor of 257 per year per hectare, or cotton with 129) are dependent on international markets. Basic grain production only requires 51 to 86 days per hectare. If employment were significantly increased by planting corn on land now underutilized, corn production would rise but the price would fall sharply. (Most cooperatives visited already consider the production of basic grains above their own consumption needs to be unprofitable.)

There is a potential for creating jobs through diversification and non-traditional export crops, and for building a lot of productive infrastructure. Unfortunately, these investments would be financially feasible only in the medium to long term. For example, even though it is already more developed than most of Central America, rural El Salvador still needs schools, access roads, irrigation projects, reforestation, and terracing and other work to convert some pasture lands to intensive cropping.

B. THE COST OF VIOLENCE TO COOPERATIVES.

The agrarian reform in El Salvador is clearly very much alive, but campesino progress is constrained by a civil conflict which is now entering its fourth year. We concur with the 1981 Checchi report that:

> Agrarian Reform is succeeding despite the violence in the country. Though it is related to and affected by the confrontation between the government and the insurgents, the Agrarian Reform is not at the heart of the controversy.

On the other hand, the rural violence has taken its toll on the performance of the reform and, for this reason we have attempted to estimate the cost of violence to Phase I cooperatives.

(1) Statistics on Murder: 1981 and 1982. One of the most appalling impacts of El Salvador's struggle has been the murder of thousands of noncombatant civilians. The 1982 Oxfam study gives a summary of data for 1981, based on data from the San Salvador Archdiocese Legal Aid Office, San Salvador. This source shows a total of 12,501 civilians murdered in 1981, of whom 5,123 were described as campesinos (p. 61).

The Oxfam report also states who they think is responsible for these deaths: 7,673 murders are attributed to soldiers and members of identifiable paramilitary organizations and 4,828 murders are blamed on "Unidentified Para-military Groups." Oxfam apparently does not consider either common criminals or the various guerrilla groups as responsible for any of the 12,501 persons reported murdered in El Salvador in 1981. Whoever the killers, of course, this kind of violence is not consistent with the need of campesinos, like anyone else, to be left alone and allowed to farm their land.

The Oxfam report also reprints information from a UCS report which lists the killing and "disappearance" of promotors and workers for UCS. The UCS logs information on the time and place of the event, names and occasionally some information about the perpetrators. However, as for most violent deaths in El Salvador, no investigation is ever made, nor is any suspect ever arrested and tried. We also saw an ISTA report dated October 1982, which states that in just eleven cooperatives of the Central Region, 23 members of cooperative boards and 150 other coop members have been assassinated since March 1980.

For 1982, we have relied on a record which the U.S. Embassy maintains, drawing from press reports of the nation's four principal papers: La Prensa Gráfica, El Diario de Hoy, Diario Latino, and El Mundo. The press reports do not provide a completely reliable picture of violence in the country, but the reporting over time is fairly consistent and helps show trends. The same newspapers, supplemented by personal testimony, are also used by the San Salvador Archdiocese Legal Aid Office for compiling its statistics on murders. The U.S. Embassy methodology differs from the latter's statistics, in having separate categories for "guerrillas" killed in action (KIA) as well as distinguishing "civilians" from "military" casualties.

If we combine the categories for reported murders of "unknown" (reportedly campesinos for the most part), "civilians", "farmers/laborers", we have a high proportion of deaths of people not directly engaged in combat. No numbers can measure these effects, but our field interviews confirm the degree of fear, intimidation and anxiety experienced by campesinos who must work day-to-day on farms near areas of rural violence.

(2) Abandoned Farms. Numerous Phase I farms sit squarely in areas of military/guerrilla combat, especially in the Departments of La Union, San Miguel, Usulután, San·Vicente, La Paz and Cuscatlán. The result is that upwards of 40 farms have been abandoned at least temporarily over the last year and less than half have returned to operations as cooperatives. As of September 1982, ISTA reported 28 abandoned Phase I farms.

In addition to the 28 farms, PERA estimates that another 21 cooperatives are in areas through which the military and the guerrillas conduct operations. Any one of these may have to be abandoned at any moment.

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* Last year's Checchi report also listed various cooperatives as abandoned. Our lists do not include these: Sinatepeque, San·Vicente, 620 has; Nanachapa, Usulután, 357 has; La Estancia, San Miguel, 581 has; San Francisco Gualpirque, La Unión, 1,438 has; Santa María, Usulután, 280 has.. We believe these are operating again as cooperatives, but none are in areas we were allowed to visit.

We have attempted to estimate the value of crops lost by abandoned Phase I farms over 1981-1982. A list of 28 farms that we believe are abandoned as of December 1982, and their total cropped area, is shown as Exhibit 6-7. The 28 farms had previously cultivated approximately 3,000 hectares. Exhibit 6-8 provides our estimate of the value of crops lost by these abandoned farms, close to 6.7 million colones. The crop losses represent a substantial proportion of the value of reformed sector production: 7.8 percent of the sorghum, 7.3 percent of the rice, 5.2 percent of the corn and 5.1 percent of the cotton, plus smaller losses in sugar cane and beans.

<u>(3) Farms with Losses Attributable to Guerillas</u>. The destruction of the economy, including the agricultural sector, is a major part of the guerrilla strategy. Export crops like cotton, coffee and sugar cane have been hard hit. Cotton has been especially susceptible because it needs timely applications of pesticides, which are applied by light planes. We were informed that the FMLN has destroyed 13 crop dusting planes in 1982, wounding five pilots and killing one. This effectively halted all spraying. These planes are easy targets because they must fly low and not very fast. The result of the guerilla action is the unemployment or death of the pilot; the extent of the reduction in cotton production will not be known until the harvest is completed.

In the case of sugar cane, the fields are easily destroyed by fire. To deal with this, in part, the 1982 harvest began earlier than usual. When cut early, the cane is less dry; the sugar content is lower, however, cutting production.

Exhibit 6-9 provides a list of the number of farms reported affected by combat in various Departments in 1981 and 1982. The cropped area of these farms is extensive, especially in the cotton-rich areas of San Vicente and San

Salvador. We were told that the guerillas had occupied other farms in November, and that the campesinos lost crops and buildings from army operations to dislodge the guerillas. On a smaller scale, the guerillas often

Exhibit 6-7

Phase I Farms Abandoned Because of Conflict (1981-1982)

Department	Farm Name	Abandoned Cropped Area (has.)	Abandoned Total Area (has.)
Cuscatlán	Valle Verde	102	450
La Unión	San José	80	98
San Miguel	Vedo Ancho	50	416
	La Esperanza	165	513
La Paz	El Despoblado	160	173
	El Astillero	210	473
	El Copinol	16	61
	San José de la Montana	287*	1,111
Usulután	La Canoa	235	895
	San Antonio No. 1	430	437
	El Marillo	39*	150
	El Retirito	47*	182
	Linares El Coalotal	83*	323
	Las Mesitas	38*	148
	El Corozal	190*	735
	Corral Blanco	19*	73
	El Carmen	262*	1,015
San Vicente	San Ramón Grifal	55*	213
	Guajoyo	120	601
	San Antonio Caminos	31	56
	El Chorro	111	555
	Santa Marta	65	211
	El Coyol	100	218
	La Joya	100	955
	Los Angeles	210	169
	San Nicolás	143	180
	La Canada y Arenera	100	143
	Nuevo Oriente	80	210
	TOTAL	2,776	10,764

Calculated as 25.8% of total area, based on average of farms with crop area breakdown.

Source: PERA

Exhibit 6-8

Estimated Crop Losses on Phase I Farms Abandoned
Because of Conflict (1981-1982)

	Principal Crops						
	Corn	Rice	Beans	Sorghum	Cane	Cotton	Total
Estimated No. of Has. Planted then abandoned on 28 Farms	827	301	118	226	337	967	2,776
Losses as Percentage of Reform Sector Production	5.2	7.3	2.8	7.8	3.1	5.1	1.8
Estimated Sales Value of Last Crops (000₡)	1,057	709	244	126	1,348	3,211	6,695

Source: Derived from estimates of ISTA on farms abandoned (28) and of PERA on cropped area and value for 19 of these farms. The average areas cultivated by crop were used to extrapolate area and value of losses for remaining 9 farms.

Exhibit 6-9

Farms Subjected to Violence in 1981 and 1982 by Department*

Department	No. of Farms	1981 (hectares)	No. of Farms	1982 (hectares)
San Vicente	3	2,308	3	1,149
San Salvador	2	2,002	3	2,452
La Libertad	4	2,322	0	--
Chalatenango	1	2,299	0	--
Santa Ana	3	869	0	--
Cuscatlán	0	--	1	302
La Paz	0	--	1	473
Usulután	0	--	2	2,008
TOTAL	13	9,800	10	6,384

* Changes in the number of farms affected, by Department, reflect the changes that occur in the location of combat areas. Military/Guerilla combat shifts rapidly from one Department to another.

Source: PERA

threaten to destroy vehicles and the land reform beneficiaries are afraid to send trucks or tractors out to the fields. Surely no other land reform in Latin America has been carried out under such harrassment -- and from both extremes.

Meanwhile, we estimate the number of cooperative members displaced and jobless due to armed clashes at about 1,500. The actual number of jobs lost would be 2 or 3 times higher at peak harvest periods, since most of the crops are harvested by hand. Our estimate is derived by taking the total area of the 27 cooperatives (10,764 has.) and dividing by 7 (the average number of hectares for each cooperative member on Phase I farms.) Some of the cooperative members may still be working individual plots of land, but the rural violence has clearly reduced the number of jobs and affected many families.

(4) The Cost of "Protection." Another serious problem connected with the civil conflict is the provision of "security" on Phase I farms. This refers primarily to payments made to the military and para-military troops assigned to the haciendas. For the cooperatives, the expense incurred for "security" appears as substantial "administrative" costs. We have found these costs as high as 3 to 10 percent of the monthly gross receipts of some cooperatives, even those located in nonconflict zones. (Others were lower or did not have these costs, however.)

The 1982 Oxfam report states:

> For some in the military, the land reform has become a supplement to income and the peasant cooperatives have replaced the old landowning class as patrons. The difference is that the past landowners paid local members of the national guard or treasury police to maintain 'order' among the workers. Now the military extorts money from the cooperatives in exchange for not repressing them. The protection racket has the same victim but a different cashier. (p.37)

On the other hand, para-military protection is the only means for maintaining law and order in remote rural areas and affords the cooperatives some insurance against armed robbery by marauding individual bandits.

In areas in which guerillas are active, cooperatives are reportedly sometimes forced to pay sums of money or provide food to them. The fact that this is called a "War Tax" does not make it any less of a protection racket from the viewpoint of the campesinos, than the abuses the Oxfam Report cites. The victim is still the campesino, but now a new extorter is charging for not repressing him. Though we were not able to interview in those areas, or to obtain reliable information on the amount of these "war taxes," we believe the cost and the intimidation are no less real.

There are two types of para-military troops in rural communities: 1) the civil defense and 2) the territorial service, or "patrulla." The latter is basically an information network between the campesinos and local army units.

The "defensa civil" is a unit of guards (usually ex-soldiers) led by a "comandante local" who is a career soldier (sargeant or corporal) paid by the army. Most are armed with surplus weapons, such as bolt action rifles. Most members wear khaki green uniforms and military boots. While the "comandante local" gets a regular salary paid by Department headquarters, the troops of his defense unit are volunteers who must be paid by the local citizens. The "defensa civil" represents the only military presence for many remote communities of the western part of El Salvador.

Some of these guards are friendly and work well with the campesinos. Others, ill-disciplined and given to uncontrolled violence, become part of the problem rather than a solution. Members of the "defensa civil" are often accused of theft, rape and assassinations in rural areas and small villages.

The "defensa civil" was present on nearly all of the cooperatives we visited; these were in the West, with relatively little guerilla activity. Its cost ranged from ₡1,000 to ₡8,000 per month per hacienda. We were told that typical costs were as shown in Exhibit 6-10. The coops we visited were all in the West, with little guerilla activity. In the East, instead of costs for guards, we heard that the coops have to pay "War Taxes" to the guerillas.

Exhibit 6-10

Typical Monthly Cost of Paramilitary Guards

1)	monthly pay	₡260/soldier
2)	uniform and protective clothes	50/soldier
3)	vehicle use and fuel	20/soldier
4)	meals, at ₡5 per day	150/soldier
5)	extras (steer for occasional B-B-Q)	20/soldier
	TOTAL	₡500/soldier/month

We also heard several accounts of these para-military troops wrecking vehicles they had borrowed from the farms. There is no insurance, and no way to collect damages from anyone in such cases.

On the other hand, one cooperative we visited was located close to an elite regular army unit, and had no expense at all for Civil Defense guards, nor did its leaders feel vulnerable for lack of guards. During our visit, we saw one small regular army patrol stop for a drink of water, and move on quietly on its patrol protecting a nearby hydroelectric plant.

The Study Team was told that cooperatives in the East, where we could not travel, generally arm some of their own members as guards. This reduces their costs a little, but then many of them have to pay "war taxes" to the guerillas.

In the Western areas that are free of guerrilla activity, the "defensa civil" appears to be more of an expensive liability than an asset for Phase I cooperatives. It would be cheaper if local law and order were maintained by "posses" of coop members. Then these para-military units could be reduced in size and/or learn to perform productive roles on the farms. At the observed average rate of 5 troopers per cooperative, the monthly cost to each cooperative probably averages between ₡1500 and ₡2,500. See Exhibit 6-11 for additional details on civil defense costs.

(5) Additional Social Costs of the Civil Conflict. Numerous government institutions have been affected by the violence in rural areas. MAG extension teams are no longer visiting farms in many areas. Personnel of the BFA and ISTA have been threatened or killed in the line of duty, while trying to carry out the agrarian reform. As a result, their colleagues are reluctant to visit those rural areas. The danger sometimes comes from guerrilla groups and

Exhibit 6-11

Costs to Cooperatives with "Civil Defense" Units Quartered
November 1982

Name	No. Members of Coop.	No. of "Civil Defense" Troops Supported	Extras	Average Wage* Colones Paid to Soldier
Zope	65	4	food	C150
Barra Ciega	119	4	food	150
San Pedro Taz.	40	1		90
Eden	142	7	quota, barrel of diesel fuel	150
Kilo 5	117	4	reten (10)	5,000 (total)
Plan de Amayo	93	4		150
Las Victorias	110	5		150
Copapayo	105	5	food	250
Balsamar	95	5	food	200
Las Lajas	191	10-12		250
San Isidro	600	20		200
Santa Cruz	500	10	food	200

* Paid every two weeks.

sometimes from traditional large landowners, according to reform staff people we talked with. It takes considerable effort, contacts, etc., to determine when it is "safe" to visit a farm. All together, these pose "hidden" costs on land reform operations, though they are difficult to measure accurately. Exhibit 6-12 summarizes the situation in November, 1982.

(6) The Lack of Tribunals to Resolve Local Conflict. Much of the violence in the countryside has little to do with guerilla activity. Rather, it appears to originate in the lack of an accepted, legitimate method of resolving conflict among persons in some other way. In El Salvador as in other countries, there are inevitably disputes among campesinos and between campesinos and other persons. Whether a dispute involves land, money, or

Exhibit 6-12

Effects of Violence on some GOES Institutions, November, 1982*

1. FINATA field personnel report that 116 municipalities out of a total of 261 are partially or completely inaccessible due to violence in the area. Departments with the greatest number of areas in conflict include San Miguel, La Unión, Morazán, Usulután and northern Chalatenango.

2. PUBLIC TRANSPORTATION: The following departments have main roads which are closed; Morazán -- everything north of Cotera; Usulután -- southeastern and southwestern tips; San·Vicente -- San·Vicente south to San Carlos and to Dolores closed; La Paz -- Zacatecoluca to Los Hoyos (coast) closed; Cabañas --·Victoria north to San Pedro and Cinquera to Suchitoto closed; Chalatenango -- everything east and south of Department is closed.

3. MUNICIPALITIES: Number of municipal government (alcaldías) in Region IV which are not functioning at least 50% of the time due to the violence, by Department -- San Miguel (11 out of 20); Morazán (4 out of 10) Usulután (10 out of 23, two are 100% closed); La Unión (5 out of 18). Other municipalities affected by the violence: 3 in San·Vicente, 2 alcaldes assassinated in Municipio San Lorenzo; 1 in La Paz where 2 alcaldes were assassinated; 6 in Chalatenango where 1 alcalde killed. One alcalde assassinated in Morazán and the governing body fled.

4. EDUCATION: Basic schools closed due to violence -- 247 in 1980; 877 in 1981; 826 in 1982. Approximately 100,000 students and 1,500 teachers affected by the closures in 1981 and 1982. Largest number of schools closed in San·Vicente (107 and Chalatenango (103).

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* Source: Political Section, US Embassy, from survey of FINATA (August 1982), Public Transportation (October 1982), Public Schools (October), Resident Mayors (October 1982), Public Health Centers (October 1982), Penal System (November 1982). These were general responses of institutions, reported without cross check or confirmation of data.

pride, in El Salvador it is frequently resolved by violent force. Many observers have justly criticized the "unidentified paramilitary groups" that kidnap and murder and those who give the orders to such murderers. Yet the local press reveals that there are a lot of casual killings as well, with no political overtones.

However, at least part of the problem is surely that there is no generally accepted institution that can accept a grievance, determine who is right, and impose an equitable solution. By many accounts, the courts are weak, understaffed, and intimidated. Those who are right but weak have no recourse when someone steals their land or their harvest, and those who are strong may feel little need to respect the rights of their weaker neighbors. The problem is some respects greatly resembles the rule of the Mafia in Sicily, and that problem has begun to ease in 1982 mainly because the Italian government and the Catholic Church have finally addressed it by strengthening the courts and defending judges, detectives and witnesses against intimidation by wrongdoers. (See The New York Times, Jan. 16, 1983.)

Our study does not encompass the problem of lawlessness in the cities, but we are concerned about its cost to the land reform beneficiaries. The agrarian reform legislation contemplates the creation of agrarian tribunals to resolve rural disputes involving land. We believe that it is time to move toward implementing these provisions.

Such courts will not eliminate all rural crime, and indeed they would not have jurisdiction over murder, assault or robbery. However, by providing a peaceful, credible means of resolving disputes over property boundaries, rental contracts, and other civil disputes in the countryside, they should do much to reduce its frequency. The existence of such courts, backed with the authority of the armed forces just as the agrarian reforms have been, would give campesinos a way to obtain justice without themselves having to take up arms.

The usual reason for creating such specialized courts is to facilitate the implementation of agrarian reform, resolving disputes that arise in its execution over appraisals, compensation, etc. However, experience in other Latin American countries indicates that such courts soon hear and resolve many other land-related disputes, among campesinos and between campesinos and the wealthy. Such courts, typically judged by a panel of a lawyer and two professionals with knowledge of farming, able to hear cases speedily and to go to the scene of a dispute, might do much to eliminate the desperation that leads many people to try to resolve one injustice by committing another.

In establishing such courts, care must of course be taken to see that they are made accessible to the poor as well as the rich who cannot hire a lawyer. The Small Claims Courts in many U.S. cities perform a similar role in resolving small disputes over money or property, quickly and inexpensively. We believe the lack of such courts is a significant part, though only a part, of the cause of much rural violence in El Salvador today. We recommend the creation of at least a pilot model of such courts, in one of the areas with little guerilla activity, to test the feasibility of such a solution to one part of the problem.

(7) <u>Summary</u> The costs of violence to Phase I cooperatives and all the agriculture sector are immense. The tally includes:

a. Numerous conflict-related murders.

b. A significant number of abandoned Phase I farms, with loss of crops and jobs.

c. Destruction of crops and livestock on partially functioning farms, due to guerilla action.

d. Loss of crops, livestock and buildings as army units move through an area in hot pursuit of guerrillas.

e. Relatively high costs of administration for the maintenance of "civil defense" units on farm cooperatives.

f. Reduced technical assistance, transportation and public services from government units.

g. Lack of confidence that injustice can be remedied by non-violent means under the existing society and government.

C. THE LOSSES FROM THE 1982 "TEMPORAL."

On the 17th of September 1982 a large low pressure zone approached the country and in twelve hours 6.8 inches of rain fell. This caused severe flooding in the western provinces bringing loss of life -- 500 persons, and destruction to houses -- 2500 totally ruined, and tremendous damage to agricultural crops. It was estimated that 10,500 hectares were affected, particularly in rice, beans, corn, and seed corn.

The Ministry of the Interior estimated that crop losses passed ₡600,000,000 without including cattle losses (one cooperative we visited, El Chino, lost over 400 head). Exhibit 6-13 gives a breakdown of the estimated losses by crop. Nine Phase I cooperatives with a total area of 5,712 hectares suffered near total destruction of their crops and animals. (Exhibit 6-14) When the annual agricultural production statistics are calculated for the 1982-1983 crop year, some special notes will be needed for Ahuachapan province, where the storm damage was concentrated. On the other hand, much of El Salvador had been suffering a drought. The rains that accompanied the storm were more gentle elsewhere, and may have increased yields elsewhere by enough to offset losses in Ahuachapán. In the absence of an insurance system, that doesn't help the coops in Ahuachapán.

Exhibit 6- 13

Agricultural Losses Because of Drought and the "Temporal"
in Basic Grains and Export Crops, in Quintales (100 lbs.)

Crop	Production Normal Conditions	Loss by Drought	Loss by Storm	Total Loss	% of Loss	Expected Production
Corn	10,500,000	1,500,000	200,000	1,700,000	16.2	8,800,000
Beans	800,000	800,000	20,000	100,000	12.5	700,000
Rice	1,000,000	300,000	12,000	312,000	31.2	688,000
Sorghum	2,700,000	300,000	20,000	320,000	11.8	2,380,000
Coffee	3,500,000	—	180,000	180,000	5.1	3,320,000
Cotton (unginned)	2,275,000	182,000	159,250	341,250	15	1,933,750
Sugar Cane	2,730,000(short tons)	—	40,000(short tons)	40,000	1.5	2,690,000(short tons)

Source: OSPA-MAG.

Exhibit 6-14

Properties in the Reformed Sector Which Suffered from the "Temporal," Storm in September 1982

Name of Property	Location	Hectares
Matala	Ahuachapán	547.1
El Peñón	Ahuachapán	523.8
El Cortijo	Ahuachapán	1,200.8
Cara Sucia	Ahuachapán	1,054.6
Santa Rita	Ahuachapán	894.6
El Chino	Ahuachapán	699.4
California	Ahuachapán	104.3
Guayapa	Ahuachapán	420.0
El Castano	Ahuachapán	268.0
TOTAL		5,712.6

D. APPRAISAL, RESERVE LANDS, AND COMPENSATION PAYMENTS

The appraisal of expropriated properties seems simple enough in the law, and in some cases it was also simple in practice. The value was supposed to be determined as the simple average of the values the owner himself had declared for tax purposes in 1976 and in 1977. (A cadastral survey had been carried out in 1976.) Many owners admitted in 1976 that the values they declared were actually far below true values, to the point that it was hurting their credit rating at the banks. However, if they admitted to higher values, they thought they might have to pay a stiff capital gains tax on the increases.

The government heeded their complaint, and in 1977 granted a "one time" opportunity to declare greater values for capital of all kinds, without having to pay a capital gains tax nor explain where you got the money. As a result, many taxpayers filed a second return in 1977, with much higher values. Some Salvadorans have told us the second returns were also much higher because some taxpayers sensed the possibility of an agrarian reform, and knew that compensation in land reforms is often paid on the basis of tax declarations.*

(1) Appraisals and Tax Declarations

The tax declarations required separate figures for land, cattle, and machinery and agricultural equipment. Thus the determination of the amount of compensation should have been a simple matter of getting the figures from the

* See Strasma, John D., "Financing of Land Reform Programmes: Compensation Payments," Chapter 2 in Progress in Land Reform (4th Report of the Secretary General), United Nations, 1966, pp. 98-117.

former landowner's tax returns and calculating the average for the two returns. As usual in agrarian reforms, it has not been that simple in practice. For example, an owner may have included 3 separate farms in his return, two may have been expropriated, and a third may have been left to the owner as his reserve. Yet in his 1976 and 1977 returns, he probably declared one figure for all his land, another for all his cattle, and a third for all his machinery. Even if he declared them separately by farms, he may have moved cattle or machines between 1977 and 1980.

Another difficulty lay in determining the values declared by the former owners. ISTA requested certified copies of the tax returns from the appropriate office in the Finance Ministry. However, ISTA staff stated that in at least five cases, a person or persons unknown replaced the xerox copy of the actual tax return with other xerox copies with much higher figures. Only the first and last pages of the tax returns were certified by the tax office to be true copies of the true tax returns, and the declared values for land, cattle, etc. appeared in the middle pages of the tax form, so the fraud almost succeeded. The culprit or culprits were never found, but ISTA found it necessary to recheck the tax returns one by one with the tax office. This contributed to the delay in settling compensation in various cases.

In almost every case of delay, however, the owner has sought increased compensation, arguing that he made investments in cattle, machinery, or improvements to the land after the 1977 tax declaration, but before the expropriation. ISTA has generally agreed to higher values, if the owner submits receipts and other proof of the investment. A serious problem, however, is that some of the livestock, machinery or improvements included in the 1977 tax declaration may well have been sold, died, or otherwise lost value before the expropriation in 1980. ISTA does not seem to have as clear a legal basis for deducting such losses from the tax values, although we were assured that in no case has ISTA paid for cattle that are not there to be inventoried at or after expropriation.

One problem caused by the delay in completing the valuation and compensation is that the property acquired by ISTA upon expropriation may not be the same as the property turned over to the campesinos. Some land may be separated for National Forest Reserves; it is not clear who will pay ISTA for it, but the cooperative shouldn't have to. When improvements are made by ISTA, or machinery or cattle added, they are added to the price the cooperative must pay. However, if the cattle are stolen or a building burns down or is washed away by a storm between expropriation and adjudication to the cooperative, ISTA has tried to collect for the property as it was when intervened -- and the cooperatives have sometimes objected. Again, the problem reflects a lack of insurance as well as the rural violence. However, this problem would have been less serious and less frequent if ISTA had been able to move faster to fix valuation and transfer title to the cooperatives.

(2) Reserves. Owners are allowed, under the law, to reserve from 100 to 150 hectares (depending on soil quality) for continued farming operations. The law requires ISTA to divide the land equitably between former owner and the campesinos. However, the ISTA legal staff deal mostly with the former owner or his lawyer, while the ISTA field staff deal with the beneficiaries. Without more extensive field work, we do not know whether the campesinos' interests were always well defended. Again, further research could attempt to estimate the nature, frequency and outcome of disputes over the assignment of reserve lands.

Exhibit 6-15 shows the actual status of owner reserve claims, by Department, as of November 30, 1982. Only 183 owners had requested reserves;

of these, 123 had been approved. Of those, 83 had been marked off in the field and turned over to the owner or his representative, 29 were pending delivery, 9 are still being processed, and the status of 2 claims is unclear in ISTA files. Another 49 of the 183 original claimants renounced their claims. At least 21 of these were in Departments where guerrillas have been the most active; we talked to one such owner, who simply decided that "for reasons of health" he did not want a farm there after all.

The 123 reserves approved involved 13,337 hectares, or an average of 108.4 hectares. Inspection of Exhibit 6-15 shows that this ratio was fairly constant in each part of the country, except that in San Salvador and in La Paz, the average reserve was less than 100 hectares.

(3) Compensation Payments Exhibit 6-16 shows the November 30, 1982 status of compensation for land expropriated in Phase I. Approximately 29% of the total compensation has been paid out. Another 24% has been settled between the former owner and ISTA, but can't be paid until ISTA obtains money for the cash portion (ISTA apparently has enough bonds on hand). And approximately 47% is not yet settled -- usually, in the cases we examined, because the owner is holding out for more compensation than ISTA has offered.

In actual cases examined, we found some owners who had agreed to take payment entirely in bonds -- thus getting their compensation without waiting for ISTA to come up with a cash portion. (The bonds are negotiable, and have some market value; see chapter 10, below.)

We found cases in which ISTA was apparently responsible for the delay in setting a value -- and other cases in which the owners had failed to prove their own title or to provide needed documents. One owner told the Study Team indignantly that he still hadn't been compensated -- but admitted later that

Reserve Right Claims, Phase I Reform Sector, as of November 30, 1982

	Solicited	Approved	Delivered	Delivery Pending	Renounced	Being Processed	Area (Ha.) Approved
Region I	46	30	21	9	12	3	3,396.06
Ahuachapán	16	11	8	3	5	-	1,195.15
Sonsonate	20	12	9	3	4	3	1,296.41
Santa Ana	10	7	4	3	3	-	904.50
Region II	57	34	22	11	17	5	3,762.97
La Libertad	40	26	16	10	13	1	2,838.72
San Salvador	11	3	2	1	3	5	279.25
Chalatenango	4	4	3	1	-	-	536.00
Cuscatlán	2	1	1	-	1	-	109.00
Region III	36	31	27	4	4	1	3,016.34
Cabanas	1	1	1	-	-	-	150.00
La Paz	26	23	19	4	2	1	2,052.44
San Vicente	9	7	7	-	2	-	813.90
Region IV	44	28	23	5	16	-	3,162.12
Uaulután	14	9	7	2	5	-	929.90
San Miguel	14	10	-	-	4	-	1,096.82
Morazán	1	-	10	-	1	-	-
La Unión	15	9	6	3	6	-	1,135.40
TOTALS	183	123	83	29	49	9	13,337.49

Source: PERA, December 1982.

Exhibit 6-16
Compensation to Former Owners of Properties in Phase I*
(U.S. Dollar equivalent at US$1.00 = ₡2.50)

	Approved and paid October 1981	Approved and paid November 1982**	Approved, payment pending, November 1982	Not decided yet, November 1982***
Number of Properties	64	119	107	175
Cash	$ 3,244,498	$ 6,152,487*	$ 3,793,809	$ 7,103,391
Bonds				
Series A Preferred	3,490,348	6,602,160	4,353,240	8,653,160
Series A	24,951,800	59,228,200	50,043,600	99,518,400
Series B	2,905,160	2,372,080	1,208,760	2,904,840
Series C	2,970,760	3,694,480	4,787,520	7,257,680
Grand Total	$37,562,567	$78,049,407	$64,186,929	$125,437,471
Percentage		29%	24%	47%

Notes:* ISTA data received in Colones and converted to U.S. Dollars at the official rate of US$1.00 = 2.5 Colones.

** Accumulated amounts, including properties paid in 1981.

*** Estimate by Oficina de Planificación, since no official appraisal has been approved yet by the ISTA Board of Directors. Estimated by multiplying hectares by average compensation per hectare for properties whose appraisals have been approved so far.

he had refused to meet with anyone from ISTA, or to supply any documents, from the day of expropriation (1980) until after someone from his political party was named President of ISTA in 1982. He made it clear that he felt insulted by the fact of the expropriation and by the sudden way it was carried out. However, the fact that he hadn't yet been compensated was at least partly the result of his own refusal to meet or talk with ISTA from the day of expropriation until mid-1982.

E. CREDIT AND REPAYMENT CAPACITY OF PHASE I FARMS

In the 1981 Checchi Report, the Study Team noted that the initial (1980) production credits, other outstanding short-term loans, and land payments due, endanger the agrarian reform process. That report urged serious consideration to forgiving the original (early 1980) production credits channeled through ISTA. Other production credits should be watched closely, rolling them over where unavoidable, but trying for eventual collection. That Study Team also urged ISTA to accelerate its evaluation process so the cooperatives can be informed quickly of the amount of their land debt (Deuda agraria). Cash flow analysis should be made to determine whether the cooperatives can actually retire this debt in 20 to 30 years, whether some need a longer term, or whether a longer grace period should be granted.

Since that report a year ago, little has been done to resolve the issue, either for the short term production loans or the long term agrarian debts. Some loans are being repaid, but a number of the cooperatives are sinking deeper into debt. Some attention has gone to studying the problem, especially with regard to production credit. In particular, studies made in 1982 by DIECRA, PERA and the BFA now provide an overview of the magnitude of the potential problem. The commercial banks have also got a clearer picture of the coops that borrow from them; most of these are in fairly good shape.

Production Credit. Since the reform began in 1980, an average of 256 Phase I cooperatives have received about one-third of all the agricultural credit extended by banks and similar institutions in El Salvador. These short-term production credits came to ₡143 million in 1980 and ₡176 million in 1981. Most of the funds went to the production of coffee and cotton, with smaller amounts for sugar cane and basic grains (corn, beans, rice and sorghum). The largest single lender was the BFA, serving some 80 coops with about 31% of the total credit granted to Phase I cooperatives by all lenders. The ten commercial banks together handled another 85 cooperatives, with 33% of the total loan amount, while the Banco Hipotecario, INCAFE and FEDECAJAS accounted for the rest.

Of all the production credit extended to Phase I farms in 1980 and 1981, approximately 76% was repaid. (See Appendix C for tables.) This is far better than most rural credit programs in the Third World, and BFA and commercial bank officers said it is better than the repayment record of the non-reform borrowers in El Salvador.

At the close of the first year of the reform, 121 cooperatives repaid their bank loans and 140 were delinquent. However, those unable to pay had smaller loans on average, so only 23.7% of the money was not paid on time. Of the delinquent borrowers, 121 were refinanced and 19 were not; the latter were probably cases in which the cooperative itself had been abandoned because of the rural violence. The pattern at the end of the second year was similar: 151 borrower cooperatives (out of 258) failed to pay ₡41 million, 23% of the amount loaned. Of the delinquents, 30 were not refinanced.

The commercial banks have been quickest to refuse to lend further to cooperatives that fail to pay on time, while the BFA was more tolerant and in some cases even made loans to help revive cooperatives that had been turned down by the commercial banks but were still trying to pull themselves together. This is exactly what the BFA is supposed to be doing, by its mandate. INCAFE, in contrast, had no delinquent accounts in 1980 and only five, for less than 1% of the amount it had loaned to Phase I cooperatives, in 1981. This may indicate that it is being overly conservative in its lending policy, or it may merely mean that coffee was a relatively profitable crop in those years.

Looking ahead, an AID consultant has estimated that the BFA will need as much as ₡126 million for loans to the reform sector in 1983/84. However, a large part of this increase represents the expected increased demand from Phase III beneficiaries. The consultant estimated that the BFA would be lending for production on some 78,600 hectares in the reform sector. A new AID loan is currently being negotiated, to make sure that the BFA is able to respond to reform sector credit needs.

In 1982, the BFA made production loans to 87 Phase I cooperatives, for a total of ₡41 million. As of November, 1982, the Bank expected the total production of the 87 coops, together with 7 others assigned to the Bank but not receiving any short-term credit in 1982, to reach only some ₡40.7 million. Clearly, some will not be able to repay their loans. In addition, among the 94 coops officially associated with the BFA, there are debts carried over from 1980 and 1981 for some ₡27.6 million, mostly owed to the BFA but a small part owed to the state export marketing organizations, INCAFE, COPAL and INAZUCAR.

These difficulties are not necessarily signs of poor management of either the cooperatives or the BFA. Most of the 51 that will probably come up short this year (out of 87 borrowers) are located in the conflict-torn eastern area, and there is no insurance scheme to repay credit for crops planted on land torn up by guerilla or military operations, or stricken by drought or flood. In fact, since the BFA is charged with helping those cooperatives that most need help, the Study Team was surprised that they expect 36 of their reform sector Phase I cooperatives to make a surplus, and to have money left over after paying off their production credit this year. At least 17 are likely to be able to pay off earlier refinancings as well, and to get fully up-to-date with the bank.

None of the preceding discussion refers to the initial loans made through ISTA in the first, relatively confused, days of the agrarian reform. Those loans, usually lumped together as the "Cartera ISTA," are generally still unpaid and in many cases the cooperatives dispute whether they even owe them. We address this problem separately, below and in Chapter 12.

The land debt. As indicated in Exhibit 6-16 the Phase I cooperatives will be burdened with repaying ISTA the equivalent of nearly U.S. $300 million in compensation to former landlords. The debt for each coop is equal to the amount paid by ISTA for the land, improvements, livestock, machinery and equipment left by the former owner plus anything invested by ISTA after expropriation. (For example, a new tractor, shed or the like.) The debt bears interest charges of 9.5 percent per year. Repayment is spread out for 20 to 30 years depending on the type of bonds issued to the ex-owner. For example, if the ex-owner were compensated in Series A bonds (the best), the amortization period would be 20 years. Most owners have been compensated in Series A Bonds. (See Exhibit 6-16 above.)

In 1982, DIECPA and ISTA have been working together to determine, case by case, the best feasible crop mix and the net income each farm adjudicated could yield. Repayment term, including grace periods, are set accordingly. The first payment on this "agrarian debt" may be postponed up to a 3-year grace period, but if they do, the initial interest payments alone, compounded during the 3-year grace period can add more than 25 percent to the original cost of the property. The amount of this land debt is stated in the legal title issued to the cooperative, just like a conventional mortgage. The Coop's Board of Directors and the ISTA Technicians assigned to the cooperative know the amount, and are expected to tell the membership.

However, in our field work we found that in many cases the amount of the debt has not yet been set, or if it has, the amount seems so huge to most members that few believe they will ever be able to pay it off. Also, our random sample of cooperatives did not turn up a case in which the land price is currently being determined by ISTA. Therefore, we do not know how the elected officers of the cooperatives feel about the fairness with which that price is set, or even whether they feel their views have been taken into account along with whatever the attorneys for the former owner have to say or argue. (Nor are we so naive as to believe that we could easily find out how the coop leaders really felt, since they would naturally want the price to be as low as possible, just as the ex-owner wants the highest possible price.)

The "Cartera ISTA/BFA." In addition to the agrarian debt, nearly all Phase I cooperatives received loans from a special ISTA/BFA production credit fund established at the onset of the 1980 reform. The reason for its creation was that the farms were expropriated just at the start of the planting season, and the GOES wanted to be sure they had working capital promptly, without possible delays in setting up bank credit for the brand-new cooperatives. Called the "Cartera ISTA-BFA," the terms of the loans were:

1. for basic grains, repayment of principal at the harvest plus 8 percent interest per annum.
2. for export crops, repayment of principal on liquidation of the crop by the intermediary plus 13 percent interest per annum.
3. for medium-term investments in machinery, equipment, repairs, etc., repayment as scheduled plus 13 percent interest per annum.

The production credits usually covered costs of inputs like fertilizer, seed, pesticides and estimated wages for the crops produced, which were based on MAG estimates of the man-hours of work needed per hectare, for each crop. The initial amount of the "Cartera ISTA-BFA" was ₡63,054,603.86 in February, 1980. Some 10.6 percent was extended for the production of basic grains, 51.3 percent for export crops and 38.1 percent for farm investments. By mid-February 1981 the "Cartera ISTA-BFA" debt had risen to ₡74,658,644.61, just with the compounding of interest. As of early November 1982, none of this loan had been repaid to ISTA, and the interest charges to the cooperatives continued to accumulate. Some payments were made in December 1982, from the "restricted accounts" (See below).

The puzzling fact about these debts is that shortly after the beginning of crop year 1980/81, many Phase I cooperatives also received production credit from national banks and financial institutions. Thus there have been accusations of inefficiency or corruption and allegations that many coops never actually received the money from the "Cartera BFA/ISTA." This is one reason given by some of the cooperatives for refusing to repay these loans, even if they are solvent. In other cases, the original cooperative collapsed but has been replaced by a new organization with different leaders but the same name -- and the new leadership refuses to repay debts assumed by the earlier group.

Part of the confusion perhaps arises because there is no simple method for agrarian reform cooperatives to declare bankruptcy if they suffer a disaster, as other private sector business firms do. Neither ISTA nor the banks will allow it. The reason is quite legalistic. ISTA has guaranteed repayment of 50% of the production credit in almost every case, and 100% for a few that the banks simply won't finance on any other basis. So when a cooperative cannot repay, no matter how good its excuse, the banks prefer to refinance the debt to another year rather than write it off. Since it has a government guarantee, bank examiners regard it as "sound," in spite of the fact that ISTA has little if any budget available to make good on the guarantees.

In sum, since the start of the agrarian reform process of March 6,1980, the Phase I cooperatives have received credit, but many are now burdened with large accumulating debts. It is not unusual for a cooperative to carry the following:

1. the "agrarian debt" for land, equipment and machinery.
2. the "Cartera ISTA-BFA" debt for early 1980 production and cooperative organization.
3. short term production credit, including refinanced production credit unpaid from earlier years.
4. other credit from outside the financial system such as savings deposits by cooperative members or purchases financed directly by suppliers and agri-business firms. (Unfortunately, we were unable to locate a reliable estimate on the extent of this type of credit.)

F. DEBT COLLECTION: THE RESTRICTED ACCOUNTS

Even though most of the new cooperatives have a string of growing debts, the agrarian reform process has a built-in collection mechanism working for the lenders. In theory, this is laudable. It should increase both actual repayments and efficiency in credit operations, lowering the borrowing cost to the cooperatives. Basically, the marketing agency retains payments due when it buys crops from the cooperative, and pays this money to the coop's creditors -- a sort of automatic lien. In practice, what it does is remit all the proceeds to the bank, which helps itself and credits the balance to the cooperative.

Most export commercial crops must be sold to government monopolies: cane sugar to INAZUCAR, cotton to COPAL, and coffee to INCAFE. Basic grains are usually sold to IRA (National Food Supply Institute). These entities take in the farm produce, record the weight, measures, and quality, and issue a voucher to the vendor. The actual money is later credited to the cooperative, through a "restricted account" at the bank which lends to that cooperative.

The bank in turn, has a record of the cooperative's "agrarian debt," "Cartera-ISTA/BFA" debt, and the bank's own loans. INAZUCAR, COPAL, INCAFE and IRA sell the crops, but not always immediately. Even after the sale, they do not always pay the producers promptly. Especially for coffee, the cooperatives must continue paying interest on their production loans long after delivering their harvest. Where million dollar loans are involved at 13 percent interest, the interest payment can be several hundred dollars a day.*

While the Study Team was in El Salvador, INCAFE announced payment to the cooperatives, via the restricted accounts, the amount "earned" by the cooperatives that sold coffee to INCAFE from the 1980/81 harvest. One year of

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* Some cash is paid when the product is delivered. For example, INAZUCAR entities currently pay ¢50/ton of sugar cane; about ¢20 is given in cash to cover the cooperative's direct costs of harvesting and transporting the cane. Later, the other ¢30 is credited to the cooperative's restricted bank account.

additional interest on production loans was charged to the cooperatives, plus in some cases "delinquent" interest of 2 percent more, because of the INCAFE delay. In effect, the coops -- and all other coffee growers -- financed INCAFE's inventory, and imperiled their own credit rating in the process.

Once the money is in the "restricted account," cooperative debts are settled by the bank according to law. Decree 124, Article 70 (Jan. 19, 1982) states that the Phase I Agrarian Reform Cooperatives will use their earnings in the following order:

a) payment on credit for production and operating expenses or investments.
b) payment on the agrarian (land) debt and other obligations with ISTA such as the "Cartera-ISTA/BFA."
c) to develop programs of social benefit to the community, and
d) to develop other types of productive projects.

When there is a surplus after all the above, the cooperative must distribute it as follows:

a) 10 percent, as a minimum, to constitute a legal reserve
b) 20 percent, as a minimum, to constitute a capital fund
c) 10 percent, as a minimum, for a social security fund
d) 5 percent, for an education fund
e) 5 percent, for a solidarity fund

The balance will be distributed to members in equal amounts "except to individuals with poor or disorderly conduct or negligence in work."

On November 26, 1982, ISTA's Comisión Liquidadora sent letters to each of the Bancos Comerciales Nacionalizados showing the credits earned on the Restricted Accounts of the cooperatives which sold coffee to INCAFE in 1980/81. The banks were instructed that the cooperatives could use their excess earnings (if any) only with the authorization of the ISTA Commission.*

Exhibit 6-17 gives a run-down of the number of coffee-producing cooperatives paying different items of their debt and the extent to which some

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* The "Comisión Liquidadora" is the Subgerente de Crédito y Valores of the BCR and the Jefe, Departamento de Comercialización of ISTA.

Exhibit 6-17

Payments to Restricted Accounts by INCAFE for Coffee Delivered
By Phase I Cooperatives from 1980/81 Harvest

	Number of Cooperatives	Amount
Net available after INCAFE and banks deducted loans made for coffee production	67	₡12,580,125
Payments on "Cartera ISTA/BFA" initial loans from 1980	26	4,868,252
Payments to ISTA or "Deuda Agraria" (for land purchase)	48	7,411,208
Funds left over, to coops that have paid off all other debts plus current installments on land mortgage debt	3	300,665

Source: Comisión Liquidadora BCR/ISTA, Memorandum of November 26, 1982.

Exhibit 6-17 PAYMENTS TO RESTRICTED ACCOUNTS BY INCAFE FOR COFFEE DELIVERED BY PHASE I COOPERATIVES FROM 1980/81 HARVEST */

Bank	BALANCE DUE AFTER PAYMENT On Coffee 1/ Credit	On Other 1/ Credit	Total No. of Bk. Coops.	CREDIT OF CO-OP EARNINGS TO: Agr. Debt	Cartera ISTA/BFA	Net Surplus (savings)
1. Agrícola Comercial	3	-θ-	6	3	2	1
Amount ₡	1,546,629.40	-θ-	-	586,337,96	677,692.47	162,650.83
2. Capitalizador	-θ-	1	10	8	7	1
Amount ₡	-θ-	22,687.17	-	1,534,627.45	1,362,820.00	2,381.12
3. de Comercio	1	-θ-	3	2	-θ-	-θ-
Amount ₡	111,391.31	-θ-	-	136,525.13	-θ-	-θ-
4. Crédito Popular	1	1	4	2	2	-θ-
Amount ₡	618.98	12,118.67	-	495,082.99	397,471.67	-θ-
5. Cuscatlán	8	6	16	13	5	1
Amount ₡	1,380,043.62	134,110.64	-	1,785.186.61	1,386,744.24	135,633.64
6. Des.E.Inv.	1	2	2	1	1	-θ-
Amount ₡	177,403.11	87,147.51	-	97,637.00	312,519.03	-θ-
7. Hipotecario	6	-θ-	13	12	5	-θ-
Amount ₡	1,427,930.02	-θ-	-	1,454,695.50	303,203.39	-θ-
8. Mercantil	3	2	5	-θ-	-θ-	-θ-
Amount ₡	134,030.41	15,1[illegible]1.48	-	-θ-	-θ-	-θ-
9. Salvadoreño	2	1	7	6	4	-θ-
Amount ₡	680,545.23	135,144.14	-	1,265,161.65	427,801.52	-θ-
10. Fedecrédito	1	1	1	1	-θ-	-θ-
Amount ₡	108,885.57	36,105.90	-	55,953.65	-θ-	-θ-
Total Co-ops	26	14	67	48	26	3
Amount ₡	5,567,477.65	442,505.51	-	7,411,207.94	4,868,252.32	300,664.59

12-A

cooperatives are completely solvent. For example the <u>Comisión Liquidadora</u> reported that 26 of the 67 cooperatives repaid ₡4,868,252 on the initial loans from 1980, while 48 made payments of ₡7,411,208 on their land debt to ISTA. However, some were not even able to repay their production credits. These still owed ₡5,567,478, which would have to be refinanced to be paid from a future crop. Some of this may have been to finance new plantations, which do not begin to bear for several years.

One cooperative wound up with a surplus of ₡162,650.83. Altogether, three had money left over. (That is, they not only repaid their production loans but also paid off anything else they owed the banks and ISTA, and still had money left over.)

Worse, neither the coops with good earnings nor those that did not do as well, knew where they stood during 18 months following delivery of their harvest. This kind of delay leads members to suspect corruption by their own leaders or by the lending institution or the marketing agency. It makes the members feel that they are really still just working for someone else, rather than truly owners of the land on which they labor.

The 1981/82 earnings may be lower still because of a reduced world coffee price; INCAFE is still holding much of that crop, even though a new harvest is now coming in. Yet the coffee growers, who are in effect financing INCAFE's decision to hold inventories, are not really consulted by INCAFE. We strongly recommend study of an alternative method of financing INCAFE. On delivery of the coffee, all production debt would automatically be assumed by INCAFE, leaving the producers with a clean credit record. Total debt would be unchanged. It would be the very same money now loaned by the banks to the cooperatives, who in effect lend it to INCAFE by delivering coffee and then waiting 18 months for their money. However, if the loans were made directly by the banks to INCAFE, the

INCAFE management might be more aware of the cost of waiting, and cooperative members would have a lot more confidence in their organization and leaders.

Some of the money held in the Restricted Accounts was applied towards the "agrarian debt" (₡7.4 million). Most Phase I cooperatives that already received title to their land have a two or three year grace period, relieving them of any payments on the "agrarian debt" before January 1983. We were not able to ascertain whether these particular coops were pleased to be making land payments earlier than usually required, but they will save interest at 9.5 percent on the amounts paid. In any case, ISTA needs the money badly now, to complete payment of compensation to former owners, and to pay interest on the bonds already outstanding.

G. <u>The Ability of Phase I Cooperatives to Pay the Land Debt</u>

As compared with rural credit programs in other Latin American countries, the land reform cooperatives in El Salvador have a relatively good repayment record. It remains to be seen, however, whether they can generate so much income that they can repay production credit, finance needed productive investment, distribute some benefits to their members, and still pay interest and amortize the principal of the debt incurred when their land was expropriated from the previous owner. The Program for the Integral Development of Agrarian Reform Campesino Enterprises (DIECRA), part of the MAG, made an intensive study of 12 cooperatives between September and November of 1982, to try to determine their prospects.

DIECRA team members (including a soil scientist, agronomist and economist) spent up to one week gathering data on each cooperative. Their work began by measuring the farm size, the area sown to crops, the size, age, and production of livestock, the yield of crops etc. They also assessed the value of additional land, cattle, machinery, equipment and other investments added to the farm. From these estimates they determined the productive capacity of the land and also tried to plan a more efficient allocation of resources based on their knowledge of suitable alternative crops and animal products, including expected costs and returns. DIECRA's work is comprehensive, even including information on health, education and living conditions on the haciendas.

DIECRA has made an attempt to assess the long-term repayment capacity of these 12 farms, especially when all short-term and long-term debts are taken into consideration. DIECRA estimates that two farms' productive capacity is such that by 1983/84 they could have cash left over even after this installment on the land debt is paid. These cooperatives are Compapa (La Paz), and El Chaparral (San Salvador).

On the other hand, even though the net income of three cooperatives was positive in 1981/82, when the "agrarian debt" payments begin in 1983/84 their cash flow will go into the red. These coops are Santa Elvira (Usulután), Nueva York (Ahuachapan) and El Izote (La Libertad). The reason for their deficit appears to be that the per hectare value of land has been appraised high, relative to actual earning capacity of the land. Thus, when the "agrarian debt" payment is added to the expenses of these farms, they run a deficit.

The amortization plan for the agrarian debt depends on the compensation plan determined for the ex-owner. Some owners were to be paid in 20 year bonds at 6 percent interest and others in 30 years at 5 percent interest. The cooperative's payment plan includes the same payment period, but at 9.5 percent interest.

Overall, much of the long-term repayment capacity of farms hinges on the "agrarian debt." Without this debt looming in th. near future, many of the cooperatives would appear to be solvent in a few years. With the "agrarian debt," solvency appears relatively far off.

Taking all of these factors into consideration, DIECRA has made a general determination that 8 of the 12 cooperatives (see Appendix Exhibit 6-28) will be solvent in a few years if given extended grace periods on the "agrarian debt". Two of the 12 are uncertain, and two may never make it.

DIECRA and the Study Team were especially interested in whether there are any particular characteristics that determine whether a cooperative is likely to be able to pay the "agrarian debt." Appendix Exhibit 6-30 compares and contrasts those cooperatives which are likely to be able to pay, with others that are not. It should be noted that all of these cooperatives are operating in areas of El Salvador which are relatively free of rural violence. Although the data is sparse, it reveals no consistent difference between cooperatives with ability to pay and those deemed unable to pay the agrarian debt. That is, there is no apparent difference in hectares per cooperative member, assessed value of land per hectare, absolute size of agrarian debt, literacy, or residence. Other factors may yet determine which cooperatives succeed: among them, we would look especially at crops grown, livestock yields, soil quality, and cooperative leadership or management. Our best guess is that management is at least as critical as are the productive resources available to the cooperative.

Phase I Beneficiary Attitudes and Characteristics

The first Phase of the agrarian reform radically transformed the status of some 30,000 former hacienda workers into members of production cooperatives with considerable assets, sizeable debts, and a hopeful future. While conditions on the haciendas prior to the reform varied considerably depending on the wealth and benevolence of the owner, few could say that they were ideal.

In 1981, a team from Ohio State University utilized a sub-sample from the 1978 National Survey of Rural Poor to construct a profile of potential beneficiaries under the Phase I and Phase III (Decree "207") Agrarian Reform laws.* The Phase I sample included 62 properties and 83 persons who would be potentially affected. The data thus assembled was nearly coincident with the overall rural data report above:

EXHIBIT 6-18

Profile of Potential Beneficiaries of Phase I Agrarian Reform

median family size:	6.0
low level of living score:	3.16 on scale of 8.0
access to potable water:	29.9%

SOURCE: Rural Poor/Potential Reform Beneficiary Study, 1981.

As of 1978 (the year the Rural Poor study was conducted), only 16 out of 83 of these potential beneficiaries of the Phase 1 reform, or 19 percent, reported that they had access to more than half a hectare of land and another

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* USAID El Salvador. Basic Data Tables for Potential Beneficiaries of the Agrarian Reform, Phase III, Decree 207, Linda K. Wright-Romero, Suzaanne Vaughan, William Flinn, 12/81; and USAID El Salvador, Analysis of Workers and Families Potentially affected by the Agrarian Reform, Linda K. Wright-Romero, Suzanne Vaughan, William L. Flinn, 12/81.

15 (18%) reported access to something less than half a hectare, really no more than a garden plot. The remaining 52, or 63 percent, had no access to land to work for themselves. (See Appendix Exhibit 6-31 for a breakdown of percentages.)

Not surprisingly, only 6 (7.2 percent) of the Phase I group reported having access to some source of credit. With the cooperatives, most of these same people should now have access to substantial productive resources, including both land and credit.

DIECRA Sample Survey. In September 1982, a department of OSPA known as "Desarrollo Integral de las Empresas Campesinas de la Reforma Agraria," or DIECRA, carried out a sample survey of beneficiaries of the Phase I reform at the Hacienda San Isidro in the Department of Sonsonate. This study is the only in-depth sociological work that has been completed so far with the beneficiaries of the Phase I reform.

The hacienda was intervened on March 6, 1980 as part of Phase I of the agrarian reform, and is now one of the cooperatives administered by ISTA. This is a large hacienda of 2327 hectares of land and 3,796 people. On a field trip by one of the members of this study team, San Isidro was found to be more successful, vital, and impressive than most of the other cooperatives visited. It should be kept in mind that the profile of beneficiaries, while valid for that cooperative, should not be taken as representative or "typical" of the rest of the agrarian reform cooperatives in the country.

As part of the background to understanding the setting of the San Isidro Cooperative, the DIECRA study noted that the overhead costs of the coop include the maintenance of a permanent guard force of 20 men to keep the peace. This force had to be paid out of the coop's earnings. The monthly cost to the cooperative was 5,239 colones. The main crops grown by the coop were coffee and sugar, so perhaps one of the justifications for the guard force was to protect the coffee processing plant which was on the grounds of the cooperative property, but not owned by them. We were unable to establish whether the owner of the plant also helped pay the guards.

The San Isidro Sample. The Hacienda San Isidro was known to have a total population of 3,796. The sample for investigation was drawn by applying the national average El Salvador family size of 5.5 persons and thus arriving at an estimate of approximately 690 families living on the farm. Of these, 76, or 11 percent, were selected at random for inclusion in the study. The interviewing was carried out during the week of September 13-19, 1982 by five DIECRA staff members.

The detailed results of the San Isidro study are in DIECRA files. It is interesting to note that the results are quite consistent with the Chapter 2 discussion of conditions in rural El Salvador. The interviewers found low levels of education, health and sanitation and, from this study, even an indication that life in the Cooperative was not as satisfactory as the respondents had anticipated. Since the money wage reported is not much greater than before the Reform, beneficiaries must be given some other reason to maintain enthusiasm for the new system.

DIECRA DIAGNOSTICOS

DIECRA staff have done a number of fairly detailed financial and socio-economic studies of cooperatives over the past two years. Exhibits 6-32,6-33 (see Appendix) summarize all of the social data which is available from them. Unfortunately, the categories are not uniform and for many cases the data are not available for many of the items. Information seems to have been gathered in a variety of ways, frequently using different units such as families, individuals, coop members, etc. Nevertheless, even a cursory reading of the table shows the whole litany of rural social problems; illiteracy, poor housing, lack of schools, and sanitation, etc.. These data, too, echo the national rural statistics as well as our own field observations.

THE RANDOM SAMPLE

In addition to the cooperatives that were visited in order to study specific problems that concerned the AID Mission or the team members, we felt it essential that a proper random sample be drawn of all the cooperatives involved in the agrarian reform. Accordingly, a series of random numbers was applied to the latest ISTA list of properties intervened in Phase I (as of Nov. 30, 1982). The following properties were drawn:

Exhibit 6-19

Random Sample of ISTA Properties

	PROPERTY	DEPARTMENT	SIZE	COOP	DATE VISITED
1)	Las Brumas	Sonsonate	778.4	merged w/S. Isidro	
2)	San Miguel	Sonsonate	321.4	Copapayo	12/03
3)	San Jorge Km. 5	Sonsonate	740.0	Kilo 5	12/08
4)	Santo Rose	La Libertad	317.0	abandoned	
5)	Mayucaquín	San Miguel	1016.0	not visited - security	
6)	El Socorro	La Unión	1283.0	not visited - security	
ISTA TRADITIONAL					
7)	Metalío	Sonsonate	3003.0	no Coop	(parceled)
8)	Bola de Monte	Ahuachapán	689.5	ISTA admin.	12/02
9)	El Chiquirín	La Unión	775.3	not visited - security	
VOLUNTARY SALES TO ISTA					
10)	San Pedro Tazulat	Sonsonate	321.4	San Pedro	no visit
11)	San Fernando	La Libertad	209.8	S. Fernando	12/09

Of these, the cooperatives in San Miguel and La Unión were discarded because permission to visit them was denied by the Embassy security office as a result of reports of recent guerrilla activity in those areas. The remaining cooperatives were visited by one or more members of the team, together with an ISTA staff person, who generally sat in on the group meeting with the Junta Directiva, but withdrew discretely when the Checchi team member spoke with individual Junta members or the individual cooperative members (see below).

ATTITUDE QUESTIONNAIRE

The Study Team constructed an attitudinal and background data (Exhibit 6-19) questionnaire to facilitate a standardized measure of the present situation on the random sample of nine cooperatives visited by the Team. (Four were chosen randomly and 5 chosen because we were interested in their case for one reason or another.) In group meetings with the coop leadership, a questionnaire for the board was filled out. Then, with the entire board looking on, numbers from a random number table were read off from a starting point chosen by one of the board members, and the Secretary and Study Team member then found the corresponding coop member on the payroll or other roster. The board then figured out where each member so chosen was working that day, and the Study Team member went to interview him at his work site. One or more replacements were needed at each cooperative, because some member so drawn always turned out to be off doing his military service, or gone to see a doctor, or was otherwise unavailable for interviewing.

The highlights of these additional interviews follow:

RESPONSES BY THE BOARD OF DIRECTORS

(There were 9 meetings with members of cooperative boards)

1) All of the coops were formed within three months of the Phase I reform (i.e., in Spring 1980), except Guajoyo, which the UCS organized in 1977 as a "traditional" ISTA coop.

2) The number of members at founding ranged from 5 to 180.

3) Turnover ranged from 2 to 100 new members since early 1980.

4) The current problems most cited were credit (66%) and administration.

5) For the future, the most serious problems were also credit, and getting enough paid work for the members.

6) The "co-gestion" system was rated "poor" in 2/3 of the cases.

7) Suggestions for improving "co-gestion" included
   - Have full time "co-gestor"
   - "Co-gestor" to share decision making with board
   - Coordinate decisions better
   - Better timing of crops

8) The organizational problems cited were the 1980 assassinations of board members, member education to cooperativism, need for clear lines of authority to ISTA.

9) The size of coops ranged from 105 to 2485 hectares.

10) The main crops cultivated were cane, corn, rice, and beans. Some coops had extensive pasture lands.

11) The area of land that the coops had was viewed as fine in all but one case.

12) In three out of nine cases, the board member interviewed said that there was some inclination of the coop to want to divide all the land up into parcels and work it individually.

13) In only one case did the board member say that in terms of suitability of the land resource, there was an area of the coop that would be better worked individually.

14) In every case the members were provided with individual "milpa" fields to raise their own produce. In half of the coops the member had to pay rent for it.

15) In only one case did the respondent say that it would be better to unite the milpas to the main fields; conversely, in two cases, the suggestion was made to expand the milpas.

16) The BFA was the source of funding most frequently mentioned. In two cases, funding for inputs was gotten from private sources.

17) Problems cited in obtaining funds were amount of funding and the timing -- often funds were released too late.

18) There was an awareness on the part of three respondents of alternate sources of funds.

19) In terms of how outside agencies could help the coops better, more credit and lower prices for inputs were mentioned. FESACORA was also mentioned as a potential helper.

20) The coops had made some effort in making their own sub-products -- drying their own corn for feed, grinding it too for their cattle. One reported selling firewood sometimes.

21) Two of the coops reported selling their crops to the IRA, and having problems with IRA in accepting the product or docking the price paid for excess moisture or broken kernels. The other buyers reported were private commercial dealers, who were less demanding.

22) Plans or ideas for the future included planting bananas, adding dairy or beef cattle, and irrigation.

23) There were a number of ways the government could assist the coops better -- more credit, expand the list of crops eligible for credit, education, expand the scope of the "co-gestors," and give them production incentives.

Overall, the members of the boards of directors who were interviewed were frank and forthcoming. They were serious about making their coop "go," and constructive in their criticisms of the government institutions. It was clear in several cases that they were laboring under great difficulties and needed much more managerial assistance. While the coops we were able to visit had not suffered problems with guerillas or the military, several had been damaged by an unprecedented downpour a few months ago, that ruined crops and drowned cattle. Again, we were made aware of the need for an insurance system.

RESPONSES BY COOP MEMBERS

(Twenty-two members chosen randomly from the rosters of seven different cooperatives were interviewed.)

1) Average length of time living in the area was 13.6 years

2) 73% of the respondents joined the coop when it was formed

3) 54.5% said that the coop was functioning well -- other responses ranged from fair to "bad because of the landowner and his gunmen who murdered the original board members in 1980." (Guajoyo)

4) Suggestions for making the coop function better were:

- more unity among members
- more technical assistance
- change directors more often
- support manager more
- unity; agreement among members
- more work (which requires getting more production credit)

5) The most difficult problem that the coop has faced was credit (33%) and terror and killings (in 1980)(22%).

6) The co-management system was rated as functioning not well by 37% of the respondents and well by 32%.

7) 90% of the respondents rated relations between members and the board of directors as being "okay" or "good."

8) 50% said that relations with the former patron had been bad.

9) 85% said that their lives were better since the agrarian reform.

10) 65% said that they had the use of a plot or "milpa." All of these respondents said that it was the same field each year.

11) The crops most frequently mentioned as being grown on the milpa were corn and beans; one respondent mentioned sunflower and sesame seeds.

12) Only 10% reported having some outside work away from the coop.

13) Life under the coop system was rated as "ok" or "better than before" by all the respondents.

14) Only two respondents said that their coop should have more members.

15) 47% said that better results are obtained by working together -- 23% said it was better to work alone.

16) 59% said that there was an area of the coop that was better worked as individual parcels.

17) 100% rejected the idea that it would be better to divide the coop land in two parts and run it as two businesses.

18) The respondents split evenly on whether it was better to split up the coop and work the land individually or continue as a production cooperative.

QUALITY OF LIFE OF RESPONDENT

1) 19% got water from a tap; 57% from a well.

2) 28% reported having a latrine.

3) 32% had electricity; 36% had only a tin can with kerosene and a rope wick for light.

4) The average age of respondents was 38 years.

5) Respondents reported an average of 2.0 years of school attended; 32% had not attended school at all. Therefore 68% had 2 or fewer grades of education. This is the same as the profile of "207" beneficiaries (see Part Two).

6) Out of 19 members reporting having children, there were an average of 4.6 in each family.

7) 42% reported losing at least one child. (Corroboration of high infant mortality).

8) 26% of the school-age children were not attending school.

9) Of the 14 reporting their income, the average wage was 8.9 colones a day. This is very close to the amount reported in the Santa Isabel coop member survey by DIECRA.

10) Ten members stated what they saw as most important for the future of their families:

- more education - 4 votes
- more steady work - 3
- own their own house - 2
- fewer problems with boss - 1

11) As to how they felt the government could help the coop better:

- punctual credit
- make it a "real" reform -- give individual ownership
- give more information about future plans for reform
- more choice in future plans for coop
- support financing for activities that the coop has planned
- electricity.

It is clear that this small sample of coop members chosen randomly reflected fairly accurately the profiles reported elsewhere in this report and that they have the same concerns that the team found in nearly every field visit. Provision of credit, education for children and for cooperativism for the members are paramount. As a summary, it is clear from the interviews that the members think the reform has improved their lives and was a good idea. Now it must be consolidated and made to work properly. The jury is still out, however, as to whether the best model is division into individual plots or continued group farming plus smaller individual plots.

I. COOPERATIVE MANAGEMENT AND TECHNICAL ASSISTANCE

There was a reorganization of the Ministry of Agriculture (MAG) in January of 1982, and another is planned for January 1983. ISTA itself began the 1980 reform with the intention of putting a technician on every coop, to provide technical advice and to look after ISTA interests, but is now planning to change that model. This technician, called a "co-gestor," was in effect a partner of the cooperative's board of directors. Theoretically, no purchase or sale or other major decision could be made without the agreement of both the "co-gestor" and the board. In practice, ISTA does not have enough well - trained technicians for the cooperatives, and new models are being planned for 1983. Details of our findings on this subject appear in the Appendix.

1982 innovations. At least three initiatives were taken during 1982 to experiment with improvement in cooperative management arrangements:

(1) ISTA's Division of Enterprise Development has set up a pilot project which it hopes to expand, to identify, train, and place more competent managers and accountants on Phase I farms. The ultimate aim is to improve administrative, planning and financial activities of its cooperative associations; (2) ISCATT has organized a training program to improve the

administrative skills of representatives from Phase I farms. Through its "Consejo de Dirigentes Zonales" (CODIZO), weekly training sessions are held in different parts of the Western Region for cooperative representatives; and (3) DIECRA has completed the socio-economic studies of the majority of Phase I farms in order to assess the ability of the cooperatives to finance these debts and to help the cooperatives develop repayment amortization plans. While all of these activities have ultimately useful ends, they tend to occur disjointly, with little cooperation and coordination. This is a result of the confusion caused by the 1982 reorganization of the MAG.

A new reorganization of the MAG has recently been approved; it will again resemble the pre-1982 organization, with agricultural research and extension under the same institution. This may revive and "old" and familiar network of communication, and lead to less confusion than that which has reportedly plagued extension efforts in 1982.

J. BASIC CONSIDERATIONS FOR EFFECTIVE MANAGEMENT SYSTEMS

This section examines four important topics of cooperative operations and management; the membership structure, the organizational approach, the staff and board resources, and the system. The analysis of each of these topics attempts to show how management and cooperative organization can affect the performance of Phase I farms, especially with regards to their economic operations.

(1) MEMBERSHIP STRUCTURE

We have already seen some of the individual characteristics and attitudes of members presented in section II above. From an organizational standpoint, the characteristics of the membership as a group — how many members there are; how close they are, geographically and socially; the extent to which they are full-time vs. part-time members of the cooperative -- are critical in shaping day-to-day operations. In fact, the number of members per cooperatives ranges from 10 to 893.

Because the reform process affected all properties of a single owner who held more than 500 hectares total anywhere in the country, a number of properties were intervened which by themselves were less than 500 hectares. Some of these properties were combined when the Cooperatives were formed and the rest became coops at the same size as when they were haciendas.

Appendix Exhibit 6-35 arrays the cooperatives by department and their size in hectares. Nearly half, 152 out of 310 of all the cooperatives have fewer than 500 hectares. This may be either good or bad depending on the quality of land that it is, what crops they are growing, and how many members they have. In any case, some attention should be paid to the fact that coops come in all sizes and 19 of them have few than 100 hectares. There may be a range of hectare size as well as number of members that is optimal, and we recommend research on this.

The largest cooperatives in terms of either area and/or membership tend to have dispersed membership engaged in different jobs or section of the farm enterprise. Hacienda Santa Cruz, in Sonsonate, for example, has nearly 500 members and 3,000 hectares. The members are physically dispersed across three village communities and each community is organized to handle the day-to-day operations on the nearby land, primarily for sugar cane and corn production. This type of cooperative faces a significant operating problem in that surveillance and coordination over jobs is difficult to control. This implies potential problems determining an equitable work load, and hence, income earning opportunities for members.

Overall, the membership size and the basic size and economic activities of the cooperatives suggest the need for different forms of organizational structure.

(2) ORGANIZATIONAL APPROACH

In addition to these variations in the structure of the member -- cooperative relationships, there are several areas of substantial difference among the cooperatives when considered as self-contained organizations. One of the most basic is the variation in the number of functions carried out by the cooperative. There is a wide range among Phase I farms. Another is that the absolute number of activities a cooperative can perform tends to increase with size. The cooperatives can also cover operating risks with relatively more ease by not putting all their eggs in one basket. But with increasing cooperative size, the task of management are more complex. Either more managers are hired or a pyramid of assigned tasks is made to disperse responsibility and work. In a large pyramidal structure, decentralized work tends to become less efficient (but not necessarily so) and usually requires more systems of checks and controls.

These problems imply difficult tasks for two, let alone one, of ISTA's "co-gestores" and "promotores." For the larger cooperatives with limited numbers of skilled or trained administrators, a management centralization approach is perhaps most effective for operating the farms. For the smaller cooperatives where interpersonal relationships can be an asset for day-to-day management, a decentralized organizational approach can be effectively employed by the cooperative.

(3) STAFF AND BOARD RESOURCES

Another key element of the organization and operating pattern of any cooperative is the human capital (i.e. the level of education and training) available in its staff and board of directors. A chart to be filled out in assessing staff and board resources appears in the Appendix (Exhibit 6-38) as an example.

An assessment of each cooperative's human resources juxtaposed to its size should serve as the basis for determining the level of staff required to carry out their operations. Further research could compare the assessments with the economic performance of farms; the result should indicate the level of human resources which correlate with good or bad performance.

(4) MANAGEMENT SYSTEM

Closely related to the human resources available for managing the cooperative are the management systems which have been developed. Outside observers of cooperatives, more often attribute success or failure of the operation to "management" than any other factor. We examined the characteristics of cooperatives with the best potential for repaying the agrarian debt, and found no other distinguishing features.

According to Professor Don Kanel of the University of Wisconsin, Madison, Land Tenure Center,

> Management in cooperatives becomes a crucial function for several reasons. Effective management is needed in dealing with the outside world of creditors, suppliers of inputs, technical assistance and market outlets. It is also needed in applying technology to the production process inside the co-op. And, very importantly it is the major factor in effectively using the labor force of members disciplining it if necessary. This is not primarily a matter of using the big stick. That kind of discipline is apt to be counterproductive in a co-op alienating the members from a manager. Management in relation to labor discipline in a co-op is a matter of locus of responsibility for coordination of effort of different members, supplying the requisite materials and equipment, ensuring the timeliness of work, watching for plant and animal disease, etc.
>
> On one hand someone needs to be performing and members are better off if the responsibility is assumed. On the other hand the person doing the management function needs to be trusted, and trust is something which requires effort to build and maintain. In a co-op a manager needs to be something of a teacher, so that members as participators in policy understand the constraints

> influencing the manager's decisions, and as workers accept them. If such a relation between managers and members is not achieved, then both the authority of the manager and the work discipline and member participation in policy are likely to suffer.
>
> Appropriate relations cannot be created just by laws and regulations. It isn't that campesinos are not intelligent or knowledgeable about the production process. They are usually very practical people, hard headed and not given to an ideological outlook. But management is a specialized function that deals with specialized issues which are not matters of every day practical experience of campesinos.

Kanel also stresses the temptation for managers to try to run the coop without adequate accountability to members, with a pithy quote:

> Management, on the other hand, becomes more concerned and more skillful in dealing with specialized issues -- changes in the relevant technology, organization of production, and interaction with outside agencies providing inputs, credit, and markets, or those supervising the group farms. These are not the tasks for amateurs. The knowledge necessary for good day-to-day decisions and for long-run strategies becomes concentrated in the management. In terms of their preoccupations, they may well come to feel that they need to concentrate thought and energy on dealing with outsiders, that they can best function with passive support of membership but with minimum distraction from members' demands for attention (demands for explanation, grievances, opposition to policies, etc.). It would be very natural for management to come to feel that they know best, yet their authority and legitimacy come from members and periodically or when faced with major decisions they need ratification by the membership.*

K. THE ISTA "CO-MANAGEMENT" MODEL

1. As in other countries with land reforms of this type, "management" is a key factor governing the socio-economic progress of Phase I cooperatives.

ISTA gave relatively little attention to management in the initial days of the 1980 agrarian reform. On larger units, with resident technicians, ISTA

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* Peter Dorner and Don Kanel, "Introduction, Some Economic and Administrative Issues in Group Farming" in Cooperative and Commune, Peter Dorner, ed., University of Wisconsin Press, 1977, p. 9.

Exhibit 6-20

ISTA Co-Managers and Promoters on Phase I
Reform Sector Farms, 1981/82

	Farms[1]	
	1981	1982
Total Cooperatives	374	323
Farms with "Co-gestor"	303	197
Full-time	96	170
Part-time	207	27
Farms with "Promotor"	209	202
Full-time	157	167
Part-time	52	35
Farms without "Co-gestor"	71	126
Farms without Promotor	165	121

1 Includes both intervened and purchased farms.

Source: ISTA, July 1981; PERA, November 1982.

generally asked those to stay on. Otherwise, it relied on its staff of "co-gestores" and "promotores " (See Exhibit 6-20).

> In the first CHECCHI Report (Dec. 1981) it was noted that ISTA technicians and promoters are a weak link in the agrarian reform process. Adequate numbers of technicians and promoters should be hired. All technicians and promoters should be provided additional training through the CENCAP program. All technicians and promoters should be evaluated and the poor ones replaced. ISTA personnel should not be involved with marketing, purchasing or handling cash (to avoid temptation or corruption). Cooperatives which have not already done so should be encouraged to hire their own professional managers. ISTA should be encouraged to take a flexible stand on co-management. Some farms could be given self-management status now... The sooner self-management can be recorded, the more rapidly will learning take place (p. 89).

[illegible] later, many of these recommendations are still valid and worth repeating. ISTA technicians and promoters are a weak link in the agrarian reform process, a source of conflict on a few Phase I farms, undertrained for management tasks on most farms, and insufficient in number. Many are still directly involved in purchasing, marketing and handling cash. Even though the majority appear to be honest and hard-working (though they have neither pay incentives nor prerequisites to reward superior performance), we heard gossip accusing some of being corrupt or overlooking gross cases of corruption by others managing farm purchases and crop sales. A few "co-gestores" were characterized as "patrones."

We did find a few minor relatively exceptional cases where cooperatives have hired competent managers or technical services from outside. Although not all of these were successful, they provide a bright spot on a generally bleak picture of the "co-management" system under ISTA. They also indicate that autonomous operation may be feasible right now for some cooperatives.

In July 1981, there were 183 technicians (co-gestores) working on 303 properties which ISTA had intervened or purchased (including 107 purchased before the March 1980 agrarian reform law). Only 96 worked on one farm full time; the other 87 technicians were spread over 207 farms (see Exhibit 6-20).

Another 71 farms had no "co-gestor" assigned. By November 1982 ISTA still employed 183 technicians; now 170 were employed full-time on 170 farms, and 13 were spread over 27 other farms. Now 126 cooperatives simply had no assigned "co-gestor" even though there were 51 fewer coops than in 1981.

Many of the technicians prefer to live in San Salvador or in departmental capitals and commute to work. Some must rely mostly on public transport; others have a ISTA vehicle but buy gasoline out of their own pockets. Then some of these technicians visit their assigned farms only sporadically, and spend much less than full-time on them. Some "co-gestores" may also misunderstand the reason they are employed to give technical management service to a reform cooperative. For instance, one "co-gestor" commented to a Study Team member that his work would be easier if he had an ISTA vehicle to get to his farm. That way, he said, he could have more free time to work on his university studies.

Although the number of "co-gestores" (technicians) is below the demand, the "cogestores" are supposed to have an important governing role in the administration of cooperative farms. Five charts in Appendix B show the organizational structure for five different cooperatives, each of which places the ISTA Promoter and Co-gestor at a level equal to that of the Board of Directors or Administrative Council.

In order to upgrade their skills for these initial roles, ISTA has arranged CENCAP training programs for some of these technicians. However, CENCAP is an entity outside of ISTA and it is unclear whether its own educators are experienced in the required areas of managing cooperative farms.

(2) PROPOSED CHANGES FOR A UNIFIED MANAGEMENT SYSTEM

During the last year several new ideas have surfaced, for solving the ISTA/co-management problem. One idea that seems to have taken hold within ISTA is to create a uniform management system at the zonal level for improvement of cooperative administrative performance. The system is based on a pilot project which started in August 1982, within ISTA's Division of Enterprise Development.

(a) The ISTA Pilot Project

The following project was developed by an ISTA Division Chief, in collaboration with two consultants from Servicios Tecnicos del Caribe, STC. A module of four groups of "professionals" were created after a screening process for the jobs.

Each group included three persons as follows: (1) a professional in business administration with at least one advanced degree (graduate study) in economics, and/or administration, (2) a professional accountant with a graduate degree and (3) an assistant, either an administrator or accountant with a college degree.

Each group was given additional training in cooperative management and direct experience in developing case studies of four different farms. The groups would go to a farm, analyze its production and organization, and assess the existing system of books and records and the capability of the administrative staff. The groups then worked with the cooperative directors and "co-gestor" to organize and install an improved system.

The case studies served as models for a "unified" accounting and management system. This experience showed one group could "organize" a cooperative every two weeks, and the four groups (of three members each) could organize eight Phase I cooperatives farm in a month.

A key assumption is that in 1983 the "co-gestor" will no longer be an ISTA staff person assigned to the farm, with a key administrative role. Rather, these staff will be pulled back to zone offices of ISTA, and the coop will look for its own managers. First, of course, it will consider its present staff, if any, and any members with experience, training or talent for management. In cases where the management staff is weak, the team would recommend the employment of a qualified "professional" to fill the needed administrative or accountant job on the farm.

If the cooperative refused to accept this recommendation, the ISTA group would not continue working with that cooperative. It is ISTA's view that such cooperatives would not be eligible for loans from banks without qualified administrators and accountants carrying ISTA's certification. In order to encourage the cooperatives to hire the ISTA-certified professionals, ISTA proposes to pay 75 percent of their salaries the first year, 50 percent the second and 25 percent the third. Of course, it would be up to the professionals to prove their worth to the cooperative, so as to continue employment even when the subsidy ended.

It is ISTA's plan to test and screen prospective candidates for on-farm jobs as professional accountants and administrators. An ad run in San Salvador's newspapers for prospective professional consultants for ISTA farms resulted in over 20 apparently qualified individuals and firms. Some of these would also be interested in new on-farm management positions; so the supply of qualified professionals does not appear to be a limiting factor in ISTA's plan, at least at the pilot stage. In addition, a few of ISTA's current technicians appear to be interested in and qualified for these positions (which will be better paid than ISTA's own headquarters staff jobs).

In addition to the groups mentioned above, ISTA will create follow-up teams of "evaluators". Their jobs will be to check the farms that the groups have organized, to see if the cooperatives are implementing the "unified system" successfully, and to study any problems that arise.

(b) Pros and Cons

The ISTA plan is supported by the lending banks, which have sought ways to improve the accounting and administrative systems of their Phase I cooperative farms. ISTA and the banks will both benefit if the cooperatives are more profitable and hence can pay their debts at the end of each year.

The current co-gestores were reported (by ISTA) to be less enthused. Almost all who took the exam for the professional certification failed. (The Study Team did not have time to review that exam, however, nor to conduct its own evaluation of a sample of "co-gestores.")

The "unified management system" has some merit as far as placing competent staff into key management positions. The model, however, should not be considered as a panacea. Nor is it clear whether one model will fit all cooperatives, with vast differences in size, economic activity, member education and cooperative "maturity."

SUMMARY - CO-MANAGEMENT

In order for the cooperatives to be economically and socially viable, they need both management assistance and guidance more broadly defined than just business decisions. There must be a stimulus for planning and implementing education, literacy, health and housing programs which will truly transform the traditional campesino into a participating, satisfied member of the Salvadoran society.

This may be accomplished through a corps of highly competent and motivated managers who are charged with the "holistic" development of the cooperatives. Another avenue may be through the CODIZO/FESACORA organization with its grassroots training methodology. The regional and national offices of that organization could also serve as brokering agents, to help the coops obtain needed services from government agencies or the private sector (banks other than BFA, Agri-business concerns or others).

The hired managers and/or the cooperative's Board of Directors should be prepared to recognize the mix of activities that is now occurring on the farms -- some individual production of subsistence crops (milpas) and a large block of land worked in common for cash or export crops -- and be prepared to adjust the proportions as may be most beneficial to the members. If the proportion of individual plots increases, there may be a need for technical assistance and credit for inputs to the individual cooperative members.

In addition to the accounting and managerial skills needed for the smooth functioning of the cooperative, there may be other new skills which the previously unskilled or semi-skilled campesinos may need. These could include machinery repair and maintenance, artificial insemination, and other innovations in appropriate technology.

CODIZO MODEL

Since early 1982, a group of people with FAO and the Ministry of Agriculture's CENCAP division has been implementing a program of grass roots management training and representation called Consejo de Dirigentes Zonales (Council of Zonal Directors). The specific origin and purposes of CODIZO are contained in a pamphlet put out by the organization:

> CODIZO is a campesino organization formed by representatives from the agricultural production cooperatives. CODIZO is promoted by ISTA and was created by the agrarian reform. CODIZO has the function of helping the development of the cooperatives which compose it. For this, they work together with the object of resolving common problems and uniting their efforts to find a solution.

Some of the possibilities for member cooperatives which the CODIZO organization opens up are (according to the pamphlet):

- joint buying of inputs like fertilizers, pesticides, seeds, etc.

- storage and joint selling of crops.

- facilities for providing the cooperatives with administrative assistance, auditing, training in technical aspects, and cooperative organization.

- possibilities of industrializing agricultural products.

- possibility of sharing use of machinery, labor, ideas.

- obtain government services such as health, education, housing, communication, etc. more easily.

The CODIZO program as presently organized consists of representatives from each of 60 coops in the western part of the country who meet weekly to learn farm accounting. They form the second layer of a national cooperative organization which goes from local to zonal to regional to national level. The national level organization is called FESACORA, which stands for Federación Salvadorena de Cooperativas de la Reforma Agraria. The national office has eleven directors, but since only one regional organization has thus far been organized, for most of the country there is no direct connection to the zonal level.

OPERATION

The western CODIZO has weekly meetings with the representatives from the local coops at five locations in that zone:

- Ahuachapan norte	12 coops	1704 socios	Tuesday a.m.
- Santa Ana	25 coops	2113 socios	Tuesday p.m.
- Sonsonate sur	17 coops	1895 socios	Wednesday a.m.
- Sonsonate norte	16 coops	2322 socios	Wednesday p.m.
- Ahuachapan sur	12 coops	1397 socios	Thursday a.m.

The CODIZO organizers have had 30 meetings with the groups so far in 1982, and have seen great progress in the members' ability to manage numbers and diagnose where their respective enterprises may be having trouble.

The foundation of the system is a series of tabulating sheets which each coop representative fills out. He then teaches his colleagues at home how to fill it out and they do it jointly using data from their coop. The sheets contain detailed information about every stage of the production process and enable the members to see where they may have problems. In addition, the sheets make it possible for the project managers to monitor the individual progress of the coops. From this process, the project coordinators were able to report in detail on the progress of the 60 coops that they are working with. Although there are the 82 cooperatives in the zone, only 60 have been sufficiently strong or cohesive to participate continuously in the monitoring program.

COOP PROFITABILITY

The data provided in the weekly CODIZO meetings makes it possible to say that, with varying degrees of success, 71 percent of the 60 coops are turning a profit on their production. (That is, before subtracting debt service.) The other 17, or 29 percent, are losing money.

The Study Team believes a vignette from an actual CODIZO meeting will help show the usefulness of this grassroots effort for strengthening the cooperatives.

At about 10:45, representatives from seven of the 12 coops had arrived at the Cara Sucia cooperative and the meeting started. The coops represented were:

COOP	NUMBER OF MEMBERS	DAILY WAGE
San Juan Bosco	64	¢5.00
Cara Sucia	400	8.00
California	42	6.70
Santa Rita	236	7.50

El Castano	61	7.47
San Martin Y Larin	50	7.00
El Cortijo	177	7.50

This meeting was chaired by the representative from the California cooperative who, in spite of having only three years of school, was able to put an agenda on the blackboard and run the meeting without being prompted by the CODIZO technician. The main order of business was to inform the rest of the zonal group that a large nearby coop, San Isidro, needed some labor to help cut sugar cane. The group decided to let the rest of the cooperatives in the zone know about the opportunity and to hire a truck on Saturday to pick up all the workers who wanted to go and take them over. Two observations are significant at this point:

1. The ability of an essentially untrained campesino to conduct the meeting.
2. The collaboration among the cooperatives so that they would use each other as labor pools.

The ISTA zone chief for the area then arrived and raised several new issues.

- What were the member coops doing about the big damages caused by the floods during September?
- He informed the group that they were authorized to sell some of their cattle if their pastures had been ruined by the flood.
- On marketing for some of their corn crop; he had an offer of ₡15 per quintal (hundredweight) from a private buyer. While this was below the official IRA price, the buyer was willing to accept their rather wet and broken-kerneled corn.

The presence of the ISTA zone technician was an active demonstration that the CODIZO was operating as planned; it provided a focal point for government agencies to interface efficiently with the cooperatives, as an alternative to trying to maintain competent, qualified "co-managers" at each unit.

The CODIZO system is a new method -- far removed from the traditional top down extension approach. In this new method, the materials to work with are actually derived from the experiences of the participants and the work sheets are made up by them. The process is started by developing a list of the management talents of all the people in the Coop and going on from there.

The old system would take the trainees to a training center in Coatepeque -- give them a 40 hour training course -- and then it would be all over. The spread-out-over-time and incremental nature of the new system is likely to have a more lasting impact on the participants. The CODIZO system guarantees that the information will be relevant to the trainees, since they have gathered it themselves and it refers to their own coops and others nearby. Most of the tables that are created need only addition and subtraction to manipulate. This is an active method -- the very act of filling out the tables helps to insure that the participants will understand the material better.

The practice in decision-making is the most important part of the process. And after going through the process of filling out and manipulating the tables enough, the participants will be better able to deal with the bank loan agents and the technicians who come out to the coop to help.

SUMMARY

The CODIZO experiment is an interesting combination of grassroots training and institution building. In spite of some demonstrated success in getting cooperative members to learn elementary farm accounting and management, the procedure is not a complete substitute for the co-managers which ISTA has been providing for the cooperatives. Perhaps the ideal model for the future is to continue the CODIZO training efforts with the long range goal that the sharper participants will reach a managerial level themselves some day. In the meantime, some "professional" management help will continue to be needed. The CODIZO system offers a countervailing force to the ISTA managers, which may help keep them oriented to the best interests of the cooperative. In addition, the CODIZO program could forge links with appropriate government agencies to start them delivering desperately needed services to the cooperatives such as:

- health and sanitation
- adult literacy
- schools
- housing

(3) <u>Private Consulting Firm Model</u>

The 1981 Checchi report on agrarian reform briefly discussed the work of a private voluntary organization in El Salvador. This firm provides technical assistance primarily to agricultural cooperatives and has been active not only in El Salvador, but also in a number of other nations in Latin America and Africa.

Presently this organization is carrying out 16 projects in El Salvador, although a number are "on hold" because of local violence. One project works with FESACORA (Federacion Salvadorena de Cooperativas de la Reforma Agraria) on the organization and management of the federation. The following are representative of the technical assistance activities this group is engaged in with its client groups:

- managerial and accounting assistance
- feed mill and feed lot operation
- cattle raising supervision
- henequen production, processing, and marketing
- vegetable production, processing, and marketing

This U.S.-based consulting firm has received 26 requests from other cooperatives asking for the development of technical assistance projects for them. Ten of these requests are being investigated in detail; most are in the reform sector. This pre-study determines if the group is serious about utilizing technical assistance, and the medium-term feasibility of financial self-sufficiency. The firm also finds out if the group is willing itself to invest, right at the beginning, some meaningful share of the required resources for a project. They have made this a pre-requisite for receiving technical assistance in their program.

The general procedure followed by this firm is designed to ensure to the extent possible the ultimate success of the project. Since this firm is only partially funded by A.I.D., it must husband its human and support resources in an optimum fashion. The general process of project selection is as follows:

- receive a written request by an existing and functioning group
- make several visits to group to gather ideas and information
- prepare an organizational, operational, and financial study to be funded and executed by the group with outside credit resources if necessary
- present the program to the group as the firm's proposal for the type, extent, and term of the technical assistance offered
- draw up the formal terms of reference agreed upon in meetings between the group and the firm, and
- present the contract for the firm's services to the group, at which time the group usually must deposit the initial funding to start the project.

This process serves to identify both specific difficulties and precise responses required to establish the group's activity on a solid footing within a certain frame. Since it is contractual, both sides can demand compliance. However it is also participatory, with the express objective that at the end of the project the group be able to continue the activity without the consulting firm. Probably the major element for success that this approach contains is the commitment to fully train the group so that future technical assistance for the stated activity will not be necessary.

PART THREE

CHAPTER 7

LAND REDISTRIBUTION UNDER PHASE III (Decree 207)

After Phase I, the expropriation of holdings over 500 ha., the government postponed implementation of Phase II (holdings between 100 and 500 ha.), and moved directly to Phase III. This is a program for tenants, somewhat reminiscent of the post-World War II land reforms in Japan, Korea or Taiwan. Phase III, also known as Decree 207, its implementing legislation, gives tenants the opportunity to buy the land they have been farming, on long term credit and at a price related to the income-producing potential of the land.

The owner does not really have a choice in the matter; the process begins when a tenant fills out an application with FINATA, the agency in charge of this part of the agrarian reform. In successive steps we discuss below, FINATA notifies and negotiates with the owner, verifies the eligibility of the applicant, and issues a provisional title which enables the former tenant to receive agricultural credit. Once the owner has been compensated and title transferred to FINATA, it then issues a definitive title to the beneficiary. It is important to understand the dynamics of the implementation of Decree 207, since the decision will be made shortly concerning the possible extension of a cut-off date for applications (presently March 3, 1983).

Tenancy may be found in many kinds and sizes of farms in El Salvador, so there is no clearly defined universe of the farms potentially affected. Likewise, there is no definitive list of potential beneficiaries. One campesino may own one tiny parcel, rent another, sublet a third from another tenant, and do seasonal labor for a coffee grower. It is entirely possible, though infrequent, for a beneficiary under Phase I also to be eligible under Phase III. There is a MAG registry of rental contracts, but it mostly involves large rental agreements, especially of coastal lands to be cultivated with cotton by ad hoc partnerships of investors. These cases are excluded from Phase III, which is limited to campesinos who till not more than 100 hectares, and which limits the land any one tenant can buy to 7 hectares.

A DESCRIPTION OF THE PHASE III SECTOR

Because of these definitional problems, any estimate of the number of potential beneficiaries and the area potentially affected must be based on a variety of assumptions. Past calculations were based on interpretation of the third agricultural census of 1971, which itself has some data inconsistencies. The following examples of estimates demonstrates the range involved.

Exhibit 7-1

Estimates of the Area and Families Potentially involved in Phase III

Hectares	Beneficiaries	Source
178,000	150,000	Paarlberg *et al.*, "Agrarian Reform in El Salvador," Checchi & Co., 1981
94,000	67,000	U.S. AID/ES "Agrarian Reform in El Salvador: Process and Progress," August, 1972
161,000	?	PERA (unofficial estimate), November, 1982

POTENTIAL AREA

The Study Team does not have the data to support precise estimates, but we propose the following as a first approximation. However, PERA plans a survey in January 1983, which should help determine the extent to which the target population has been reached.

We began with an interpretation of the stratification of properties reported in the 1971 agricultural census and compared this with a proposed stratification for 1980, the year the Agrarian Reform began. The bases for the 1980 breakdown are the total area of agricultural lands (1,461,000 hectares), the area affected under Phase I (208,000 ha.), and an estimate of Phase II size lands (343,000 ha.). This yields a residual area of lands under 100 hectares (approximately 910,000). About 75,000 hectares are in properties of less than 1 hectare. Since tenants cannot claim lands from persons whose total holdings are 10 ha. or less, unless the owner is a university-trained professional, we assume that no significant number of claims will be filed on these lands.

Next, we assume that about 10 percent of the area (835.000 ha.) in the properties of 1 ha. or more, but under 100 hectares, was rented in 1980 and 1981, and therefore could be affected under Decree 207. This yields 83,500 hectares (6 percent of El Salvador's agricultural lands), to be affected from properties of 100 hectares or less.

There are two other factors to be considered relative to potential area. Because "Phase II" of the Agrarian Reform has not been implemented yet, the area which was rented from persons owning from 100 to 500 hectares is also subject to claims under Decree 207. To date, 12,922 hectares have been claimed from these properties. PERA staff estimate that perhaps 15 percent of Phase II-size lands could be affected, or approximately 50,000 hectares.

Secondly, Decree 842 authorizes FINATA to accept claims and parcel out the ISTA-operated "traditional" cooperatives. The potential area for Phase III was thus increased, although the status of the beneficiary would remain virtually unchanged. Many members of these coops already had signed a purchase agreement with ISTA, though some were still just renting. In either case, they will now deal with FINATA. We assume that 80 percent of the area now in "traditional" coops will be converted, adding another 65,000 ha.

Exhibit 7-2

Study Team Estimates of Potential Area of Phase III

1)	Properties from 1 to 100 ha. (10%)	83,500 ha.
2)	Properties from 100 to 500 ha. (15%)	50,000 ha.
3)	Conversion of "traditional" ISTA coops (80%)	65,000 ha.
	Total Estimated Area	198,500 ha.

POTENTIAL BENEFICIARIES

It is equally difficult to estimate the number of potential beneficiaries of Decree 207. FINATA's data show the average claim so far is for 1.6 hectares. If this ratio holds constant, our estimate of 198,500 hectares would imply that the potential claimants were more than 100,000. However, the land per member on the traditional ISTA cooperatives is more than 1.6 ha., and FINATA is hoping to increase the average parcel size, so we expect that the number of potential beneficiaries will be about 100,000.

PRODUCTION ON DECREE 207 LANDS

Many of the properties being affected under this phase of agrarian reform are small. According to FINATA data, potential beneficiaries file one and a quarter claims on the average, each one of about 1.25 hectares. This yields a total of nearly 1.6 hectares. Most of these parcels were rented from farms of under 100 hectares. Up to December 1982, 35,936 Decree 207 applicants have filed claims for a total of 57,236 hectares (44,314 ha. from farms under 100 ha.). A preliminary FINATA analysis shows that nearly one-quarter, or 12,922 hectares, was claimed from potential Phase II-size farms, averaging 218 ha.

The FINATA analysis mentioned above was designed to provide a profile of the Decree 207 beneficiary and includes a breakdown of how the beneficiary utilizes his land and the income it represents to him. (See Exhibit 7-3.) The principal conclusions are:

- The average beneficiary rents slightly more than 1.5 hectares, and produces basic grain on them. He usually intercrops corn and beans or sorghum.

- Comparing beneficiary yields with national average yields, it appears that most plant hybrid corn, often intercropped with nonimproved sorghum and to a lesser degree with beans.

- Their plots probably have worse soil than average, often on hillsides. Although Salvadorans have the highest levels of use of fertilizers and pesticides in Central America, these campesinos probably used less fertilizer than average for El Salvador, knowing that they would be allotted a different plot to rent next year. Corn and bean yields were only moderate, sorghum was low, and rice yield was very low compared to national standards. If secure tenure in a particular plot does lead to greater investment in fertilizer, beneficiaries should soon obtain yields close to national averages, allowing for soil quality.

- The gross family income from crops was ₡1,519. per year, and the gross income per actual hectare was ₡984. This was about 65 percent of total family income, with the rest coming from wages, handicrafts, etc.

- Using the standards of labor used per hectare of crop (PERA, Evaluacion del Proceso de la Reforma Agraria), this area generated well under the 1980 national average estimated at 159 days per economically active person in agriculture.

- According to nutritional goals in a Ministry of Agriculture document (Plan Agropecuario 1980-1982), a family of six with this land would produce about 1200 kilograms of corn, 160 kilograms of beans, 30 kilograms of rice, and 560 kilograms of sorghum above the amounts needed for its own consumption.

- However, the PERA survey found that the average family sold more rice and less sorghum than predicted, perhaps because the rice brought a higher price. The average amounts sold were 990 kilograms of corn, 110 kilograms of beans, 90 kilograms of rice, and 320 kilograms of sorghum.

According to the 1971 agricultural census, rented farms varied by size in the proportion of land used for growing basic grains. The smallest rental category in the census (average size 0.6 hectares) had 91 percent of its land in these crops. The next category (up to 10 hectares in size, with an average of 1.8 ha.) put 88 percent of its land into basic grains. The larger tenant group (average size of 21.4 hectares) used almost one-half the land for export crops, indicating this group was not engaging in subsistence-level agriculture. Furthermore, tenants tilling over 100 hectares would not qualify as beneficiaries under Decree 207; those renting less than 100 ha. are eligible, but could only buy 7 ha. through FINATA.

Some observers have expressed concern that Phase III is "creating a lot of minifundia." We note that these applicants have not been supporting themselves adequately on the plots they rented in the past; most have at least some part-time work off those plots, harvesting coffee or the like. Thus the situation will be no worse, and with the security of property rights, they may well be able to plant trees, conserve the soil, and otherwise find more productive work to do than previously, on these tiny plots. A change in tenancy is not expected to change the way these lands are utilized overnight. Given this evidence, we conclude that the lands potentially affected under Decree 207 have and will continue to produce mostly basic grains. FINATA staff express hope that secure tenure, access to credit, and technical assistance will lead to increased productivity of these lands.

IMPLEMENTATION

The principal GOES agency responsible for implementing Decree 207 is the Financiera Nacional de Tierras Agrícolas (FINATA). Other agencies are involved in the process, such as the National Geographic Institute (IGN) for land surveys, MAG, and various agencies of the Finance Ministry.

Initially, Decree 207 assigned the primary responsibility to ISTA but by the time other needed enabling decrees for 207 were promulgated eight months later, ISTA was busy administering Decree 153 (Phase I). Decree 525 (Dec. 11,

Exhibit 7-3

Decree 207 Beneficiaries: Sample Survey Results

	Survey Totals				Per Beneficiary		
	Area Hectares	Production Metric Tons	Yield MT/HA	·Value ₡	Area Hectares	Production Metric Tons	·Value* ₡
Corn	28,315	49,589	1.75	24,670,660	1.0	1.7	843.
Beans	8,362	5,831	0.69	10,118,306	0.3	0.2	345
Rice	1,378	3,059	2.22	2,240,210	0.0*	0.1	77
Sorghum	17,334	17,433	1.01	5,334,873	0.6	0.6	182
Other	--	--	--	2,093,173	-	-	72
Totals	55,389	75,912	1.37	44,457.222	1.9**	2.6	1,519

Notes: Preliminary data from PERA study cited below, based on a sample of 1,073 families, (direct beneficiaries) and expanded to represent FINATA's total of 29,265 beneficiaries at that time. The sum of hectares by crops results in more than the actual total (45,191 hectares) because of intercropping.

Source: PERA "Perfil de Beneficiarios del Proyecto 207," December 1982.

MAG/OPSA Plan Agropecuario 1980-1983: "Metas de Consumo por Habitante".

* Less than 0.05 hectares.
** When adjusted for intercropping, total is under 1.6 hectares.

1980), therefore created a new agency, FINATA, to administer the Phase III reform. FINATA receives the Decree 207 applications, evaluates them, and arranges for compensation to previous owners and the issuance of titles to the campesinos. Under present law FINATA has no continuing management or other service functions other than collecting the amortization payments. Unlike ISTA, FINATA is not charged with co-management responsibilities, nor with providing technical services to the new landowners. However, FINATA's president and staff consistently told the Study Team that there will be a long-term coordinating role for technical assistance and supervised credit to Phase III beneficiaries that FINATA would be uniquely qualified to deliver.

Decree 207 had a cut-off date of March 3, 1982 for receiving applications for land purchase. On February 9, 1982, this was extended to March 3, 1983, after it was evident that the number of applications filed in 1981 was far below expectations. As of December, 1982, there was some speculation that this date might be extended again, at least for Departments affected most severely by the nation's civil conflict.

The execution of Decree 207 involves three basic, sequential processes:

(1) Provisional titling, which represents de facto implementation of the reform. This conveys secure usufruct rights and provisional property rights.

(2) A field inspection generates a survey and most of the primary information essential to definitive titling.

(3) Issuance of a title, providing de jure implementation, institutionalizing secure rights and defining the responsibilities of beneficiaries and payment of compensation to the affected landowners.

The 207 program is a whole process involving a number of coordinated steps; the process begins when a potential beneficiary files an application for preferential title to the land he tills. There is an important difference between Decree 207 and Decree 153 (Phase I) which is based on the total number of hectares owned by a single owner. Under Decree 207, it is the tenure arrangement which justifies the land redistribution, and the tiller's application initiates the process. Without applications, there would be no land reform under Decree 207.

(B) FINATA'S ORGANIZATIONAL STRUCTURE

Currently, FINATA is structured to address the numerous facets of its mandate. It has over 300 employees and 14 field offices. FINATA's central office houses the Presidency and six functional Departments: Legal, Planning, Communications, Administration, Logistics and Finance. There is also an office of Engineering. Four regional offices supervise offices in each Department capital. The Departmental offices are staffed with a Director and two Sub-directors: one for "legal transactions" and the other for "agricultural committees." Each "agricultural committee" at the Department level is supposed to employ an agronomist, a soil scientist and one employee of the National Geographic Institute (IGN), paid by IGN.

The "agricultural committees" are supposed to follow up Decree 207 applications by locating the parcels of land a person has filed for, using aerial photos provided by the IGN, in relation to neighboring plots. The Committee goes to the field to: (1) measure (survey) the parcel, (2) make a soils classification, which is used to establish the price the beneficiary will pay for the parcel, and (3) verify the ownership or tenancy status of neighboring parcels of land. (The amount of compensation paid the ex-owner is based largely on the property value stated by the owners in their tax declarations filed in 1976 and 1977.) The group also fills in a form with other socio-economic data which provides a basis for individual credit plans, usually with the Banco de Fomento Agropecuario (BFA).

FINATA's local level "legal transactions" unit takes the application, notifies the landowner that there is a claim on his land, informs both the claimant and landowner of the legal process involved, and collects official documents to certify legal ownership of the land in question. The Departmental Sub-director of Legal Transactions is responsible for representing the claimant in civil court in case the owner fights the tiller's claim and is also responsible for issuing both provisional and definitive land titles.

C. PHASE III PROGRESS

The first applications for Phase III were received in the Spring of 1981. FINATA staff, assisted by "promotores" employed by UCS and trained by AIFLD, handed out application forms and helped tenants fill them out. By June, 1981, there were over 12,000 applications filed and the first few provisional titles had been issued. Although FINATA did not reach its goal of granting provisional titles to all beneficiaries in the first year, some progress appears to have been made. By May, 1982, FINATA had received 36,751 applications and 30,215 provisional titles had been issued.

In that same first twelve months, 31 property owners were compensated. The beneficiaries paid $282,854 to FINATA, toward the amortization of their mortgages even before they received definitive titles (and the corresponding mortgage debt). Though no definitive titles were issued in the first year, 6,586 field inspections were made as part of the procedure that leads to definitive titling.

In Exhibit 7-4, we reproduce the monthly reports prepared by the U. S. Embassy, through December 3, 1982.* According to FINATA's latest report, as of that date, some 57,000 hectares, approximately a quarter of the land believed eligible under Phase III, had been claimed. There have been 35,936 direct beneficiaries (individuals who have submitted petitions and have qualified under terms of Decree 207 for title to parcels they had previously worked under a cash rental, sharecrop, or labor service arrangement). Assuming six persons per rural household, there are currently 215,600 total beneficiaries (nearly 10 percent of El Salvador's estimated population of the rural poor, 2,202,700. There have been 46,159 applications filed by 35,936

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* The first reports, through May 1982, are reproduced as printed in L. R. Simon, J. C. Stephens, Jr., El Salvador Land Reform 1980-1981: Impact Audit, with 1982 supplement by Martin Diskin, (Oxfam America, Inc. 1982).

persons. Some applicants rented more than one parcel; they may apply for all of them, subject to the limit of seven hectares. Some 34,438 provisional titles have been issued, and 408 definitive titles have been granted already. Approximately 2,000 former property owners have been paid more than ¢3 million for nearly 2,500 separate parcels, so far, and Phase III beneficiaries have already made 8,133 payments totalling ¢399,030 to apply to the purchase price of their land. Also, as of December 3, 1982, 12,692 field inspections had been completed and 4,775 parcels of land were appraised, a necessary step toward compensation for another 184 landlords.*

D. CONSTRAINTS IN THE APPLICATION PROCESS

After a relatively heavy and steady flow of applications through 1981, the number of applications leveled off and declined rapidly, starting in February 1982. Although the definitive titling process had just begun, it was obvious that FINATA could not accomplish its self-defined goal of 15,000 definitive (final) titles in 1981 and 20,000 in 1982. It was even less likely that FINATA would reach even 50 percent of its original goal of 125,000 total beneficiaries. The crux of these problems appears to be the marked decrease in applications, although the original targets were probably overstated.

Exhibit 7-4 shows how few applications were received in June and July 1982; shortly after the national election. The Study Team heard various theories about the decline:

(1) Some renters may not have filed claims for both economic and practical reasons;*

(ii) To some farmers who have traditionally rented land, longstanding rental agreements represent an assurance of their access to the rented parcel and their opportunity to earn income from it, plus help from the landlord in obtaining seed and fertilizer, and even emergency small loans, when needed;

* These data were gathered by the staff of FINATA, DIECRA and PERA, as well as other MAG functionaries. They are maintained on a very current basis with the aid of a well-organized computing facility at FINATA.

Table 7–4

El Salvador Agrarian Reform Monthly Report[1]
Decree 153

Report #	1	2	3	4	5	6	7	8	9	10	11
Period	6/24/81 to 7/24/81	7/24/81 to 8/25/81	8/25/81 to 9/22/81	9/22/81 to 10/28/81	10/28/81 to 11/24/81	11/25/81 to 12/29/81	1/25/81 to 1/27/82	1/28/82 to 2/25/82	2/26/82 to 3/25/82	3/26/82 to 4/25/82	4/28/82 to 5/27/82
1.	282	315	326	326	326	No report submitted to Embassy	329	329	329	330	329
2.	31,300	32,116	33,237	33,237	34,658		34,728	34,728	34,728	29,755	29,75
3.	217,784	224,812	232,659	232,659	242,606		243,026	208,368	208,368	178,530	178,530
4.	528,678 213,177	547,556 220,789	552,802 222,904	552,802 222,904	552,640 222,839		554,044 223,405	554,045 223,405	554,045 223,405	554,524 223,598	554,31 223,51
5.	33 1,513,497 16,091,560 17,605,057	47 27,866,810	52 2,866,733 31,530,760 34,397,493	56 2,919,650 32,593,360 35,513,010	65 3,245,299 34,463,000 37,708,299		72 4,206,432 40,085,080 44,291,512	85 5,020,630 48,362,880 53,393,510	88 5,108,253 49,878,520 54,986,773	90 5,127,454 50,001,320 55,128,774	9 5,210,17 50,745,80 55,955,974
6.	14 1,272,313 8,984,440 10,256,753	5 75,923 6,454,760 6,530,683	4 52,917 1,062,600 1,115,517	9 325,649 1,869,640 2,195,289	7 961,133 5,622,080 6,583,213		13 814,198 8,277,800 9,091,998	3 87,623 1,515,640 1,603,263	2 29,201 122,800 142,001	1 82,720 744,480 827,200	1 227,468 9,097,920 9,325,40
7.	47 27,866,818	52 2,866,733 31,530,760 34,397,493	56 2,919,650 32,593,360 35,513,010	65 3,245,299 34,463,000 37,708,299	72 4,206,432 40,085,080 44,291,512		85 5,020,630 48,362,880 53,383,510	88 5,108,253 49,878,520 54,986,773	90 5,127,454 50,001,320 55,128,774	91 5,210,174 50,745,800 55,955,974	101 5,437,660 59,843,7 65,281,3
8.	64 3,790,358 35,642,044 39,432,402	73 4,356,355 42,046,683 46,403,038	92 5,435,778 50,170,420 55,606,258	114 5,714,327 65,150,960 70,865,287	112 4,829,012 60,423,920 65,252,932		102 4,046,927 53,999,800 58,046,727	112 4,316,739 68,444,684 72,761,423	113 4,616,717 69,283,364 73,900,081	133 4,306,542 78,657,844 82,964,386	122 3,890,0 69,648,0 73,538,173
9.	171	190	173	147	142		142	129	126	106	1
10.	0 0 0	1 0 1	1 1 0	1 1 0	2 1 1		3 2 1	4 3 1	4 [illegible] 0	6 4 2	7

Source: *AID, El Salvador Agrarian Reform Monthly Report, 6/12/81 to 5/27/82*
1Report # 12 data (5/28/82 to 6/28/82) arrived too late to be included in table. 1. 328, 2. 29,755; 3. 178,530, 4 A. 554,310, B. 223,512; 5. 101, A. 5,437,660, B. 59,843,720, C. 65,281,380; 6. 16 A. 748,276, B. 11,245,960, C. 11,994,236; 7. 117 A. 5,665,128, B. 71,089,680, C. 76,754,808; 8. no data, 9. 97; 10. 7 A. 6, B. 0.

Key to Monthly Report

1. *Total number of Phase I properties*
2. *Cooperative members*
3. *Total number of beneficiaries*
4. *Land area affected*
   - *A. In acres*
   - *B. In Hectares*
5. *Property owners compensated as of last period (in $'s)*
   - *A. Compensation paid in cash*
   - *B. Paid in bonds*
   - *C. Total*
5. *Property owners compensated this period (in $s)*
   - *A. Paid in cash*
   - *B. Paid in bonds*
   - *C. Total*
7. *Total compensation to date (in $'s)*
   - *A. In cash*
   - *B. In bonds*
   - *C. Total*
8. *Additional properties approved for compensation settlement (in $'s)*
   - *A. In cash*
   - *B. In bonds*
   - *C. Total*
9. *Properties pending compensation approval*
10. *Property titles issued to coops (cumulative)*
    - *A. Last period*
    - *B. This period*

Table 7-4a

Decree 207 Land to the Tiller

Report # / Period	.... 12 .... 5/28 to 6/28	.... 13 .... 6/28 to 7/30	.... 14 .... 7/30 to 8/26	.... 15 .... 8/27 to 9/29	.... 16 .... 9/30 to 10/28	.... 17 .... 10/29 to 11/29	.... 18 .... 11/26 to 12/3
1. Number of Direct Beneficiaries this period 1/		344	577	649	1,144	2,828	1,032
Cumulative to end of period	29,362	29,706	30,283	30,932	32,076	34,904	35,936
2. Total Number of Beneficiaries (estimated) (= direct beneficiaries x 6)	176,172	178,236	181,698	185,592	192,456	209,424	215,616
3. Land area affected							
a. in acres	119,420	121,100	122,680	126,675	128,802	137,528	141,888
b. in hectares	47,768	48,850	49,488	51,099	51,957	55,477	57,236
c. # ha/direct beneficiary	1.63	1.64	1.63	1.65	1.62	1.59	1.59
4. Applications filed for titles by potential beneficiaries 2/							
a. applications filed this period	-1.05	~~1.55~~	~~6.45~~	~~7.34~~	1,268	4,925	1,351
b. cumulative to date	36,856	37,235	34,881	38,615	39,883	44,808	46,159
5. Provisional titles granted							
a. # granted this period	1,225	269	399	204	1,198	263	25
b. cumulative to date	31,440	32,349	32,748	32,952	34,150	34,413	34,438
6. Definitive titles granted							
a. number granted this period	103 3/	148	-0-	-0-	157	-0-	-0-
b. cumulative to date	103	251	251	251	408	408	408
c. number of parcels transferred	151	332	332	332	N.A.	N.A.	N.A.
7. Former Property owners compensated 4/							
a. this period	1	4	1	27	18	23	17
b. cumulative to date	8	12	13	40	55	81	98
8. Total compensation paid ex-owners this period ($)	38,502	25,978	41,094	919,879	468,826	602,335	586,836
a. number of affected parcels	96	114					
b. number of beneficiaries of compensation	76	80					
c. cumulative compensation paid	$ 494,686	520,664	561,750	1,481,637	1,950,463	2,552,798	3,139,634
d. cumulative number parcels affected	298	412	448	1,345	1,975	2,362	N.A.
e. cumulative number of beneficiaries	243	323	348	1,037	1,471	1,901	N.A.

9. Voluntary payments by 207 holders this period(#)	31	247	525	312	406	465	N.A.
a. amount of voluntary payment ($)	24,185	11,309	18,963	13,216	19,168	23,028	N.A.
b. cumulative # voluntary payments	6,042	6,289	6,814	7,126	7,532	7,997	8,133
c. cumulative payments ($)	307,039	318,349	337,312	350,528	369,696	392,724	399,030
10. Field Inspections Completed this period	431	616	993	1,619	806	1,295	345
cumulative	7,017	7,633	8,626	10,245	11,051	12,346	12,692
11. Land Valuations Completed, # of properties	N.A.	N.A.	73	133	154	177	184
number of affected parcels	N.A.	N.A.	2,351	3,589	4,057	4,300	4,775
12. Number of 207 beneficiaries evicted to date	N.A.	N.A.	4,682	4,754	4,763	4,789	4,792
number of properties affected	N.A.	N.A.	532	559	566	579	582
13. Number of 207 beneficiaries reinstated	N.A.	2,138	2,331	2,425	2,430	2,433	2,437
number of properties affected	N.A.	190	216	256	257	256	259

1/ Direct beneficiaries are defined as those individuals who have submitted petitions and have qualified under the terms of Decree 207 for title to parcels they had previously worked under a cash rental, sharecrop, or service rendered arrangement. An applicant may submit petitions requesting the transfer of more than one parcel provided that combined transfers to any one individual do not exceed seventeen (17) acres or seven (7) hectares, on total transfers.

2/ Applications filed for titles by potential beneficiaries (claimants) of Decree 207 who will be checked for qualifications. An application is required for each separate parcel of land. Some potential beneficiaries would file more than one application.

3/ First period that any final (called definitive) titles were granted to the 207 beneficiaries.

4/ FINATA has been compensating affected landowners with 50 percent cash and 50 percent agrarian reform bonds (30 year maturity, bearing a 5 percent annual interest) a practice consistent with terms of Decree 207 and 220, which stipulate that the compensation formula for affected land owners with less than 100 hectares will be 50 percent bonds. For affected land owners with holdings in excess of 100 hectares, the formula is 25 percent cash and 75 percent bonds.

N.A. = Not Available.

Table 7-41

(ii) Some landlords have intimidated tenants and coerced them into not applying for their rented lands;

(iii) Some tenants rent from friends, family members or their economic peers and feel obligated not to claim these parcels, and

(iv) Some potential beneficiaries are unaware of Phase III or live in insecure areas where implementation has been difficult.*

In addition, some tenants move from one parcel of land to another every 2 or 3 years and follow a crop rotation system. They may believe that they could receive title to one piece of land and remain on the parcel for thirty years, being trapped in a vicious circle of soil depletion, increased agricultural inputs (fertilizers and pesticides) and decreased income and crop yields. Other campesinos, however, see secure ownership as an opportunity to improve the land, which is hardly feasible when they were forced to move every year.

(2) In some cases the tenant's homes are not located on or near land they rent but on other sites in the landlord's property, for which they do not pay rent. To file a claim would almost certainly mean that the tenant would be evicted from his home, without compensation, since the land and all improvements built on it belong to the landlord.

(3) There was a lot of uncertainty about the government and its action. In January 1982 the campaign began for the March 28, 1982 election of a Constituent Assembly. Agrarian reform and its implementation were addressed by several political parties with diverse points of view, some strongly against the continuation of land distribution. Agency staff also tended to go slow on implementation, pending the election outcome and clear policy directives from the new government.

4) The drop in applications may also reflect the confusion associated with Decree 6 (passed May 18, 1982). The initial stated intent of this law

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* This first set of theories appears in U.S. AID/El Salvador, "Agrarian Reform in El Salvador, Process and Progress," August, 1982, p. 29.

Exhibit 7-5

FINATA's Original Goals for Phase III (Decree 207) of the Agrarian Reform

Year	Area (has.)	No. of Definitive Titles	Percent
1981	21,600	15,000	12
1982	28,800	20,000	16
1983	43,200	30,000	24
1984	43,200	30,000	24
1985	43,200	30,000	24
TOTAL:	180,000	125,000	100

Source. FINATA, Plan de Implementacion de Decreto 207, March 1981.

was to encourage the production of cotton and sugar cane by minimizing the uncertainties and reducing the perceived risks relative to the rental of cotton and sugar cane land. The law in essence exempted this land from Decree 207 claims. Since tenants could not claim this land, it was assumed that landlords would be willing to rent it as before and therefore no land would be held out of production just because the landlord was unable or unwilling to farm it directly. However, the legislation that passed the Assembly also expanded the suspension to include lands rented for basic grain and livestock, which covered just about all the land and so was widely interpreted as a de facto repeal of Phase III.

The Assembly then reversed itself somewhat, passing Decree II on May 27, 1982. It explicitly guaranteed the rights of actual and potential Phase III beneficiaries:

> Protected are: (a) those beneficiaries who have been issued a provisional or definitive title by FINATA; (b) those with pending title petitions initiated prior to May 18, 1982, and (c) those potential beneficiaries enjoying "tenancy" on May 6, 9180, and qualifying as reform beneficiaries but who had not submitted a petition at the time the amending legislation was enacted.

The term "tenancy" has generated some legal controversy, particularly as it might be applied to used to disqualify evictees, who would not be in physical possession of a piece of land as the result of eviction, even though eligible in every other respect. The Study Team has not heard any instances in which such an interpretation has been used to disqualify an applicant, however.

(5) Another explanation for the decline in applications may lie in the climate of violence. Because the potential Phase III beneficiary must "step forward" to initiate the reform process, this entire phase is very sensitive to threat, intimidation or violence by landlords.

(6) A few critics suggested that all qualified beneficiaries had already applied; as stated above, there is no list or other basis for an accurate estimate of potential beneficiaries. After talking with applicants, and with other tenants who were just standing around the area trying to decide whether to apply, the Study Team considers this theory extremely unlikely.

(7) We believe that there are still many potential beneficiaries to be enrolled. Some potential Phase III applicants were evicted from parcels of land to which they are entitled, and not all have yet been reinstated. (Since many do not live on the parcel, eviction often merely means that the landlord refuses to rent any plot to the tenant this year.) The exact number of evictions is unknown. FINATA estimates 900 evictees prior to the March election and puts the number at 4,792 as of December 2, 1982. About half have been reinstated (see Exhibit 7-4). Estimates made by UCS tend to be much higher, to the point of implausibility. PERA's recent survey estimates that 8 percent of the Decree 207 beneficiaries (or about 2,600) have been evicted, with the greatest number occurring in Region IV. Evictions represent a serious threat to the validity of the Phase III reform process, and also discourage potential beneficiaries from making application.

(8) Finally, without a doubt, one reason applications were so low in June 1982 was a direct order by the Minister of Agriculture telling FINATA not to receive new applications from eligible beneficiaries. This order was announced May 18, 1982, the same day Decree 6 took effect. It wasn't until June 3, 1982 that the order was later reversed and FINATA again began accepting applications. (The low numbers for June mainly reflect a normal delay in the posting of statistics in FINATA's central office.)

E. FINATA'S MOBILIZATION CAMPAIGN

As shown in Exhibit 7-5, Decree 207 applications began to rise in July 1982. One factor may have been the changes in the provisional government and the appointment of a senior officer as President of FINATA. The general staff of the military and department commanders of the Armed Forces also encouraged applications by reinstating Decree 207 beneficiaries who had been evicted from their parcels. By August, 1982, 2,331 beneficiaries (out of the 4,632 eatimated by FINATA to have been evicted) were reinstated on 216 properties. President Magaña, cabinet ministers and ranking army officers were prominent in attendance at titling ceremonies, and in their speeches, promised to resolve the Phase III implementation problems.*

Although there was a noticeable increase in Decree 207 applications, the absolute number applying was relatively small compared to the expected number of beneficiaries, so FINATA decided to take its program out to the campesinos.

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* Chronologically, on June 2, 1982, government officials and military authorities began the public delivery of land titles. June 4, first definitive titles delivered in a ceremony in the President's house. Also in early June, the military began the well-publicized reinstatement of evicted beneficiaries. On June 14, Col Torres was named President of FINATA. On June 28, FINATA began a radio campaign asking evicted beneficiaries to report to FINATA. On June 21, FINATA began a nationwide media campaign to increase the number of beneficiaries. On July 26, 1982, Decree 13 was enacted, revising the implementing regulations of Decree 207 to facilitate the process.

The mobile teams were typically composed of 4-8 young functionaries, too many to be intimidated by a recalcitrant landowner. In the capital city, the President of FINATA coordinated activities with the Minister of Defense and Public Safety and the Minister of the Interior. Soon 34 promoters were working in teams in Region I, and by November 15, other teams with 14 more began a campaign in Region IV.

Earlier, the FINATA "promoters" reviewed Decrees 153, 207, 6, 11, and 13, and were trained in the correct filling out of the application forms, and on the rights and responsibilities of beneficiaries, ex-owners and FINATA. The first mobilization unit worked in Region I (Depts. of Ahuachapan and Sonsonate) from November 3 to 30, and in Region II (Depts. of La Libertad, San Salvador, Chalatenanago and Cuscatlan) from November 23 to December 5. The second mobilization unit worked in Region III (Depts. of La Paz and San Vicente) from November 25 to December 18, and Region IV (Depts. of Usulutan, San Miguel, Morazan and La Union) from November 15 to December 22. The Study Team observed them in Region I, II and IV.

Another part of the mobilization campaign was "one-on-one" promotion by campesino organizations in the fields. We did not have sufficient time or resources to evaluate the effectiveness of that effort, but applicants whom we interviewed all said that radio was their main source of information about the opportunity to apply. We did see a UCS promoter working outside a FINATA office in La Union, answering campesino questions about Decree 207 and other reform measures. During the Study Team's visit, the UCS promoter also talked to 10 landless laborers who came up to ask how they could get land. The promoter's response was that they should organize a group, sign a petition, and submit it either to ISTA or FINATA, for any land that might become available. The UCS promoter told the Study Team that he no longer worked the villages, "for fear of being shot," but that he felt he could help FINATA's effort by working among the campesinos who were outside FINATA's offices, but undecided whether to enter and sign up.

The mobile teams have clearly stepped up the rate at which new applications are filed with FINATA. From June 28 to December 3, 1982, the number of applications was double the number in the first semester of 1982 (Exhibit 7-6). The bottleneck now appears to be the process that grants provisional and definitive titles to land. There is a big log jam accumulating between completed field surveys and the issuance of definitive titles, which we discuss below.

Exhibit 7-6

Comparison of FINATA Activities During the First Semester and First Five Months of the Second Semester in 1982

	January 29 to June 28	June 28 to December 3
Applications Received	4710	9079
Provisional Titles Issued	9598	2358
Field Inspections Made	4197	5675
Definitive Titles Issued	103	305
Owners Receiving Compensation	8	90

Source: FINATA

B. FROM DECLARATION TO DEFINITIVE TITLE: A LONG ROAD*

The process of converting tenants of land into landowners is crucial to El Salvador's agrarian reform. When the current authority of Decree 207 for renters to register with FINATA expires on March 3, 1983, it is estimated that close to 60,000 claims will have been registered with FINATA.

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* This section draws heavily on a draft report by Mr. Roger Soles.

Via Decree 842, FINATA will also be responsible for the individual parcelization and issuing of titles to as many as 14,000 members of those ISTA "traditional cooperatives" which have been determined to be not economically viable as production cooperatives. FINATA may also buy land, currently "frozen" so far as sale to anyone else is concerned, in the 100-500 hectare range. In sum, FINATA will play an important role in widening El Salvador's agrarian reform to include the largest possible number of beneficiaries.

It will not be easy, however, to deliver many definitive, registered titles to land. The land titling process is cumbersome and severely constrained by an archaic system that does not register land by area, but registers all land in chronological order of transactions, indexed by the owner's name. Instead of being able to say that such and such a parcel of land has had these owners, the registry says "This person has had these pieces of land." This system was perhaps useful when the number of people who "mattered" was only a few thousand, but today it is hopelessly obsolete. Most other countries now keep records based on the property unit, recording the sales, divisions, mortgages, etc., that each unit undergoes. In the Salvadoran system, the landowner rather than the land, has been the focus.

At a glance the procedural steps in implementing Decree 207 look relatively simple but, in essence, they are very detailed and an overwhelmed staff is running about two years behind in processing land transfers. The basic steps are listed in Exhibit 7-7.

Exhibit 7-7

Steps in Implementing Decree 207
(Phase III)

Administrative Steps	The Process for the Tenant
1. Identify tenants who have the legal right to claim a particular parcel of land;	1. Application filed - receipt issued
2. Identify that parcel and prepare a legal description;	
3. Identify the current owner;	
4. Determine the land's value;	
5. Negotiate agreements or administratively resolve any disputes;	
6. Record the action into the cadastral system;	
7. Register this transaction in the land registry records;	
8. Issue a provisional title;	2. Receive provisional title
9. Publicize these provisional transactions to notify others who believe they have rights to the affected land, providing an opportunity to contest it;	
10. Open account through which the beneficiary will make amortization payments and pay applicable taxes;	3. Receive definitive title
11. Establish records to compensate former land owners; and	
12. Issue bonds and make cash payments.	

Note: The provisional title may be issued before steps 4 through 7 are completed. However, before the definitive title may be issued, all the remaining steps must be done, including field inspections to complete the necessary verifications.

Source: AID, "Implementation of the Program," March 30, 1981.

1. Application and Registration. The application process itself consists of 15 specific steps. The result is a certificate that the claimant was indeed an eligible renter during the time period specified by the law, did not own more than 7 hectares of land, etc. This process terminates with the issuance of a "Provisional Title," usually stamped right on the back of the original application. The provisional title assures the former tenant of the right to cultivate that land and reap the harvest, which represents "de facto" implementation of the reform. Provisional title also provides the holder with easier access to the BFA for production credit, replacing the letter from the landlord which the BFA usually demands before financing tenants. The Study Team heard second-hand reports of a few cases where a provisional title holder was denied BFA production credit, but was unable to confirm or refute the reports. It is also possible that the applicants in such cases were rejected for other reasons, such as bad previous credit records, or tardiness in applying, or the inability of the BFA to do field verification because of the civil conflict in the area.

2. Compensation. FINATA's Departmental "Legal Transactions" offices attempt to confirm with landlords that the claimants were indeed renters of the specified parcel during specified periods. The landlord is then invited to request compensation for those specific parcels. This process itself consists of 15 to 19 individual steps, depending on the landlord's willingness to cooperate in the process. FINATA encounters significant resistance, and only 923 landlords have agreed to enter into indemnization proceedings as of November 29, 1982. FINATA estimates that 20 to 35 renters are registering on

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* This system is described in Alfredo López-Calleja P., "El Problema del Sistema Registral Inmobiliario de El Salvador frente al Otorgamiento de Títulos Originado en la Aplicación del Decreto 207," Servicios Técnicos del Caribe, USAID/El Salvador, November 1982, p. 15.

an average affected property. Therefore, we estimate the number of landlords who must be compensated, for the 46,000 applicants to date, as somewhere between 1300 and 2800.

3. <u>Field Inspection</u>. This stage includes 22 steps covering property location, identification and measurement for valuation. During this stage the Instituto Geográfico Nacional (IGN) enters the process, supplying aerial

Exhibit 7-8

Phase III Properties Surveyed by November, 1982

Department	No. of Parcels Identified	Number of Landowner Properties Completed*
Ahuachapán	1,967	56
Santa Ana	1,976	35
Sonsonate	1,920	36
Chalatenango	123	17
La Libertad	1,911	50
San Salvador	413	12
Cuscatlán	139	13
La Paz	900	35
Cabañas	457	9
San Vicente	277	13
Usulután	550	42
San Miguel	458	23
Morazán	613	22
La Unión	521	4
Totals	12,225	367

* A property survey is considered completed when all the parcels of one owner that have been claimed are surveyed. Source: FINATA - December 1982.

photographs and technical personnel for the Field Inspection Team (called "Comite Agrario"). In actual practice, however, the IGN personnel are in very short supply. Unlike ISTA and FINATA, IGN did not receive any additional financial resources to handle the increased workload created by the agrarian reform. The result is obvious; see Exhibit 7-8.

On a more mundane level, the IGN is also behind in filling FINATA requests for aerial photos. The problem is one of developing an efficient means of borrowing, using, and returning the photographs for the next users.

4. Determination of Land Values. Before FINATA can obtain title, and hence grant definitive titles to its beneficiaries, it must compensate the former owner. The first step is to fix the value of the entire area affected by the renters. The chief weapon of the landlords is the threat of filing a civil suit demanding higher compensation. Owners often threaten to sue, knowing that FINATA is under pressure to move quickly to give definitive titles to the campesinos. However, there is sometimes pressure on the owner as well. Specifically, even though he no longer has the land, his bank loans continue, and he has to pay interest, until he and FINATA reach agreement and FINATA pays the bank. In some cases, FINATA's valuation of the land, and hence the compensation, is less than the mortgage debt secured by the land. In other words, the owner would be paid by FINATA for his land, but it would all go to the bank and he would still owe money. Apparently, in 1978 and 1979, land values were highly speculative, and many owners borrowed heavily but did not invest the proceeds in the land. Exhibit 7-9 gives a breakdown of the 207 lands by size and loan status as of November 30, 1982. About 25% of the lands acquired by FINATA were pledged as security for bank loans.

By law, compensation is based on the average of the owner's 1976 and 1977 tax declarations. In the absence of a 1976-77 tax declaration, the former owner's compensation is determined by FINATA on the basis of the land's soil

Exhibit 7-9

Ownership of FINATA "207" Lands
By Size and Loan Status November 1982

Size Category	Without Mortgage	With Mortgage	Total
Less than 18.2 ha.	336	82	418
18.3 - 35.0 ha.	82	36	118
35.1 - 52.5 ha.	49	19	68
52.6 - 70.0 ha.	41	18	59
Larger than 70.0 ha.	132	71	203
Total	640	226	866

Source: FINATA, November 30, 1982.

Notes: The largest single property listed without a mortgage was 980 hectares and the largest single property with a mortgage was 703.5 hectares. FINATA plans to pay first those owners of small holdings that have a a mortgage outstanding.

type and classification. The picture is complicated by the problem of determining the value of that fraction of the farm which has been affected by Decree 207. Thirty-nine (39) steps have been identified in the process; FINATA's Departmental "Comites Agrarios" carry out 10 of the 39 steps and the central Engineering office in San Salvador is responsible for the remainder. Finally, FINATA's Board of Directors has the final authority to set the value FINATA will pay the owner -- except that the owner can still go to the civil courts, with the consequent problem of delay, disorder and possibly corruption.

5. Payment and Title Transfer to FINATA. Once the land value is determined, the landlord must be compensated and the title of the portion of the property affected transferred to FINATA. This stage has 23 consecutive steps and involves FINATA's Central Judicial and Financial Departments, and the relevant Department Judicial sections.

"Clearances" of any outstanding taxes or debts due on this particular property must be sought from the Central Direct Tax Revenue Department, The National Banking System and the National Registry System. Any liens against the landlord's property must be settled "ex-ante" by FINATA by delivering bonds to the relevant bank, creditor, or tax office. FINATA should also determine if the ex-renters have made rental payments to the landlord after filing their claims; if so, these must also be subtracted from the indemnization paid by FINATA to the landlord and the amounts to be paid FINATA by the beneficiaries.

If the landlord does not agree on the amount of the indemnization, or on the portion to be paid in cash and in bonds, then FINATA must publish the value it has determined in the "Diario Oficial." After 30 days, if the landlord still does not appear to claim his compensation, then FINATA deposits the sum -- both cash and bonds -- in his name, in the BFA. Thereafter, FINATA can claim title even if the ex-owner refuses to sign the papers.

Thus far FINATA has completed 79 legal "Acts of (land) Transfer" which have indemnized 82 former landlords. Consequently of the 177 properties appraised as noted earlier, 73 are still in this stage of the land transfer process.

The Study Team was told that FINATA's legal personnel can complete the necessary documentation at the rate of one property per day, in the legal aspects, and two a day for the necessary financial documentation. This rate seems unrealistic. It is surely only possible if other FINATA staff have already collected all the necessary information, documents, and clearances, and if these are all in order, but in those utopian conditions they ought to be able to do several more cases in a day. The Study Team was told that for FINATA as for ISTA, many of the properties turn out to be incorrectly registered in the National Register.

Once all of these problems are overcome and the compensation received by the landlord, or at least deposited in a bank in his name, FINATA needs to have the title legally registered in its name with the land Registry System, before it can proceed to the next step. The recent AID consultant's report on the land registration procedures, cited previously, points out the tremendous backlog of title applications facing the National Registry System from just the "normal" operations in El Salvador. Well over 100,000 documents concerning business licenses, mortgages, and titles and other transactions which must be legally registered, are still waiting processing.

Under the century-old procedures in force in El Salvador's Registry, the normal legal registration procedures include 15 major processes and 44 specific sub-processes, which generally consume approximately 11 months of time. Thus far, however, FINATA has been able to get the Registry to give special priority to registering titles in its name, without waiting the "normal" eleven months for this to happen. (Much of the delay originates when documents are mislaid in a chaotic work room; FINATA and other government agencies station several of their own staff in the Registry just to keep track of papers that interest them, and to keep them moving along.)

6. Adjudication of Parcels to Beneficiaries. During this "final" stage of FINATA's land transfer process, its Central Office Departments of Finance, Engineering, Law, and its Board are again involved, as well as the Departmental Offices. In this stage of the process, the technical cadastral work is completed, a farm mortgage payment schedule is determined and approved, and a definitive title is issued to the beneficiary. The title and the mortgage are then legally inscribed in the National Land Registry. Seventeen specific steps are required in this process, and six central office staff work on these tasks.

Four technicians in the Finance Office prepare farm mortgage schedules for each parcel. Thus far this office has prepared mortgages for 947 individual parcels, carved out of 44 properties. At the time of our visit, they were working on the individual parcels located on 35 more properties which have been legally registered to FINATA or for which "Actas de Transferencia" have been drawn up and approved. Usually these technicians can process mortgages for all the individual parcels on a particular property in one day.

Two lawyers in the Legal Office then prepare "Model Minutes" which cover all of the individual parcels on a property. They have only completed such Model Minutes for 44 properties, but estimate they could do two a day apiece.

These Model Minutes are then sent to the relevant Departmental Office for processing into definitive titles for the campesinos who registered under Decree 207. The Departmental Offices have completed the legal paperwork processes on 747 individual parcels so far. As of our visit, 408 definitive titles have been given to campesinos and 339 more are ready for delivery.

Although FINATA has been able to get priority for the registration of titles in its name, the registry of the definitive titles for beneficiaries has moved more slowly and none have actually been registered yet. Perhaps it is less urgent; the ex-owner can no longer challenge the rights of the beneficiary at this stage. However, a few other problems have appeared at this stage, so far. In a few cases, the beneficiaries have refused to accept title to the parcels because they believe the price they must pay is too high and they want the debt reduced before they accept title. FINATA staff have also reported problems in getting vehicles to carry out the notification and field visits of the final stage; the vehicles are all being used in the campaign to sign up more potential beneficiaries before the March 3, 1983 cutoff date.

C. DECREE "207" BENEFICIARY ATTITUDES AND CHARACTERISTICS

While the available data on beneficiaries of Decree 207 are based on larger sample sizes then those for Phase I, they come from fewer sources:

- A 259-case sub-sample of the 1978 Rural Poor Study, and
- A national sample survey of 1073 Decree 207 beneficiaries.

RURAL POOR DATA (1978)

Although as a rule they know nothing of export crop cultivation and little of working in large-scale enterprises such as those of Phase I, the ex-renters of Phase III have some relevant experience. They have been renting and working parcels, albeit small, and making managerial decisions. (See Appendix for a comparison of data for the two groups.) Unfortunately, in the Rural Poor comparison study, using data from the same source, the categories reported are not exactly comparable. Nevertheless, it can be seen that the level of land access in the Decree 207 group in 1978 was substantially higher, and that their personal access to credit was twice that of individual potential beneficiaries of Phase I.

PERA "207" STUDY

In early 1982 it became clear that some detailed information on the characteristics of the Phase III or "Decree 207" beneficiaries was needed to help FINATA insure the full implementation of the law. The MAG division in charge of Planning and Evaluation of the Agrarian Reform, PERA, therefore carried out a national level study using a stratified random cluster sample of beneficiaries in all four regions of the country. Because of the civil conflict going on, especially in Region III, the sample in that area was much smaller than in the other areas:

REGION	I	II	III	IV
N =	425	282	50	316

The Appendix Exhibit 7-10 presents some of the data for this broad gauge study of Phase III beneficiaries. The poverty and lack of amenities such as potable water and sanitation are evident.

Since this is the only complete socio-economic study of Decree 207 beneficiaries available at this time, we will discuss some of the items in detail. (PERA plans to mount a second major national beneficiary study in January,1983).

The Decree 207 beneficiaries reported working parcels of land ranging from well below a hectare to over 3.5 hectares. More than half, 54.7 percent, reported renting less than 1.40 hectares -- these are definitely small scale farmers. Less than 10 percent said that they worked more than 3.5 hectares.

The consequences of crystalizing such a pattern of small holders on a single piece of land are yet to be determined. It is not known to what extent rental plots have been rotated in the past or allowed to lie fallow. What can be foreseen with certainty is that by definitely tying the "new" small land holder to a specific plot, more intensive use of that piece of ground is likely to take place now. The consequences may be gradual depletion of soil nutrients, and minerals, and a loss of tilth. But the security of tenure could also lead campesinos to build terraces, plant trees, and adopt conservation practices that would actually be far better for the soil than the previous practice of leaving the land fallow the year after it is cultivated.

Most of the respondents (84%) reported that they paid rent in cash, contrary to the sharecropping common elsewhere in Latin American land rental. This makes it easier for FINATA to collect for the land, since the Decree 207 beneficiaries are accustomed to paying someone in cash for the use of the land.

Most campesinos reported hearing about Decree 207 by radio (70%). Campesino organizations and talking to other beneficiaries were the other prevalent ways of learning about the decree. This confirms that radio is an effective means of reaching the small farmer, including those who are illiterate, in El Salvador.

CROP PRODUCTION

The crops produced by the Decree 207 beneficiaries include the basic grains which small holders traditionally raise for subsistence; 65 percent of the area cultivated by the respondents was in corn and beans, and the other main crop was sorghum.

The responses to the questions "to whom do you sell your crops?" were particularly instructive. Only a small proportion is sold to the IRA (Instituto Regulador de Abastecimento), the state-run agricultural commodity corporation. In field interviews, the Study Team found that far from being the reliable buyer of last resort for the farmer, the IRA was very choosey about quality, and often refused grain. The IRA purchased a substantial amount only in the western region -- 17 percent of the grain sold by Decree 207 beneficiaries. Most clearly prefer to sell to the intermediary who comes right to the plot and pays for the crop on the spot. While this may yield a lower price to the farmer, it eliminated the need for him to hire transportation or to maintain a vehicle himself, clearly not a practical alternative for most Decree 207 beneficiaries.

Nearly half of the sample provided no information on the sale of their crops. This may reflect a lack of surplus over home consumption, or perhaps the use of bartering arrangements, which are frequently arrived at by farmers all over the Third World.

TECHNICAL ASSISTANCE

Only 13 percent reported receiving technical assistance. Of these, most got it from the BFA. This clearly presents a major challenge to providers of this ingredient for successful farming. The Study Team believes that one potential model for addressing the problem is the Solidarity Groups, which have already succeeded as a mechanism enabling many Decree 207 beneficiaries to get access to production credit.

CREDIT

Before Decree 207, 22 percent of the respondents used bank credit; after Land Reform the figure rose to 36 percent. Solidarity groups were instrumental in the arrangements for 24 percent, or two-thirds of the borrowers. Another 24 percent, not now in solidarity groups, said they would like to participate in some organization. If there is to be any efficiency at all in providing technical assistance to more than 50,000 Decree 207 beneficiaries, they will surely have to be dealt with in groups.

Since the solidarity groups are already functioning for credit, the Study Team suggests that the extension service work with them to provide access to new seed varieties and technology. These groups might also be a vehicle for promoting crop diversification, soil conservation, major investments such as terracing, drainage or irrigation, and even cottage industries and small-scale processing.

QUALITY OF LIFE

The level of living items reflect some extremely serious problems for Decree 207 beneficiaries. On the average, half of them are illiterate. Half (51.6%) never attended school at all and another 19 percent went for only one or two years. For all practical purposes, 70.7 percent of the respondents could be considered functionally illiterate. This is a serious constraint for any effort to provide technical assistance to the beneficiaries. The use of radio programs, so effective in attracting the initial sign-ups, may be an alternative, but funding for basic literacy courses and extension materials prepared with ample graphics and symbols may be needed as well.

Access to potable (piped) water and some kind of waste disposal is about at the levels predicted by the Rural Poor sub-sample. The housing conditions are quite simple, although earth floors and wood/mud walls are not necessarily inappropriate in El Salvador's climate.

In summary, the PERA profile of "207" beneficiaries corroborates earlier estimations of the nature of this major group of agrarian reform participants. It also paints a picture of great need and an increasing desire to participate actively in the economy.

One final question perhaps sums up the attitude of the beneficiaries the best, "Do you think that Decree 207 has benefitted you?" The responses were "yes" in terms of access to land, 54 percent, and security of work, 59 percent. Nonetheless, the overwhelming majority (92%) did not think they had benefitted through increased income. Access to land and secure work are much desired in El Salvador, and Decree 207 has responded to this demand.

D. UNRESOLVED PROBLEMS

1. Extension of the Deadline for New Applications. The original period during which potential Decree 207 beneficiaries could file their claims expired March 3, 1982. The deadline was extended for one year, to March 3, 1983. The question will shortly arise, as to whether the deadline should be further extended.

The Study Team is impressed by the quality and effectiveness of the mobile promotion teams that, by going to small towns and villages, make it much easier for campesino tenants to file claims. We talked with campesinos who had just signed up at such sites, and all said that the distance and cost of traveling to the Departmental capital was a factor -- along with intimidation or fear -- in discouraging them from applying before. Some also were reassured on seeing dozens of other campesinos from their area signing up with the mobile teams -- they could see that they were not alone after all, and that the landlords would be unlikely to have them all beaten or killed, in reprisal for applying.

At the same time, the promotion teams have not been able to work intensively in some Departments, because of guerrilla activity. FINATA staff told us that the guerrillas have seldom attacked them, and at times when FINATA promoters have been stopped by guerrilla roadblocks, they have been released with good wishes. Yet we have also heard that in other areas, FINATA vehicles have been stolen in order to conduct hit-and-run raids, and that there are areas where FINATA staff have not been allowed to enter.

A suitable compromise might well be to base the deadline on the percentage of potential beneficiaries signed up. PERA is supposed to make such an estimate in January, 1983, on the basis of a large interview survey. In areas such as Ahuachapan or Sonsonate, where the applicants already approach 80 percent of the estimated potential number, there is probably little need to keep the process open. Individual tenants can still be added, on farms for which claims have been filed by other tenants; FINATA staff told us that the key to starting the process for any given farm is simply that at least one tenant has applied. That has probably happened on every property with a significant number of tenants in the Western Departments.

On the other hand, for much of the Central and Eastern area, the ongoing conflict has prevented the free movement of any agency of the central government, and tenants may be less sure that the Army will be able to protect them. The Study Team has no information as to whether the guerrillas have announced their own agrarian reform in areas that they have controlled from time-to-time, but that could be a further source of problems whenever the armed conflict abates.

In conclusion, we believe it would be appropriate to continue the FINATA registration program in areas with low participation thus far, by extending the deadline for signing up until one year after the civil conflict ceases.

2. Modernization of the land Registry and titling system. The problems of the existing system have been mentioned above, and studied exhaustively in a recent AID Consultant's report.* One of the key recommendations is that the Registry convert from a system based on the name of the landowner, to one based on the piece of property as the basic file unit. The consultants recommend that the Registry commence a new set of records on that basis, just for FINATA transactions, alongside the existing set for all other properties. (For the capital city, however, they recommend a switch for all transactions, effective with all transfers brought in hereafter.) One reason the Registry may well agree to begin with FINATA's transactions is precisely that there will be just three documents to record for each new title: the transfer from ex-owner to FINATA, the transfer from FINATA to the beneficiary, and the mortgage in favor of FINATA. Then for 30 years, except if a beneficiary dies, there will be no more transactions to record affecting that property. Thus the staff of the Registry should be able to start out the new system with minimal complications, and later extend it to all other recorded transactions.

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* Weisleder W., Jaime, and Alfredo López-Calleja P., El Problema del Sistema Registral Inmobiliario de El Salvador frente al Otorgamiento de Títulos Originados en la Aplicación del Decreto 207: Posibles Soluciones, Servicios Técnicos del Caribe, San Salvador, November 1982.

3. <u>The Need for Creation of the Agrarian Courts</u>. No free society can long endure without a working judicial system, and El Salvador's inability to deal with homicide and other crimes is an urgent national problem. The agrarian reform laws contemplate the creation of a special system of agrarian tribunals to resolve disputes related to land. Experience in other countries persuades the Study Team that this would be an extraordinarily good idea for El Salvador, where the government already needs to rebuild the court system to deal efficiently with other criminal and civil matters.

Although the usual reason for creating agrarian courts in other countries has been to facilitate agrarian reform, in practice they have soon found ample caseloads in the resolution of other rural disputes. Before the creation of such courts, the campesino had no access to justice when someone seized part of his land, turned cattle loose in his crops, or the like. Such matters were often dealt with violently, and the poor, unarmed and weak tend to fare very badly.

Agrarian courts are usually established with a panel of three judges, of whom two are agricultural professionals (Ing. Agrónomo, Médico-Veterinario, etc.) and a third is an attorney. In that way, the lawyer looks after procedural due process, while the other members of the court apply their experience and formal training so that the decisions made are reasonable in the real world of the countryside. The courts often go to the scene of the dispute, and hear testimony from neighbors right at the site, thus greatly reducing the cost to the campesinos that have a problem to be settled.

As far as we can determine, nothing has yet been done to set up the Agrarian Courts contemplated in the Salvadoran reform legislation. We recommend that the matter be studied thoroughly and implemented as soon as possible, perhaps as a model for a reform of the court system in general. We believe it will resolve many disputes that now induce violence among individuals in rural El Salvador, and that it will encourage saving, investment, and higher productivity by small farmers because it will greatly increase their security. By improving their welfare, the availability of fair, prompt rural justice may well also slow down the migration of campesinos toward the large cities.

4. The People Left Out. The Study Team is quite concerned about the fact that the agrarian reform legislation does not appear to provide for the substantial number of campesinos who have neither steady employment on large haciendas (Phase I and II) nor rented lands (Phase III). We encountered one group of such landless laborers watching a FINATA signup team in La Union; they were complaining that there was nothing in the process for them. A UCS promoter was on the scene, and signed them up for a group which would then petition ISTA and FINATA to be installed on any vacant land they might come by. This is by no means impossible; in some cases, landowners affected by Phase III have not been utilizing their land at all intensively, and they may well decide to sell the whole property to FINATA instead of keeping whatever part of it is not claimed by tenants.

Some Phase I coops have welcomed more members than they can employ, and are looking for ways to give them work. Nonetheless, it seems appropriate to suggest that both ISTA and FINATA continue to incorporate as many of the landless as possible. This is not a simple task. There is resistance in some Phase I coops to accepting their own sons as they come of age, let alone admitting large numbers of seasonal workers as full members.

In other countries known to members of the Study Team, seasonal workers have often been regarded as a lower class, suitable for helping at harvest time, but not to be allowed close to the regular workers' homes, livestock or women. In such settings, before many of these landless workers can be incorporated into the agrarian reform process, it is sometimes necessary to divide a property into two parts. One will be farmed by the resident workers of the former owner, and the other will be farmed by a group of the landless, assembled by a campesino organization for the purpose.

In order to incorporate the landless into the reform process, it would be appropriate to study and announce a "target" ratio of land to labor force in each department and zone. This ratio would vary according to soil quality, climate, and population pressure. Then, as ISTA negotiates with each Phase I cooperative over credit, investment, relief on the 1980 "emergency" credit, or adjustment of the agrarian debt, it might well insist that the cooperative increase the number of members if it appeared that the present group was trying to keep a larger share by refusing new entrants. Some Phase I cooperatives visited were exemplary in their willingness to add new members, usually with a six month probation period to see if they did in fact "fit in." However, as the cooperatives become more viable business organizations it would be normal for selfishness to appear. A larger number of active members would be a reasonable "quid pro quo" for ISTA to seek whenever the cooperative asks ISTA for help.

The only other solution the Study Team sees for the landless lies in nonfarm employment, and in particular, in agro-industrial integration projects whereby the food and fiber produced by the reform and the non-reform Sector alike are processed into more sophisticated products. This is addressed elsewhere in this Report.

5. Credit Solidarity Groups. We have previously discussed this mechanism for providing credit to Decree "207" beneficiaries. However, only about one-quarter of the eligible are now participating in such groups. The Study Team was not able to explore, in the short time available, which agency would best be able to organize many more solidarity groups, nor what resources this would require.

6. Erosion and Soil Depletion. As mentioned earlier, we are concerned that granting title to small plots on steep hillsides, that were formerly tilled for one year and allowed to "rest" for four or more, will lead to the destruction of soils and massive erosion. When we asked about this, FINATA beneficiaries answered that they were so poor, they would be unable to let any of the tiny parcels they would be assigned go without tilling every year.

We recommend that a specific study be conducted of this issue, and that AID consider assisting with projects for terracing, small dams and soil conservation, in addition to the reforestation programs already under way.

7. Delivery of Extension Services. (See section on Co-management for a discussion of this topic.)

8. The Need to Legitimate and Certify Some Rentals. Decree 207 and its implementing legislation seek to protect campesinos who own small plots and seek to rent them out temporarily, because of illness, injury, or old age. At least in theory, campesinos renting land from other campesinos who own less than 7 hectares, are not supposed to receive provisional title to the land they have been renting. They are eligible for other land that FINATA may have available, but they are not supposed to get their parcel at the expense of a fellow campesino.

In an economy that lacks a functional pension plan for most people, let alone campesinos, the land is often the closest thing the campesino has to a source of a pension. We recommend that the legal studies AID plans to commission shortly, include the research and drafting of possible regulations that would specify the conditions under which land rental is consistent with the objectives of the agrarian reform. The work should then also produce a set of procedures by which campesinos could legitimately rent land from each other without being the basis for a future claim under Decree 207.

9. The Future of Cotton Production. In El Salvador, some export crops have also been grown on rented land, usually in relatively large tracts that are rented by a group of investors in a partnership formed just to grow cotton that year. Because export earnings are critically important to the Salvadoran economy, the legislative body passed Decree 6 in 1982, seeking to exempt land in these ways from the filing of ownership claims by renters. More work is needed on this subject. Were a lot of lands rented for cotton production in 1982/83, under the protection of Decree 6?

In most coffee-producing nations, the average holdings are small and the quality and yields are excellent. Brazil, El Salvador and Guatemala are the exceptions, in which much of the production is organized in large units. The origins appear to be tied to the political and social history of those nations, in which the common people were not allowed to grow coffee in early years.

For both coffee and cotton, various businessmen and landowners told the Study Team that low world prices and a climate of physical insecurity for landowners affect the area planted, new investment, and yields, by more than any reform measure. One coffee producer added that even if Phase II were repealed, prices were favorable and there were no guerilla activity in his area, he probably wouldn't invest in improving his plantation out of fear that "the Christian Democrats were going to win the 1984 elections." He was not typical, however. A reasonable number of other businessmen told us they would invest if the violence halted, confident that any other problems would be manageable.

More work is also needed on the role of cotton gins and coffee processing plants in the agrarian reform. Some critics suggest that the former landowners, by keeping control of many of these, have in effect kept the most profitable part of the business for themselves.

10. The "Swiss cheese" Effect. On many properties affected by Phase III, the terrain is hilly and the soils poor. Some owners rent land to cultivators not only for the cash rent, but also in order to get the land cleared of tropical vegetation without having to pay wages. After the campesino has cleared the land and raised one crop of corn and beans, the land is relatively clear and the landowner's cattle can graze there the following year. The tenant is sometimes required to sow a tropical grass before the year ends as part of the rent.

Since these owners naturally want to get more land cleared in the following year, they routinely move the tenant to another patch each year, stating that the previous year's crop area has to lie fallow in order to "rest" and recover its fertility. The Study Team did not have time to visit enough such properties to be certain how common this pattern is, nor whether soil fertility does indeed require long periods of lying fallow between cultivation years. It does appear from our field visits that owners do not rent out the best lands, nor the parts close to the main farm buildings.

In any event, when FINATA applicants claim the specific plots they were allowed to rent in specific years, as permanent property for themselves, these could leave a map of the original farm looking a lot like a Swiss cheese -- as full of holes. We were told that FINATA usually regroups the applicants for a given property into a contiguous area, with access that does not require an easement across the land remaining to the owner. If this is not done, it certainly should be, from the viewpoint of removing a potential cause of rural conflict and violence. Yet it must be recognized that the beneficiaries may always suspect that somehow in the relocation process, they are being shifted to land even worse than that which they had previously been allowed to rent.

Further research is clearly needed on the organization and farm enterprises of the Phase III farms, and on the impact of Decree 207 actions on them. In many cases, the Study Team believes there will be little or no impact on production in the short run, simply because the former owner did little direct cultivation himself on these marginal soils before the reform. If anything, he may intensify his use of his remaining land, rather than rent out any of it even if other decrees promise exception. In other cases, he may offer the whole property to FINATA, which would relocate the landless to it, as well as applicants who have been renting exempt properties.

CHAPTER 8

PHASE II: ALTERNATIVES FOR 100-500 HECTARE PROPERTIES

There are two categories of lands left, to complete this report's examination of the agricultural sector area and production: lands potentially affected if agrarian reform is implemented for properties within Phase II, and lands that are owner operated and less than 100 hectares in size. The second classification contains all agricultural land the agrarian reform did not intend to affect, approximately 743,000 hectares (51 percent of 1980 agricultural lands). The area owned by cooperatives is also exempted from expropriation, but for practical purposes is being integrated with Phase I and Phase III (ISTA and FINATA, respectively).

Strictly speaking, only the agricultural land not included in the agrarian reform process should be called the "nonreform" sector. However, the "reform sector" is usually defined in published statistics as the Phase I cooperatives only (including the 66 voluntary sales, but not the "traditional ISTA cooperatives" dating before 1980). In many data sources "nonreform" is a catch-all for the remainder, including the lands and beneficiaries of the Decree 207 and the traditional ISTA cooperatives. For the discussion in this section, however, the land in the traditional ISTA cooperatives and the land claimed by the Decree 207 beneficiaries has been moved into the Reform Sector, where it belongs.

1. Phase II Area and Production

This category of lands is relatively well defined, since the owners of properties of this size (between 100 and 150 hectares), have generally taken pains to register their titles. Banks required this if the land was pledged as a guarantee for agricultural credit, which many of these owners utilized.

According to the 1971 agricultural census, there were 1,619 farms between 100 and 150 hectares, with a total of 291,033 hectares, for an average of 178 hectares. By 1980 the official count was up to 1,739 farms with 342,877 hectares, for an average of 197 hectares. Land was becoming more concentrated at this stratum, probably because of the subdivision of larger farms through sale, inheritance, and transfer to children in anticipation of land reform. (This appears to have outweighed similar processes tending to divide 100 hectare farms into smaller units.)

It is well known that farms of the 100-500 ha. range specialized in export crops and cattle raising, although not exclusively. The 1971 census calculated that farms of 50 hectares and over accounted for 55 percent of the coffee planted, 80 percent of cotton, and 66 percent of sugar cane, but only 10 percent of the land with basic grains (MAG "Diagnostico...," p. 294). Estimates made by government institutions for the crop cycle 1980-1981 stated that the Phase II-size farms (100-500) had 30.5 percent of the coffee land, and 30.4 percent of the area in cotton, and 13.5 percent of the sugar cane. Although the resulting areas in hectares vary somewhat from those reported by the Ministry of Agriculture in its annual statistics, nevertheless it is clear that this size farm accounts for a large proportion of the export crops.

The fact that the agrarian reform has not been implemented for Phase II size farms does not mean that these farms have not felt any impact of the reform. ISTA purchased over 11,000 hectares of these lands under Phase I. Also, claims for 12,922 hectares of these lands have been filed by beneficiaries of Decree 207. We estimate that the Phase III claim would reach approximately 50,000 hectares on the (untested) assumption that 15 percent of the area in these farms was rented out to small farmers, in part to ensure their availability as occasional labor during peak periods. If all property owners claim their reserve rights (from 100 to 150 hectares each depending on soil type), they would retain the majority of their land, or about 209,000 hectares. Exhibit 8-1 demonstrates how Phase II implementation might result in only about 70,000 hectares actually being transferred to beneficiary cooperatives or families.

If the above were to take place and the land were transferred to production cooperatives (as in Phase I), the result would be 1,683 coops with an average size of 43 hectares. This results from assuming that the reserve right for these 1700 farms averaging 200 hectares would be the same 100 to 150 hectares as in Phase I, where 262 property owners had an average of nearly 800 hectares apiece. The financial viability of these crops, averaging 43 hectares, would depend on the extent to which the cooperatives concentrated on export crops, and were successful in arranging for inputs, production, processing and marketing. We assume that the previous owner continues to farm his reserve right, probably contiguous to the new cooperative property but often twice as large. The former owner would probably also look to the cooperatives for part-time laborers at peak periods, creating an interdependency that might be constructive, and might not, depending on the individuals involved, and the history of their relationships.

This points out the need to examine carefully the agricultural potential of future cooperative enterprises to prevent the formation of organizations with too limited a productive base to allow viability. Possible actions to minimize the above would include the reabsorption of lands titled under Decree

EXHIBIT 8-1 POTENTIAL AREA AFFECTED BY PHASE II REFORM

	Number of Farms 100-500 ha.	Hectares	Percent of Agric. Lands 1/
Total before Phase I Reform	1,739	342,877	23.5
less			
ISTA Phase I Purchases	66	11,347	
	1,673	331,530	22.7
less			
Potential D.207 Effect 2/	--	49,730	
	1,673	281,800	19.3
less			
Reserve Rights 3/	-	209,125	
Net to be transferred	1,673	72,675	5.0

1/ Agricultural Lands, 1980: 1,460,700 hectares. Includes crop, grazing and forest lands, but not heavy bush land with no current use (matorrales).

2/ Assumes 15 percent of original lands rented and therefore subject to Decree 207.

3/ Assumes 125 hectare average per farm.

Sources: MAG "Plan Agropecuario 1980 - 1983"
ISTA for pre-Phase I area and purchases

207 back into the new cooperative enterprise, thereby increasing its viability. (It is not clear whether this would be possible, legally or politically.) Another possibility would be to have FINATA or another organization parcel the prospective cooperative farm among the beneficiaries, particularly when the area is too small to function well as a production cooperative. In this case, a semi-formal grouping could be used to facilitate beneficiaries' access to credit and technical assistance, such as the "grupos solidarios" of 7-10 farmers, long used by the BFA with considerable success.

There are two more factors to be considered in relation to the impact of a possible Phase II fully implemented. The first concerns the number of potential beneficiaries, about which little is known. The number used by the previous Checchi & Co. Study Team (Paarlberg et al., "Agrarian Reform in El Salvador," 1981) is 50,000 farm families. This is an average of 30 per Phase II-size farm. That report does not state the source of this estimate, and it may be a typographical error. The number of potential Phase II beneficiaries is unknown, and before far-reaching policy decisions are made concerning this stage of the agrarian reform, more information should be collected and analyzed.

If a Phase II would create numerous new farming enterprises, each with relatively few beneficiaries, another organizational mode to consider would be an umbrella organization encompassing a number of nearby cooperative properties. Thus, such an organization could provide the managerial input required by each farm and yet spread costs across a wider base. Obviously, the social, economic, and organization feasibility of such a step should be determined before any action is taken.

The second factor to be considered is the effect a Phase II implementation would have on production. Since a sizeable proportion of the nation's output of export crops comes from this type of farm, the implications of such a structural change should be analyzed. Exhibit 8-2 presents estimates of the land area in export crops in 1980-1981 by agrarian reform phase, expressed as percentages. There are no later estimates of Phase II-size crop area. By this calculation, the implementation of Phase II would result in an increase in the share of export crops planted in this "expanded reform sector." However, the data presented in Chapters 5 and 6 indicate that the share of the Phase I reform sector of these crop areas has actually decreased, though the total area has increased.

The conclusion is that the farms that are owner-operated, based largely on reserve rights in Phase I, have increased the areas planted to these crops, both absolutely and relatively. This may well indicate an increase in confidence on the part of the owner-operator; now that the uncertainty of land reform is over, in their cases. To the same degree that production yields are similar (as projected for 1982-1983) the share of production from these nonreform lands will be greater than the percentages indicated in Exhibit 8-2. If so, the effect of implementing Phase II on export crop production would be small, since the amount of land affected represents a minor part of the total area in those crops.

OWNER-OPERATED LANDS

All farm properties that as of early 1980 were owner-operated and below 100 hectares are not subject to the agrarian reform. "Property" means the sum of lands owned by the same individual, everywhere in El Salvador. The Study Team was told by various persons that a rule of thumb is that about 80 percent of this size farms, ranging from a fraction of a hectare to nearly 100 hectares, are entirely owner-operated and hence not affected by Decree 207.

Exhibit 8-2

PERCENTAGE ESTIMATES OF EXPORT CROP AREAS AFFECTED
BY AGRARIAN REFORM
(Data Base 1980 - 1981)

	Area Under Phase I 1/	Area Under Phase II 2/	Area not Affected 3/
A. Phase I Only			
Coffee	11.7%	-	88.3%
Cotton	33.7	-	66.3
Sugar Cane	37.9	-	62.1
B. Phases I and II			
Coffee	11.7%	11.3%	77.0%
Cotton	33.7	11.2	55.1
Sugar Cane	37.9	5.0	57.1

1/ From Exhibit 6-4

2/ Includes potential Decree 207 lands and net lands to be transferred under Phase II (Exhibit 1) as a proportion of total Phase II-size lands: (49,730 + 72,675) - 331,530 = 37 percent. This factor is multiplied by the estimates of cultivated areas potentially affected by Phase II (Checchi and Company, "Agrarian Reform in El Salvador"): coffee 30.5 percent, cotton 30.4 percent, sugar cane 13.5 percent.

3/ Includes relevant reserve rights and lands under 100 hectares; rental lands from farms under 100 hectares transferred under Decree 207 assumed not to contain significant amounts of export crops.

Data from the 1971 census indicate that for rented farms up to 10 hectares in size, 88 percent or more of the land was planted with basic grains. The next stratum of farm size included farms of 10 to 50 hectares which planted only 52 percent of their land in basic grains. This size enterprise plus those from 50-100 hectares traditionally have provided a large proportion of export crops, as estimated for 1980-1981 in Exhibit 8-3 below.

These data demonstrate that much of the production of export crops is grown on farms excluded from the agrarian reform, except those potentially affected by Decree 207. Survey results on beneficiaries indicate that lands transferred through Decree 207 are overwhelmingly used for basic grains. Therefore, the owner-operated farms will maintain their large share of the production of export crops.

Exhibit 8-3

Area of Export Crop Production Potentially Affected

and Not Affected by Phase II

	Area Transferred or Potentially Transferred (1)	Potential Area of Reserve Rights (2)	Area In Owner-Operated Land (3)
Coffee	23.0%	20.1%	56.9%
Cotton	44.9%	21.9%	33.2%
Sugar Cane	42.9%	11.5%	45.6%

1) Phase I land plus area potentially affected under Phase II.
2) Claimed under Phase I and Potential reserve rights under Phase II.
3) Residual values primarily corresponding to lands under 100 hectares, but also including lands of ISTA's "traditional sector" and other pre-reform cooperatives.

Note: Calculations based on percentages in Exhibit 8-2, areas estimated in Exhibit 8-1, and ISTA data on Phase I area. (See Chapter 6.)

PHASE II: ALTERNATIVES FOR 100-500 HECTARE PROPERTIES

The original Agrarian Reform legislation called for three different phases:

I, which expropriated properties over 500 hectares;

II, which expropriated properties from 100 to 500 hectares; and

III, which enabled tenants to buy the land they rented.

Phase I has been completed, except for the valuation and compensation of some of the expropriated properties, and the main thrust must now be toward consolidation of that part of agrarian reform. Phase III is well under way (see Chapter 7, above). But thus far, there has been no move at all all to implement Phase II. On the contrary, some thoughtful Salvadorans now argue that these farms are the backbone of the country's agricultural production for export, and that many are well-run, modern, highly productive units that should not be affected at all. It is also argued that unless Phase II is repealed, investment will be withheld and production will fall, simply because owners fear that the Phase II will be implemented in the manner as Phase I and they will not be compensated promptly and in cash for recent improvements. Therefore, they supposedly refuse to make the improvements.

What is clear beyond any doubt is that the legal freeze on land transfers of properties 100 hectares and above, has been fairly effective. Owners complain that they cannot borrow against this land, cannot sell it, cannot give it to their children, and cannot dispose of it in any other way either. Even ISTA, which at first bought some 67 properties in this category, is reluctant to accept any more, although FINATA is negotiating with various some owners who wish to sell now.

As the Study Team views the matter, Phase II should be dealt with, as part of the consolidation of El Salvador's agrarian reform. However, we have no evidence to prove that uncertainty has seriously hurt investment or production; in many areas, violence or the threat of violence would inhibit investment even if Phase II were repealed completely. If the GOES does decide to act, there appear to be at least four different ways in which Phase II might be handled:

A. Repeal it completely.

B. Implement it, along the lines of Phase I.

C. Issue a new Decree, authorizing owners to sell parcels of land to eligible persons as defined in the Decree.

D. Implement it, with modifications to combine the advantages of the other options.

In what follows, we analyze the advantages and disadvantages of each of these approaches, and then recommend definitions and simple procedures which in our judgment might be the most effective means of disposing of the matter.

A. REPEAL PHASE II PROVISIONS COMPLETELY

This alternative would please some landowners greatly. However, we doubt that the result would be a prompt and significant increase in agricultural investment and production. For one thing, there are elections planned for El Salvador, for 1984. There would undoubtedly be candidates denouncing the repeal of Phase II, promising to enact a new Agrarian Reform law that would affect those properties. Thus even after repeal, and pending that election, landowners would probably not invest. A further problem, already mentioned, is violence or the threat of violence.

In addition, the recent land transfer activity in farms under 100 hectares suggest that the first results of a repeal could be a rapid move to divide farms among children and other family members, legally, so that in the event of a future agrarian reform law the properties might be small enough to be exempt. According to one lawyer interviewed on this subject, his clients with 60, 80 or 100 hectares believe that some future government might affect properties under 100 hectares as well. However, they believe that with 20 ha. or less, their children's parcels will be safe. Phase II landowners might not go all the way to parcels of 20 hectares of less, but if the law is repealed and land transfers are no longer prohibited, some undoubtedly will divide the land at once among family members.

As in other countries in which agrarian reforms have been carried out, such private sale appears on the one hand to be a form of evasion of the agrarian reform. On the other, if the division is real, and not just on the books, there is empirical evidence to suggest that investment and output per hectare may well rise. As the parcel size becomes smaller, the amount of owner interest and capital, per hectare, tends to rise, and so does output per hectare.

In the agrarian reform carried out in Chile under President Eduardo Frei, a significant number of eligible farms escaped expropriation because they were divided before the effective date of the law. A "before and after" study of productivity found that the parcels yielded significantly more per hectare after division, than before. In other words, in terms of productivity, the "children" (by then adults too) did not do badly at running a piece of their father's farms.

Exhibit 8-4

Productivity per Hectare, Before and After Land Reform, Chile

Type	1965/66	1970/71	Change
Farms not expropriated	8,210	8,641	+5.2%
Agrarian Reform cooperatives	5,329	7,031	+32.0
Farms expropriated and turned into Owner reserves	4,355	8,547	+96.3
Parcels divided privately	5,084	7,906	+55.5

Notes: Productivity figures are expressed in constant purchasing power, and the figures for both years are for the same fields, pastures, etc. Chilean policy under President Frei called for the best-run farms to be expropriated last, and the field data confirms that this policy was carried out; the 1965 productivity of the farms not expropriated was much higher than that of the other farms.

Source: Field research by staff of the Land Tenure Center, University of Wisconsin, and the Chilean Institute for Research and Training in Agrarian Reform (ICIRA).

In other words, the first result of a single repeal of Phase II legislation might be the rapid division of these properties in fear of future reform laws. Such a division might well increase production, employment and productivity, provided the children took direct interest in their parcels and invested in them. Of course, so long as the violence and conflict continue in the countryside, it seems unlikely that anyone, including the children of the present owners of these farms, will invest very much new capital in them.

One major disadvantage of repeal is precisely that some political leaders might then claim that this action "proves" that El Salvador is turning its back on social reforms that favor the poor. The decision would probably have repercussions outside as well as inside the country.

A further disadvantage is that repeal, to the extent that owners then only transferred land to their children, would tell the landless that they no longer had any real hope of ever getting land. This could worsen the present civil conflict, and ensure that peace, civil liberty, and productive investment would be even more remote.

B. IMPLEMENTATION ALONG THE LINES OF PHASE I

Uncertainty could be removed by intervening the Phase II farms at once, in much the same manner as was done with Phase I, but taking advantage of that experience so as to do the job more efficiently. For instance, careful provision could be made for inventories to be made on the very day of intervention, with a representative of the owner present, so that valuation could be completed in a matter of days rather than years.

As in Phase I, workers currently on the properties could be told that they are now the owners of the farms, but probably more stress would be placed this time on the attendant financial responsibilities, on the need to continue working hard and in a disciplined way, and on the option for workers who prefer staying with the "patron," to go with him on the reserve lands. The Study Team believes that most Phase II owners would choose to retain the maximum reserve allowed by law; in the Phase I case, this was 100 hectares to 150 hectares, depending on soil quality and slope. Thus workers would normally have a choice; we assume that most owners would accept those workers who chose to stay with them, but perhaps this should be made obligatory when reserve rights are granted.

One advantage of implementation is precisely that ISTA has the Phase I experience, and could presumably carry out the job efficiently. However, ISTA still has a great deal to do to complete the valuation and compensation arrangements for Phase I. ISTA also is planning significant changes in its arrangements for management and technical assistance to the Phase I cooperatives. It is not at all clear that ISTA is in any condition yet to do this well, let alone take on a thousand new cooperatives.

Another advantage of moving ahead is that ISTA could probably take the opportunity to incorporate thousands of landless workers, who are not eligible to receive land under either Phase I or Phase III. That is, it could -- if it decided to give priority to relieving pressure somewhat -- decree a standard man/land ratio, and tell the new Phase II coops that they had to accept new members until they reached that ratio. Presumably, most would first accept their own sons and relatives, and then seasonal workers they knew and felt most comfortable with. In some cases, it might be necessary to divide the cooperative in two, with one part made up of the workers on the Phase II property who chose not to stay with the old patron, and the other part made up of groups of the landless, organized by CCS, UCS, ACOPAI or other organizations.

However, although ISTA could do this, it is not at all clear to the Study Team that its staff actually would do it unless the Decree specifically ordered them to do so. Implementation of Phase II reform, along the lines of Phase I, could offer at least some relief for some of the landless if ISTA chose to force open a door for them. On the other hand, it may be that the landless now cling to the hope that Phase II will help them, and that if and when Phase II is actually implemented, there will still be so many landless left over that the level of frustration and hopelessness will actually increase, rather than decrease, as a result of the completion of the Agrarian Reform.

Mainly because ISTA has its hands more than full with the follow-through on Phase I, the Study Team does not recommend implementation of Phase II by ISTA at this time.

C. IMPLEMENT REFORM ON A VOLUNTARY BASIS, WITH SELLERS FINANCING ELIGIBLE BUYERS THEMSELVES

One possible solution to the present impasse concerning farms in the 100 to 500 hectare size would be to define eligible buyers in a way that met a wide range of social, economic and political goals, and then authorize owners to sell, but only to those persons or groups of persons. Since ISTA and the banking system are already hard-pressed to serve and finance their present clients, sales would only be allowed if the seller provided the financing himself. That is, banks should not be allowed to lend money to enable buyers to pay cash to would-be sellers.

If those who favor agrarian reform believe that transfers to the children of the landowners are unacceptable, then transfers to relatives by blood or marriage could be excluded explicitly. At least some of the landowners with whom the Study Team has discussed this issue say that they would accept this. They would rather be allowed to sell to individual, enterprising campesinos in their area, than continue not being allowed to sell at all.

To evaluate this alternative, it is important to remember that the campesinos of El Salvador are no more a homogeneous mass than those of any other country that has carried out an agrarian reform. There are campesinos and campesinos. FINATA has discovered that some of its applicants have managed to rent more land than FINATA can legally transfer to them, even though the average renter had very little. Some campesinos have farmed on shares, but most Salvadoran tenants have farmed on a cash rent basis, which is actually more modern and "capitalistic" than rental practices elsewhere in Latin America.

At any rate, the proposal was discussed with several landowners who fell into the Phase II group. Each believed that he could identify energetic, productive and hard-working campesinos in his vicinity, who could take over a parcel of his land and keep it producing quite well. By being able to choose the buyers, they also felt that they could reasonably carry the credit part of the transaction as well. That is, they felt they could choose buyers who would farm well and be quite able to make their payments on a 10-year purchase plan.

In this version of a plan for implementing Phase II, owners would be told to finance the land transfer themselves, and to do it within a limited time period. There would be no State involvement at all, except perhaps to certify that a buyer was in fact a campesino and hence eligible, and to record the transaction in the Registry. However, any owners who did not reduce their holdings to 100 hectares or less by, say, 1988, would know that on or about that date, the excess would in fact be expropriated.

In many cases, owners would probably sell to some of their own employees. In fact, laws in effect prior to the agrarian reform said that an owner who sold farm land was required to offer it first to his own workers. Since they didn't have the cash, it was just a gesture -- but the idea is part of Salvadoran tradition.

To ensure that the land transfer increased, rather than decreased, employment, owners might well be forbidden to dismiss any workers who wanted to stay on, but to whom the owner did not wish to sell. Thus an owner would be able to get his unit down to 100 hectares but would be virtually forced to intensify his farming, as El Salvador needs, rather than dismissing workers and converting cropland to a ranching operation.

Should there be a decision to implement Phase II in this manner, it would also seem appropriate to encourage the formation of groups of the landless, to purchase such land. This is a role which the UCS, CCS, ACOPAI and other rural organizations have performed in the past, and they might well want to do it again. However, they would have to understand that the owner and they were entering a business transaction, and that he could indeed foreclose and evict them if they failed to meet the land payments on time. (The law might well specify tolerance of up to two years' tardiness, in view of possible weather or civil strife problems affecting any given year's crop.)

In order to be sure that the landless had a chance to take part in the process, one could even imagine a law specifying that owners of more than 200 hectares could divide only if at least one parcel of at least 50 hectares is sold to a group of not fewer than 25 campesinos who are legally recognized as a cooperative. Such a provision might lead owners to seek out and work with organizations they normally regard as antagonists; they would then come to have a common interest in making the resulting parcel an economic success, so the land payments would be made. (The Study Team is not recommending a government guarantee of these payments; we believe that if private parcelization is chosen, then all parties will think through the price and term and future farm plans more carefully when the seller only gets his money if the buyers are successful in farming the land.)

E. COMBINE VARIOUS FEATURES OF THE PRECEDING ALTERNATIVES

Shortly before the elections of March, 1982, a study was made of the Phase II options. This estimate, based on Cadastral data, varies somewhat from the previous estimates of the land available for Phase II, but was thought to be the best estimate at that time. According to this data, there is a large number of persons (1200) owning between 100 and 200 hectares, and a much smaller number (600) owning between 200 and 500 hectares. To reduce the political opposition, and to reduce the resources needed to carry out the plan, this alternative proposed to allow persons owning up to 200 hectares to sell land privately, reducing their holdings to 100 hectares or less. Those with 200 or more hectares would be expropriated, working through ISTA or FINATA along the lines of existing programs.

In this approach, as one scholar of land reform put it, one would reduce the number of enemies from 1800 to 600, while removing the thorn in the flesh of agrarian reform represented by the nonimplementation of Phase II.

Clearly, this approach has much promise. When combined with direct purchases now being negotiated by FINATA with some owners of Phase II properties, plus the tenant claims under Decree 207, the whole Phase II matter might be settled within a year. Presumably, the authorizing Decree would be coupled with a continuing Decree 6, basing new claims under Decree 207 from new rentals of land for coffee, cotton or sugar cane. The economic, social and potential goals of reform might also be better served if transfers to family members were excluded from the sales. Once owners were down to 100 hectares, they could then divide the 100 among the family; there are no restrictions on land transfers by persons holding less than 100 hectares.

Exhibit 8-5

Properties Between 100 and 500 Hectares
Affectable Under Phase II Land Reform

Size	Number	Area	Reserve Area*	Net Available
100-199 ha.	1,232	175,600 ha.	123,200 ha.	52,400 ha.
200-299	373	91.800	37,300	54,500
300-399	167	57,000	16,700	40,300
400-500	84	37,600	8,400	29,200
TOTAL	1,856	326,000 ha.	185,600 ha.	176,400 ha.

* Assuming 100 ha. reserve for all.

Source: Cadastral Survey

PART FIVE

CHAPTER 9

LINKAGES WITH THE NONREFORM SECTOR

The Study Team found substantial linkages already existing between the Reform Sector and private sector agribusiness firm. In fact, some complaints were heard, to the effect that owners had kept some of the coffee processing (pulping and hulling) plants, sugar refineries and cotton gins, and were earning substantial profits with the output of the Phase I cooperatives. In fairness, we also heard from other beneficiaries with no complaints about such linkages, perhaps because they were not sure they were ready to run such installations themselves.

There was much more criticism of IRA, the state-owned grain marketing agency, than of private grain buyers. It was alleged by beneficiaries that IRA is slow, tends to reject deliveries because it lacks storage room or funds, and that IRA makes unfairly large discounts for excess moisture and broken kernels. We did not have a chance to visit IRA agencies, but we visited coops which decided to sell to private buyers for all these reasons. The private buyers also have their own trucks, and the net price to the coop is often higher than if they hire a truck and deliver to IRA.

OPPORTUNITIES FOR CONTRACT FARMING AND IMPORT SUBSTITUTION

When sector planners seek alternative or intensified uses of agricultural lands and laborers, they naturally look at import substitution and new export products. Often, however, such new products require the participating farmer to adopt unfamiliar technology. Successful implementation often requires a

Exhibit 9-

El Salvador: Volume of Selected Import Products
(metric tons)

	1977	1978	1979	1980	1981
Vegetables:					
Onion	4,068	4,956	5,959	8,483	9,564
Cauliflower	1,485	1,401	1,537	2,388	2,123
Lettuce	1,752	2,166	2,077	2,014	2,333
Potato	12,865	14,334	17,685	13,506	14,357
Cabbage	12,665	14,319	18,100	24,111	26,693
Tomato	4,283	5,276	5,976	8,244	7,838
Carrot	3,977	4,353	7,182	5,824	6,376
Fruits:					
Avocado	1,428	1,786	1,919	3,734	2,729
Banana	21,461	2,112	30,233	49,578	36,898
Orange	3,358	5,507	11,141	15,925	13,177
Plantain	22,698	4,806	26,003	26,391	28,734
Dairy:					
Milk	5,708	7,820	9,421	8,123	11,636
Butter	75	69	125	52	173
Cheese	376	524	684	571	922

Source: MAG, Anuario de Estadísticas Agropecuarias long period for developing or adapting the infrastructure and marketing channels and for training the participants; even then the risks are greater than with traditional agricultural production.

However, there seem to be some opportunities in El Salvador that would build upon previous or existing local experience. Various interviewees stated that a sizeable proportion of imported vegetables (which mainly come from Guatemala) are grown by Salvadorans who fled the violence. If this situation improves substantially, it is possible that some of these experienced farmers would return. Exhibits 9-1 and 9-2 show selected exports and imports that the Study Team sees as indicating possible opportunities for regaining export volumes that have slackened, or for substituting heavy imports that now exist.

The decline in exports shown in Exhibit 9-2, with the exception of okra, could be a result of more efficient competition by rival producers in foreign markets. It may reflect production problems related to the violence in El Salvador. It may reflect a fixed exchange rate that makes it hard for El Salvador to compete. It may reflect other problems, such as the world recession that has affected potential buyers.

The case of okra, however, demonstrates that El Salvador is still able to produce and process an agricultural product with foreign market acceptance. If past export volumes could be recovered or surpassed for other products, this would estimate the agricultural sector through increased demand for basic grains, production of animal feed, pasture, labor, etc., as well as increased need for services such as transport and packing. Obviously a similar case can be made for some gradual import substitution where local growing conditions permit competitiveness. Another primary possibility is the production of hybrid seeds for corn and sorghum. This could best be done on the land of a

Exhibit 9-2

El Salvador: Volume of Selected Export Products

	1977	1978	1979	1980	1981
Dressed Poultry (metric tons)	536.6	275.3	221.1	96.8	46.2
Chicken Eggs (thousands of dozens)	133.4	405.2	1,287.8	409.6	126.9
Cheese (metric tons)	62.5	37.7	56.2	17.1	10.5
Beef Cattle (thousands of carcasses)	20.7	54.3	52.7	18.5	7.4
as % of domestic slaughtered	11	25	26	10	5
Melons (metric tons)	3,140.1	3,290.8	4,062.2	3,402.7	961.4
Okra (Metric Tons)	539.5	677.0	411.4	18.1	2,030.2
Watermelons (Metric Tons)	3,882.5	4,377.2	8,059.5	3,857.5	5,443.5

Source: MAG, Anuario de Estadísticas Agropecuarias

Phase I coop, precisely because the producer must control a substantial area and prevent the planting of other varieties, which could cross-pollinate.

There are some factors which could make these activities initially feasible and attractive, especially for some Phase I cooperatives. Many beneficiaries are already familiar with the control of irrigation and the use of pesticides. With the exception of some fruit, grain and animal products, these activities are amenable to relatively small-scale operations. This facilitates specialized technical assistance for production and marketing and allows closer control of product quality. (Tobacco, for example, is grown profitably by various Phase I cooperatives under contract with Salvadoran cigarette companies.) The element of quality is a certain requirement in export markets, but also is the best way to ensure local acceptance quickly and thereby displace a proportion of the imported item.

If the crop is to be processed or marketed by another entity, or must meet strict technical characteristics (as for hybrid seeds), contract farming might be advisable to exercise quality control and guarantee purchase of the crop. Otherwise, the banking system might serve as a controlling agent of the area planted to lessen the risk of the oversaturating the local market.

CHAPTER 10

AGRARIAN REFORM BONDS AND PROPOSED NEW USES FOR THEM

As described in the previous Checchi Report, the Agrarian Reform bonds are issued in several classes, with maturities of 5, 20 and 30 years, and interest rates of 5 and 6 percent. Before the bonds themselves are issued, ISTA has often issued "Certificates of bonds," which have many of the same advantages as bonds, but lack the ease of transfer. The bonds are "bearer bonds," and all one need do to transfer them is to hand them to the buyer. With the certificates, a sale is harder to complete, and Salvadoran bond market makers say there is little demand for them for that reason.

A. THE PRESENT MARKET FOR AGRARIAN REFORM BONDS

Now that significant quantities of Agrarian Reform bonds have actually been issued and are in circulation, a small but lively market has appeared for them. At least two intermediaries advertise daily in the newspapers, and many attorneys also are reported to be actively dealing in the bonds and the interest coupons.

The brokers do not normally buy for their own account, nor do they hold inventories of the bonds. However, they maintain records of offers by bondholders to sell, with the lowest price at which the holder is willing to sell, and whenever a potential buyer appears, they contact the seller who is on record as willing to accept the lowest price.

The volume of transactions is not great; one of the intermediaries put it at about 30 to 50 bonds per week, most of them in the smallest denomination (₡1,000). Even so, that should settle the myth that says these are "worthless scraps of paper."

The going rates for transactions in the first two weeks of December were quite different for bonds of different denominations. For the intermediaries with whom the Study Team spoke at length, the prices were:

Exhibit 10-1

Market Prices For Agrarian Reform Bonds, December 1982

Denomination	Market Price
₡ 1,000	₡ 750
10,000	5,800- 6,500
100,000	42,000-50,000

Note: These prices were reportedly paid for bonds of all classes and maturities, from 5 to 20 and 30 years. However, the intermediaries admitted that most holders of the 5-year bonds chose to hold them after all, after first considering selling them. Those bonds are due in May, 1985, and holders were unwilling to accept the discounts needed to sell the longer term bonds.

The demand for these bonds arises from the fact that they can be used for payment of death and gift taxes, at the full nominal value of the bonds. Thus whenever a lawyer is preparing an estate or a transfer of property among relatives, he is likely to suggest that the client could save money by acquiring Agrarian Reform bonds, at a discount, with which to pay the taxes.

Although ISTA did not have funds with which to pay interest due on the Agrarian Reform bonds until December, 1982, the brokers say that a significant number of the interest coupons have already been collected. Under the law, they may be used at full nominal value in the payment of any and all kinds of taxes, at any time after the date on which the interest was supposed to have been paid. One broker even said that her clients seldom want to think of selling the interest coupons, because they all have nonagricultural activities that are profitable enough that the clients have to pay income taxes. Other sources reported that the coupons trade between 90 and 95 percent of their face value, and that there are even a few trades of coupons that have not yet come due, but will do so within a few months.

The Study Team has not yet been able to get a complete figure for the bonds and coupons used thus far in payment of taxes, but there is no doubt that the mechanism works and people are taking advantage of it. Thus far, ISTA has actually issued about ₡300 million in bonds, and at least ₡2,100,000 have been turned in (at face value) for inheritance and gift taxes alone. We asked the brokers how many bonds they had listed for sale, admitting the possibility that many were listed with two or more of the brokers.

The brokers declined to reveal this information, but were willing to discuss how many bonds they could get together on short notice for a client who wanted them for new uses (see next section). It appears that three intermediaries could assemble at least ₡4 million in bonds in a day or two, and perhaps as much as ₡10 million. ₡20 million would take a while longer, and even if the brokers had no overlapping of listings, the three of them together could not come up with as much as ₡100 million yet. However, this market is only a year or so old, and it seems likely that as public awareness among bondholders rises, and as more bonds are actually issued by ISTA, the potential supply will rise to about the ₡100 million level. If new uses are added, almost all of the bonds issued would probably become available.

B. PROPOSALS TO EXCHANGE AGRARIAN REFORM BONDS FOR STATE INDUSTRIES

El Salvador has sometimes been called the Taiwan of Central America, in reference to the enterprise and hard-working habits of its laborers and small businessmen. In the Agrarian Reform carried out in Taiwan in 1949 and thereafter, the landlords received 70 percent of their compensation in bonds, and 30 percent in the shares of four state-owned industries that the government wished to turn over to the private sector. These companies were the Taiwan Paper Corporation (TAIPAPER), Taiwan Cement Corporation (TAICEMENT), the Industrial and Mining Corporation, and the Agricultural and Forestry Development Corporation. There was some delay in issuing the actual stock, in order to allow for the appraisal of the companies, but eventually enough shares were issued to cover the appraised value, with a par value of NT$10.00 per share. Although some of the former landlords sold their shares at once, at a discount, those who bought them -- and those landlords who held onto their shares -- did reasonably well. The new shares became the basis for a bustling stock market, and the average market prices ten years later (1964) were NT$32.94, 31.04, 18.46 and 17.60 for the four companies listed above.*

The shares of the first two companies accounted for 65,000 out of the total of 83,000 shares issued for all four companies. Since the overall price level rose only about 100 percent during the same period, the shares actually provided a capital gain for the ex-landowners that exceeded the bonds, in spite of the fact that the bonds had an inflation protection built in because they were tied to basic food products (rice and yams).

From the viewpoint of the Government, the procedure provided a large group of potential stockholders for the companies in spite of the absence of a developed stock market, and these companies did in fact become the basis for forming such a market a few years later.

The agrarian reform laws in El Salvador also contemplate various possible uses for the bonds which seek to channel the capital formerly tied up in land,

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* See Strasma, John D., "The Financing of Land Reform Programmes: Compensation Payments," Secretary General's Fourth Progress Report on Land Reform, United Nations, 1966, p. 111.

into industrial activities. Some of these schemes would require the Central Bank to monetize the bonds -- cash them in before they mature -- and the overall monetary situation in El Salvador makes it clear that this is not likely to be possible. However, no such problem arises when the state exchanges one illiquid asset, such as a state-owned factory or hotel, for another illiquid asset, the Agrarian Reform bonds.

By accepting bonds in exchange for shares in these industries, the government would also be telling the bondholders that although society no longer assigns them a role as large landowners, they do indeed have a socially-recognized role as owners and managers of these manufacturing enterprises. This, in turn, would ensure that their energy and -- one hopes -- their own capital from nonagricultural assets, would be channeled into production and employment for Salvadorans.

Another variant on the traditional process has also been suggested, by the President of the Industrial Bank (BANAFI). This new entity has been set up to hold the portfolio of loans made by the former, and discredited, INSAFI. Instead of converting the overdue and uncollectible loans to state industries into stock, and swapping the stock for Agrarian Reform bonds, one could also consider simply selling off the overdue loans themselves. The operation would be similar to "nonrecourse factoring," wherein an investor buys a portfolio of loans made to borrowers, and then collects them for his own account. The overdue credits could be auctioned off, with Agrarian Reform bonds being accepted at nominal or par value. Then the successful buyer of each overdue loan would simply notify the current management that he was demanding immediate payment, and would foreclose if payment was not forthcoming. Then, after completion of the foreclosure process, the former bondholder would own the business and take over its management. There would be no need for a detailed appraisal, and no room for accusations of corruption in the fixing of the share price or the choice of buyer.

The Study Team did not have time to determine, with the aid of Salvadoran experts, which method would work best in El Salvador, but we do recommend study of the alternatives, so that if it is decided to exchange the state-owned companies for agrarian reform bonds, this may be done as efficiently as possible.

C. COULD CAMPESINO COOPERATIVES ALSO USE THE BONDS?

There seems to be fairly wide acceptance of the idea of increasing the usefulness of the agrarian reform bonds by allowing them to be used at nominal value to acquire shares of state companies that have been operating at a loss. This will increase the demand for the bonds, and hence their market price. That action will clearly favor the bondholders, former landowners. Political leaders may well ask if there is a way that the new uses for the bonds could also be made to favor the campesinos, who are the subjects and intended beneficiaries of the agrarian reform in the first place? There is a way, and there are precedents in some South American reforms.

In particular, as each cooperative takes money from the sale of its harvest to make the annual payment on its debt to ISTA, to help pay interest and principal on those bonds, why not let the cooperative itself acquire Agrarian Reform bonds at a discount, and apply them on the Cooperative's debt at their nominal value?

Bondholders (ex-landowners) with whom we discussed this notion were in favor; the more demand, the better the price they will get if they decide to sell. Yet the bonds will continue to sell at a significant discount to nominal value, because their interest rate is lower than market rates. This would be a way in which the campesinos could also increase their ability to pay for the land they have received, lightening the burden of the agrarian debt (See Chapter 6).

The proposal has one obvious flaw from ISTA's viewpoint. ISTA has been counting on the cash flow from early cooperative payments, to cover the interest and to pay for the retirement of the 5-year bonds when they mature in a couple of years more. If the cooperatives pay in bonds, ISTA gains in the long run by having fewer bonds outstanding, but loses the cash in hand with which to pay current interest.

In our view, however, the idea deserves serious consideration. If new uses are added to favor economic reactivation and to help the bondholder, there is no obvious reason the campesinos should be prevented from also taking advantage of the mechanism. There is already quite a gap between the amortization schedules for the bonds -- mostly paid off in years 20-30 of the bond's life -- and the debt payments by the cooperatives, which begin as soon as year 3. It is likely that the Central Bank will intervene in any case, to provide liquidity when ISTA needs it, and to absorb it when ISTA is receiving more funds in campesino payments than ISTA needs for its current budget.

There is even a way to reduce ISTA's cash flow problem: let the cooperatives pay ISTA in cash, but with a discount similar to the current market discount rate for the long-term bonds. Should ISTA later have more cash coming in than it requires it could then go into the bond market and buy bonds, retiring them and reducing its future liabilities.

In summary, if new uses are authorized for bonds, favoring the ex-landowners, the Study Team suggests that a similar mechanism be extended to allow campesinos to benefit as well.

PART SIX

CHAPTER 11

THE URGENCY OF REVISING CAMPESINO LAND DEBT POLICY

In Chapter 6, we reported the possibility that campesinos are being asked to pay different prices for similar land received, in Phase I. We also reported some empirical evidence that suggests that some cooperatives are being charged more than the land appears to be worth, and certainly more than they can afford to pay. (Others, however, may be undercharged.) In Phase III, on the other hand, FINATA calculates separately the compensation to ex-owners, and the price to be paid by the campesino beneficiaries. Although FINATA seeks to have the two prices come out much the same, at least under this method all Phase III beneficiaries should be charged about the same price if they are receiving the same amount and quality of land.

It appears to the Study Team that it may soon be time to reappraise the ISTA procedures for valuing the land that campesinos receive. Regardless of whether the compensation paid the former owner was just or unjust, too high or too low, it is likely to be unequal among cooperatives.

In addition, the incentives to the ISTA personnel appear to be all wrong, from the campesino point of view. The higher the valuation placed on the property, the more the cooperatives have to repay ISTA, and the more money ISTA will make interest on, at 9.5 percent. ISTA, meanwhile, is paying the ex-owners 5 percent and 6 percent on their bonds. (However, to the extent that the expropriated property was mortgaged, ISTA has had to exchange the original bonds -- turned over to the mortgage lender -- for others, on which ISTA has to pay 12 percent.) This should discourage ISTA valuers from being too generous, if the expropriated property is mortgaged for a large share of its value. Yet the more ISTA agrees to pay, above the amount of the mortage, the more debt on which ISTA will earn the difference between the 6 percent it pays and the 9.5 percent the campesino cooperative must pay ISTA.

We want to stress that we have no reason to believe that ISTA has overpaid ex-landowners simply because that would be profitable for ISTA. But we do note that the incentive is there, and the beneficiaries might some time wonder if that had happened. One solution would clearly be to separate the two price determinations, as FINATA does. The value for compensation purposes would continue to be the value determined largely by the ex-landowner's tax declarations of 1976 and 1977. But the value for campesino payments would be determined by the value of the land to the campesinos, based on a calculation of the farm's ability to produce income.

Obviously, this is a delicate proposition. First, a change at this or any other time would be interpreted by some as "proof" that there had been corruption in the valuation for compensation purposes. We do not have such proof, nor did we have the time or expertise to make such a judgment. Secondly, there may be people in and out of government who do not <u>want</u> the cooperatives to be able to pay the agrarian debt, because these people want to be able to say, "See, the land reform is a failure and the beneficiaries are not making the payments on their debt."

Thirdly, there are still over 150 properties on which valuation is pending. If ISTA personnel knew that they could pay the ex-owner enough to make him happy, and not have to pass that debt on to the campesinos, this could remove one of the very few restraints now in place to support ISTA in its efforts to keep compensation down to the amount specified by law. In effect, separation of compensation and repayment values might lead to overly generous payments to those owners who are still resisting settlement -- at the expense of Salvadoran taxpayers who would have to make up the difference between compensation and land repayments.

For these reasons, the Study Team recommends that ISTA first move to settle all pending compensation claims, on the assumption that the beneficiaries will in fact have to pay whatever amount is decided upon. We recommend that the cooperative be given a presence and a voice in those negotiations, in all cases in which the owner has refused to reach a speedy and reasonable settlement according to the law. If the owner threatens to take ISTA to the courts, it would help if the cooperative itself could be represented by an attorney, to make the judge more aware of the interest of the beneficiaries in a reasonable price. While neither ISTA nor the cooperatives have resources for this, we recommend that AID consider a small grant to FESACORA to enable it to retain attorneys when needed by its member cooperatives.

Once the compensation process is completed, however, then it would be timely for ISTA to look seriously into the inequality among cooperatives produced by the arbitrary use of tax declaration values, as well as any irregularities that may have entered the valuation process. A review commission, with representatives of FESACORA and ISTA and technical personnel from MAG, could review the price of each cooperative's land. Any land which should be transferred to ISREN should be identified at that time, and separated for transfer, with an appropriate reduction in the amount of the cooperative's land debt. A new estimated value should then be set for the remaining land, based on the productive potential of the soil under proper management. This value should be determined by capitalizing the estimated potential income under good management, at the going rate for production credit -- currently around 14 percent interest. In other words, no cooperative should be expected to assume an agrarian debt for more than about seven times the net income that the land is capable of producing under good management, above and beyond normal and reasonable wages for the labor of the cooperative members.

If this procedure is established and followed, it seems likely that virtually every cooperative will be able to make the payments on its land debt, and coop members will be much more likely than at present to feel that they are now landowners.

For this good result to follow, it is also important to remove the debt "overhang" that afflicts many cooperatives as a result of the inadequate control of the emergency credits granted in 1980. To this, we turn in the following chapter.

CHAPTER 12

THE NEED TO WRITE OFF OR REFINANCE MUCH OF THE "EMERGENCY" CREDIT

If no change in present policies takes place, a substantial number of the Phase I cooperatives will in effect have to undergo some sort of bankruptcy proceedings. The Banco de Fomento Agropecuario is extremely reluctant to accept this. As long as the cooperative is functioning at all, it appears that the BFA is prepared to refinance its accumulated debts year after year -- at a higher interest. This obviously overstates the value of the portfolio of the BFA, as many of these loans will never be repaid, and it discourages the cooperative members, as their debts get higher and higher and there is no hope of ever paying them off.

A consultant recently recommended that the BFA greatly increase its reserves for bad debts, writing off large amounts of these debts as uncollectible. The only problem this action poses for the BFA is that it reduces the net worth of the Bank itself, which may be painful to the officers and Directors of the Bank, but it is not a real change in the net worth of the Bank, since these loans are uncollectible anyway.

When a loan to an Agrarian Reform cooperative is uncollectible, the situation is not at all the same as with a bad loan to a private borrower. In the first place, ISTA has guaranteed repayment of principal and interest on at least 50% of these loans. The BFA, therefore, could quite reasonably say that the loans are good -- even if the coop can never pay -- because another Government agency has guaranteed payment. This would be fine if ISTA had any budget with which to pay the bad loans to BFA, but it does not.

In fact, the nature of a government "guarantee" by one agency to another agency of the same government, is peculiar to say the least. If the credit is unpaid, the issue really comes down to a struggle between two bureaucracies as to which will absorb the loss in its bookkeeping. However, the matter is hardly equal. At present, ISTA has a barebones operating budget and its main financial asset is the promise of the Agrarian Reform coops to repay the price of the land. At the same time, it has its own debt outstanding -- the bonds -- for that same amount. Although the campesino beneficiaries are supposed to pay 9.5 percent interest, and ISTA pays somewhat less to some bondholders (and somewhat more to others -- the banks), if there is any delinquency in coop payments for the land, ISTA is unlikely to have a net income from its financial portfolio with which to make good on loans it has guaranteed.

Yet nothing is ever simple, and there is one possibility for ISTA, at least for the next 27 years or so. The bonds are not amortized evenly. Instead, they pay interest only for 5 or more years, and then all of the principal is to be paid off in the last years before maturity. The cooperatives, on the other hand, are required to make annual payments on principal as well as interest. (They may use an initial grace period if necessary, but eventually they are supposed to make payments on principal as well as interest, each year.) Thus ISTA theoretically will be receiving payments of principal years before it will have to pay them out to bondholders. ISTA could, in the short run, dip into this money in order to make good on loans it has guaranteed to the BFA. However, the Study Team wants to stress that this is a theoretical concept at present because ISTA has not yet collected enough of the land debt to have such a positive cash flow.

In any case, if ISTA were to use this money for current operations, including making good on loans it had guaranteed, then ISTA would be unable to make good on the bonds when they came due in 1985, 2000 and 2010. Since the bonds themselves are guaranteed by the Government of El Salvador, at that point the Central Bank or the Finance Ministry would presumably step in and redeem the bonds.

The "Emergency" loans made in 1980, at the outset of the Agrarian Reform, appear to be a controversial matter for many coops, and an unsurmountable barrier for at least some of them. As long as these amounts are outstanding, and ISTA and the Banks are trying to collect them, it will be very difficult for many cooperative members to imagine the day in which they are making profits and enjoying the benefits of landownership.

There are a few cooperatives that have problems repaying their ordinary production credit each year, but it appears that if the emergency loans were written off, and if the agrarian debt were reasonably related to the potential income from the land (see Chapter 11), then almost all of the coops could operate reasonably well and with significant benefits for their members.

The Study Team does not recommend a general policy of writing off production loans that cooperatives are unable to pay, except in the case of natural disaster such as the drought and floods of late 1982, or civil disaster such as the cases where cooperative members fled while the Army and guerrillas fought through their lands. In those cases, the banks should write off the uncollectible amounts and make new loans as soon as the basic cause of the inability to pay has been removed.

The experience of other countries with land reform programs suggests that it is important to maintain, as El Salvador has, that credit extended to beneficiaries is a business proposition and it should be repaid. Yet the total outstanding for many cooperatives, for reasons explained in Chapter 6, is impossibly high, and at the punitive interest rates applied by banks in

El Salvador whenever a loan is past due, it seems unlikely that many coops will ever see a profit. That would soon discourage members, and could even lead to a desire to return to the old patron. If he had problems with the banks, the workers never knew about it, and some might prefer it that way.

There are precedents elsewhere, for a write-off of these credits. The tourism industry (hotels, etc.) is currently soliciting a massive refinancing of its debts with "soft" loans, nominal interest rates, and long maturities. The Study Team recalls the refinancing schemes that saved many of the Real Estate Investment Trusts (REITs) in the USA, a few years ago. Typical arrangements were 1 percent interest rates, 30-year payment periods, and 5 years of grace.

Such arrangements would be almost as good economically for the coops as a forgiveness of the loans. However, for the beneficiaries who are unsophisticated in finance, the debt would still appear to be real -- and unpayable. The Study Team therefore recommends a simple study of all the Emergency Credits still unpaid, and the foregiveness of all of those which have not led to productive investment which the cooperative members can see and believe in. We believe this would go far to making the Phase I cooperatives viable, healthy business organizations, while maintaining the integrity of normal production and investment credit relations between the coops and banks.

CHAPTER 13

THE NEED TO ESTABLISH AN INSURANCE SYSTEM

Along with other problems, farmers in El Salvador -- including reform beneficiaries -- suffer from the lack of an insurance system to spread over many producers the risk of great loss to any given producer. There is little insurance available against the risk of ordinary fire, wind and water damage to farm buildings; there is none against the risk that guerillas or other lawless elements will burn them down. There is also no compensation for coops and other landowners, should operations by army or paramilitary units happen to damage or destroy crops or farm buildings.

As was mentioned in Chapter 6, above, Phase I coops often bear substantial expense to feed and pay wages to paramilitary troops assigned to them, whether by their own request or not. However, an additional expense that was often reported to the Study Team was the loss of farm vehicles (jeeps, trucks or tractors) that these paramilitary troops "borrowed" and wrecked or damaged. Whether the loss came during hot pursuit of bandits or other persons threatening the cooperative, or just on a joyride by the troopers, either way the coop has lost its vehicle and there is no possibility of collecting damages or obtaining a replacement vehicle.

Likewise with natural disasters of various types: every year, some coops will suffer from drought, flood, or other natural disaster. Others will not, and as a result will be far more profitable than those suffering the disaster. The BFA has a well-developed system for monitoring the extent of crop losses due to drought, through periodic field visits during the growing season. It uses this system to verify the legitimacy of borrower inability to pay loans due to such losses. However, in the case of reform beneficiaries the BFA is reluctant to allow a writeoff of loans as uncollectible, because ISTA has given a global guarantee of repayment. (As a rule, the guarantee is for 50% of current production loans. However, for cooperatives in serious financial trouble, the banks generally insist on a 100% guarantee by ISTA, and ISTA usually gives it.)

It appears to us that the study of feasibility and alternative methods of funding an insurance system are particularly suitable for external assistance agencies, such as AID. There is experience in other Spanish-speaking countries, and an AID staff person in Washington has recently done a good deal of research on this subject.

CHAPTER 14

FURTHER RESEARCH NEEDED TO INCREASE THE EFFECTIVENESS OF AGRARIAN REFORM IN EL SALVADOR

The Study Team was in El Salvador for less than two months, and despite willing cooperation on the part of host government agencies and the Agrarian Reform beneficiaries themselves, there just was not enough time to dig deeply enough into some key problems. Many of these are on the list of issues which PERA plans to study, and the Team would heartily recommend that it do so. For others, it might be appropriate for AID to encourage PERA or another agency to add these subjects to their agendas, or even to commission the research itself.

1. Right at the top of the list, the Study Team would put research on the Phase III (Decree 207) set of properties. We know relatively little about what, if anything, the landowner himself has been producing on the part of the land not rented out. It is reported that some of these landowners were renting small parcels at different sites each year as an inexpensive way to get the land cleared, so that after the tenant had cleared it and raised a crop, they could run cattle on the resulting natural pasture. The research should establish the frequency of this reason for rental, and determine whether such landowners will continue in the livestock business. If they liquidate their herds now that they no longer have a cheap, even profitable, way to get that land cleared off every few years, then the question becomes what they will do with their land next. The interviews should determine whether such owners have begun to cultivate the land, and if so, with what crops and farming methods.

Next, one would determine how Phase III owners are responding to the forced sale of plots they once rented out. Are they tending to leave farming entirely, offering to sell their entire holdings to FINATA, or are they accepting the challenge to farm better what they have left? For those who sell, we would try to determine how they are investing the cash and bonds they receive from FINATA for the land that goes to former tenants.

Next, we would ask what relationships are developing among the owner and his former tenants --- complementary or antagonistic, competitive or cooperative? Are there problems of access to roads, water, etc., and if so how are they being resolved?

This research should establish the frequency of shifting cultivation, where no campesino ever tilled the same plot two years in a row, and the land was allowed to lie fallow for one or more years after it was cultivated. Where this was the practice, will the Decree 207 program lead to over-cultivating and soil erosion, as some fear? Or will it lead to soil conservation practices, terrace-building, and the like, as many hope? The researchers would also explore and recommend appropriate public policies, and suggest which public and private agencies could help.

2. Other landowners may rent because they are unable to farm part or all of their holdings themselves, but we do not know whether that inability is temporary or permanent. We do not know whether the owners would rather sell, but think they could not find a buyer at this time, or indeed may be forbidden by law to transfer the land to anyone but ISTA or FINATA.

In a country without much of a pension plan for most of its citizens, the holding of land as a source of rental income in retirement is a natural investment for small landowners as well as the wealthy. For many of these, the agrarian reform bonds would be a perfectly adequate substitute for rental income -- provided El Salvador does not go through a significant inflation any time in the next 30 years. Still, if the former owner lives in the countryside, it is not clear how easily he will be able to collect the interest coupons as they come due, whereas the tenant comes to him with the rent.

If they do not have other incomes or transactions on which they have to pay taxes in any case, then they will not be able to "collect" the coupons by using them for tax payments. They will, however, be able to sell the coupons for at least 90 or 95 percent of their face value to other people who will use them for paying taxes. (However, that will require them to go to San Salvador and meet one of the several intermediaries who deal in the coupons and bonds.)

At any rate, we recommend the study of rental arrangements, and the drafting of regulations to define the circumstances under which renting is considered economically and socially justified. In other countries, upwardly mobile campesinos begin as wage laborers, climb the "tenure ladder" by renting land, and eventually buy some land of their own. While the present freeze is helpful in completing the reform process, we would like to see study of what types of rental should be allowed, under what circumstances.

3. Likewise, the 30-year freeze on the transfer of titles received under Decree 207 appears to be unnecessarily long, and we recommend a study to determine the nature and duration of restrictions on land transfer that would be appropriate for the beneficiaries of agrarian reform in El Salvador.

4. In some cases, the Phase I cooperatives appear to be too large for maximum efficiency, and we would suggest study of the feasibility of dividing them into entities of more manageable size. To begin the study, one might look at Melara and Buenavista, two coops where this has already been done.

Appendix Exhibit 14-1 shows the wide range in size among Phase I cooperatives now -- what is the optimum size in Salvadoran conditions?

5. Although there is not enough agricultural land in El Salvador to give every would-be farm operator a parcel large enough to raise a family and then divide it among his numerous children, there may nonetheless be possibilities for incorporating more campesinos into the Phase I cooperatives than have as yet been brought in. Someone should look at the man/land ratio among these coops, with allowance for soil types, and determine which coops are the "outliers" in that they have more hectares per member than most of the others. These would be candidates for some kind of restructuring, to incorporate some of the people thus far left out of the agrarian reform. The task is not easy, and as the coops become more prosperous, the incumbents will resist more tenaciously. Yet we think it should be done.

6. We would like to see a careful study of the extent to which the ability of phase I coops to pay their debts, including the land debt, is affected by three variables:

a) Losses due to storm, drought, plague, act of war, etc., which might be covered by some sort of insurance scheme in the future.

b) Principal and interest on credit received in 1980, for which there is no clear record or agreement as to how the funds were used, or that they were even used in benefit of the coop and its members.

c) Apparent over-valuation of the land and improvements received by the coop, as compared with nearby cooperatives with similar soils, etc.

7. Marketing systems need a good look just in themselves. The export marketing of El Salvador's principal exports is now a government monopoly. At least in coffee, however, producers receive a final accounting only more than a year after they deliver the product. Meanwhile, their bank loans continue to accrue interest and the cooperative members may well wonder why their leaders cannot give a financial accounting until more than a year later. It seems urgent to discover another way to finance El Salvador's huge coffee stocks--or else to change the marketing plan and liquidate them promptly. As the old Spanish saying goes, "Las cuentas claras conservan amistades."

Likewise, IRA's grain buying was much critized by our interviewees. We do not know whether the IRA employees are being difficult because the coops are unwilling to pay bribes, as many other growers are rumored to do, or perhaps the coop members' corn really is more humid than average for the zone. Still, the marketing function is vital to the success of any economy, and research here could have a high payoff to both consumers and campesinos.

8. As new methods of Extension are tried out, PERA should be encouraged to study their operation in practice, with a continuous evaluation and feedback to policymakers. This would also apply to the several modes of improving technical competence and management skills in Phase I cooperatives.

9. Participation by campesinos needs to be kept in mind; a specific research project might well study attitudes and desires of the beneficiaries themselves, as to how they can take more effective roles in the design and implementation of the agrarian reform in their country. We have suggested a small grant to enable FESACORA to provide attorneys to cooperatives whose land is tied up in a fight between ISTA and the former owner; actually, we would recommend that funding be provided to help organize many more events similar to the CODIZO cost accounting workshop described in earlier chapters. There

is also great merit in just making it possible for campesino leaders to get together and compare ideas, to enhance the sense of participation and the sense that they do have an effective voice, as a result of agrarian reform.

We would urge that small research projects be mounted to explore the extent to which campesinos feel that they are participating too little, too much, or about the right amount, and to elicit suggestions as to how the land reform agencies can best be more helpful to the beneficiaries. At the same time, we are not totally naive. So long as the free expression of one's thoughts to strangers could get one killed, it is unlikely that interviewees will want to talk freely about their real attitudes on delicate political matters or even on the policies of agencies with which they must deal.

On this point, incidentally, the Study Team felt that the fact that team members were obviously foreigners, albeit fluent in Spanish, probably helped on balance get closer to the actual situation. While the "tell them what they want to hear" bias is always present in interview studies, at least we believe most interviewees did trust us to neither identify them and their views to any government agency, nor to be offended if they did criticize operating problems or policies of agrarian reform agencies.

10. As has been stated earlier, the Study Team believes the agrarian tribunals contemplated in the law could make a contribution to campesino welfare and reduce one of the most basic causes of rural violence. Legal research should explore the alternative ways to set up such courts. In particular, court procedures should be designed so that the poor can come to them at little or no cost, without a lawyer, and still expect to obtain justice. There is experience in other Latin American countries on this subject, and there are staff members of the Land Tenure Center of the University of Wisconsin who are familiar with that experience.

APPENDICES

Phase I Land Transfer, Number of Properties and Number of Productive Units

	Number of Properties	No. Productive Units 1/	Area of Land Transferred 2/
Region I	106	85	59,176.69
Ahuachapan	32	26	14,259.80
Sonsonate	46	36	24,233.51
Santa Ana	28	23	20,683.38
Region II	92	78	54,221.69
La Libertad	60	55	32,518.42
San Salvador	19	12	10,283.53
Chalatenango	8	8	8,449.70
Cuscatlan	5	3	2,970.15
Region III	90	72	35,507.73
Cabanas	2	2	695.03
La Paz	57	44	25,194.95
San Vicente	31	26	9,617.75
Region IV	125	79	61,508.52
Usulutan	69	41	27,521.48
San Miguel	25	19	19,574.58
Morazan	2	2	1,308.16
La Union	29	17	13,104.30
TOTAL	413	314	210,414.74

1/ Usually cooperatives but includes 1 unit (1,386.73 hectares) transferred to state agency as national reserve and 9 units (2,298.23 hectares) which do not have farmer organization listed as formed.

2/ Area in hectares, of which 13 units (now totalling 9,747.68 Ha.) have not had final determination of area (variation would not be substancial); reserve rights excluded although some may change.

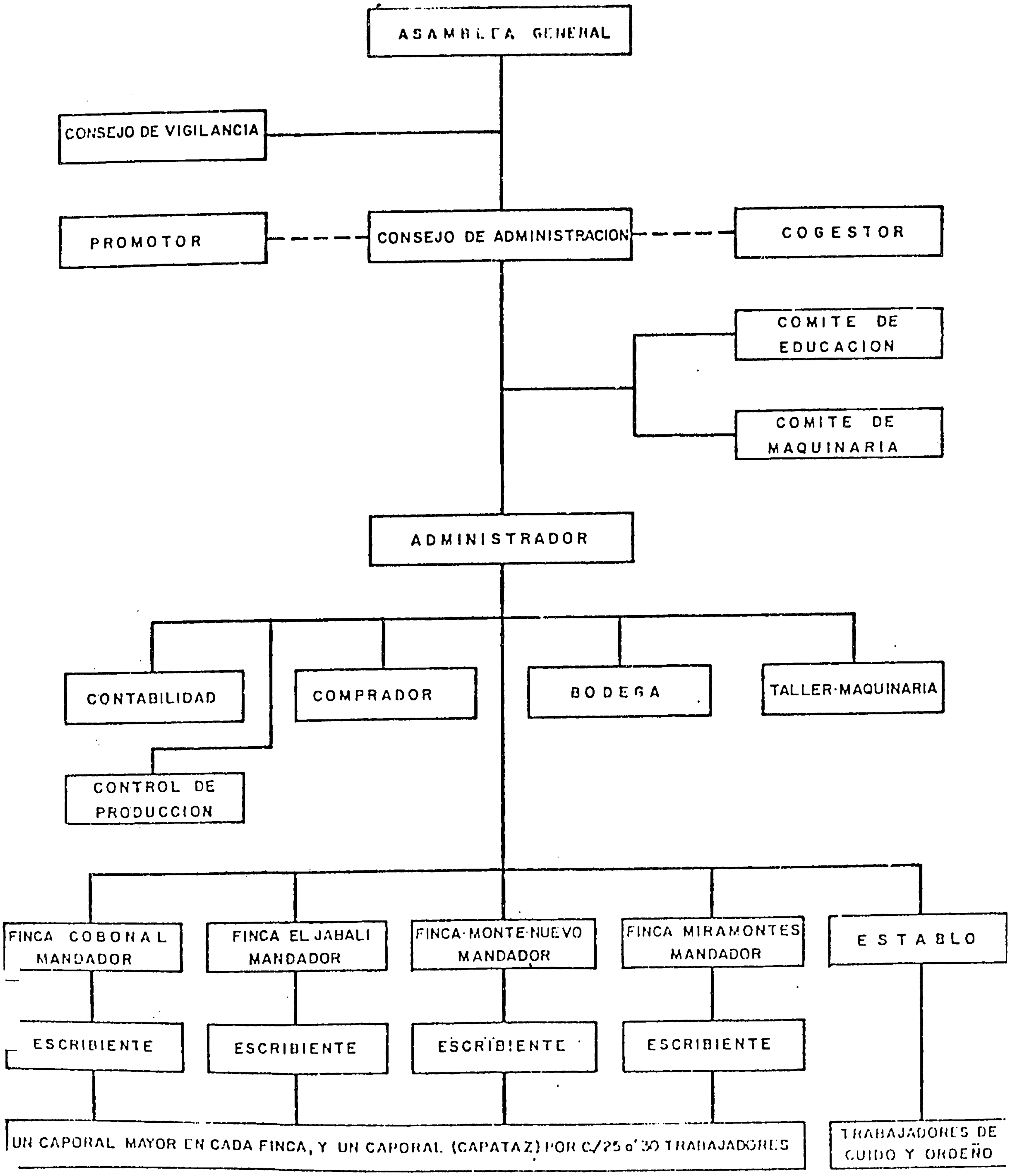
Source: ISTA and PERA data, as of December 17, 1982.

APPENDIX B

ORGANIZATION CHART FOR FIVE

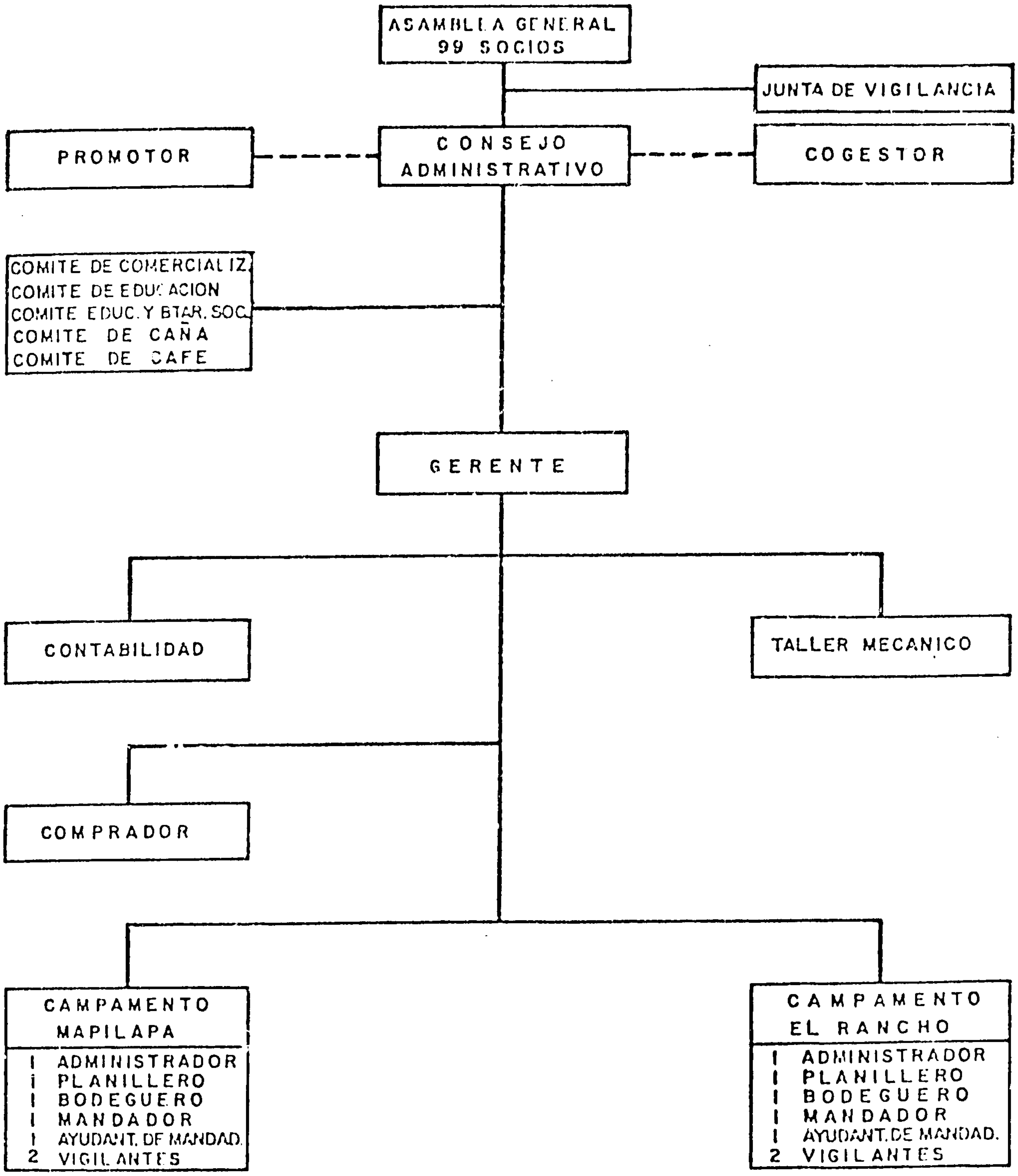
ISTA COOPERATIVES, 1982

HACIENDA PASATIEMPO

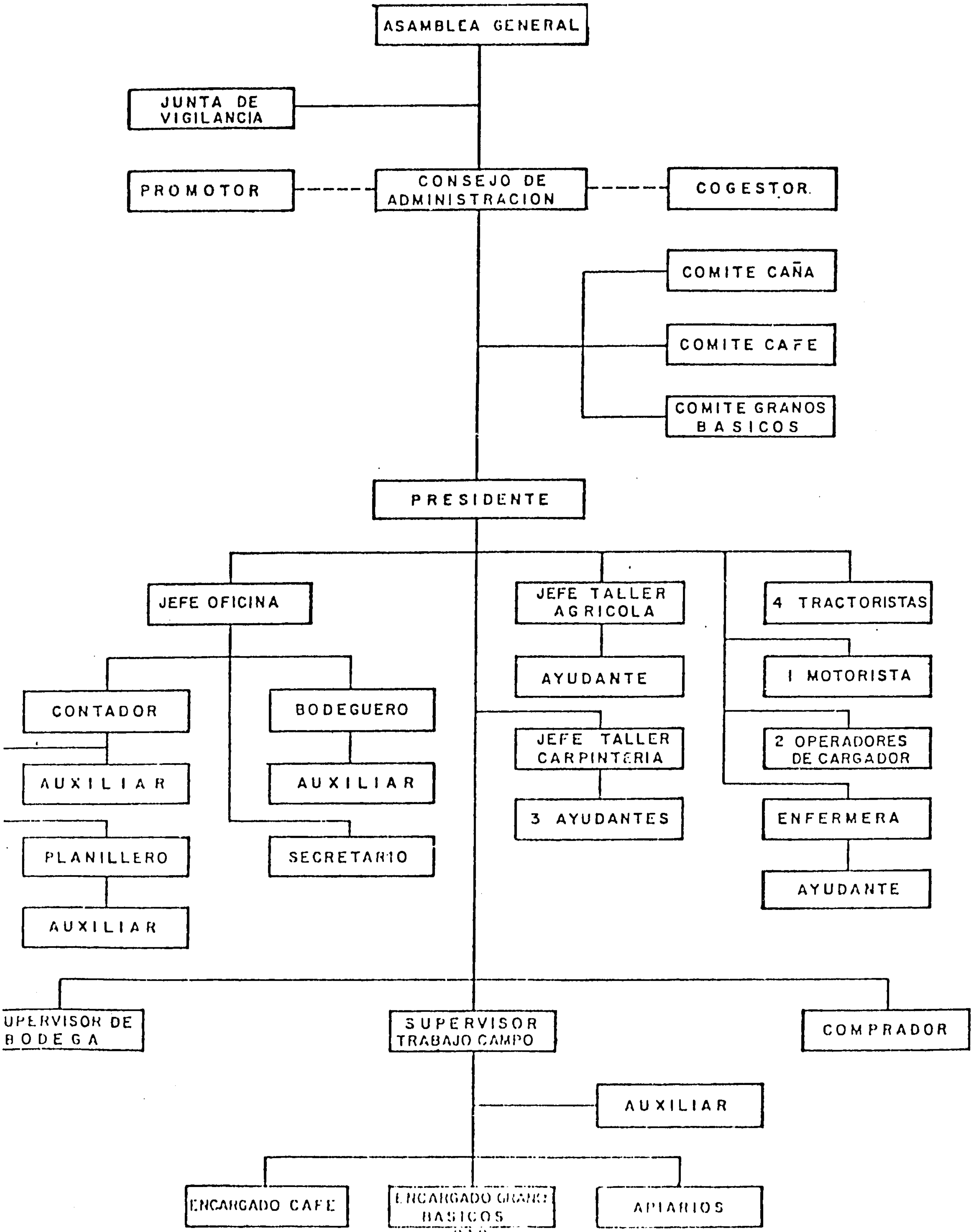


HACIENDA EL ANGEL

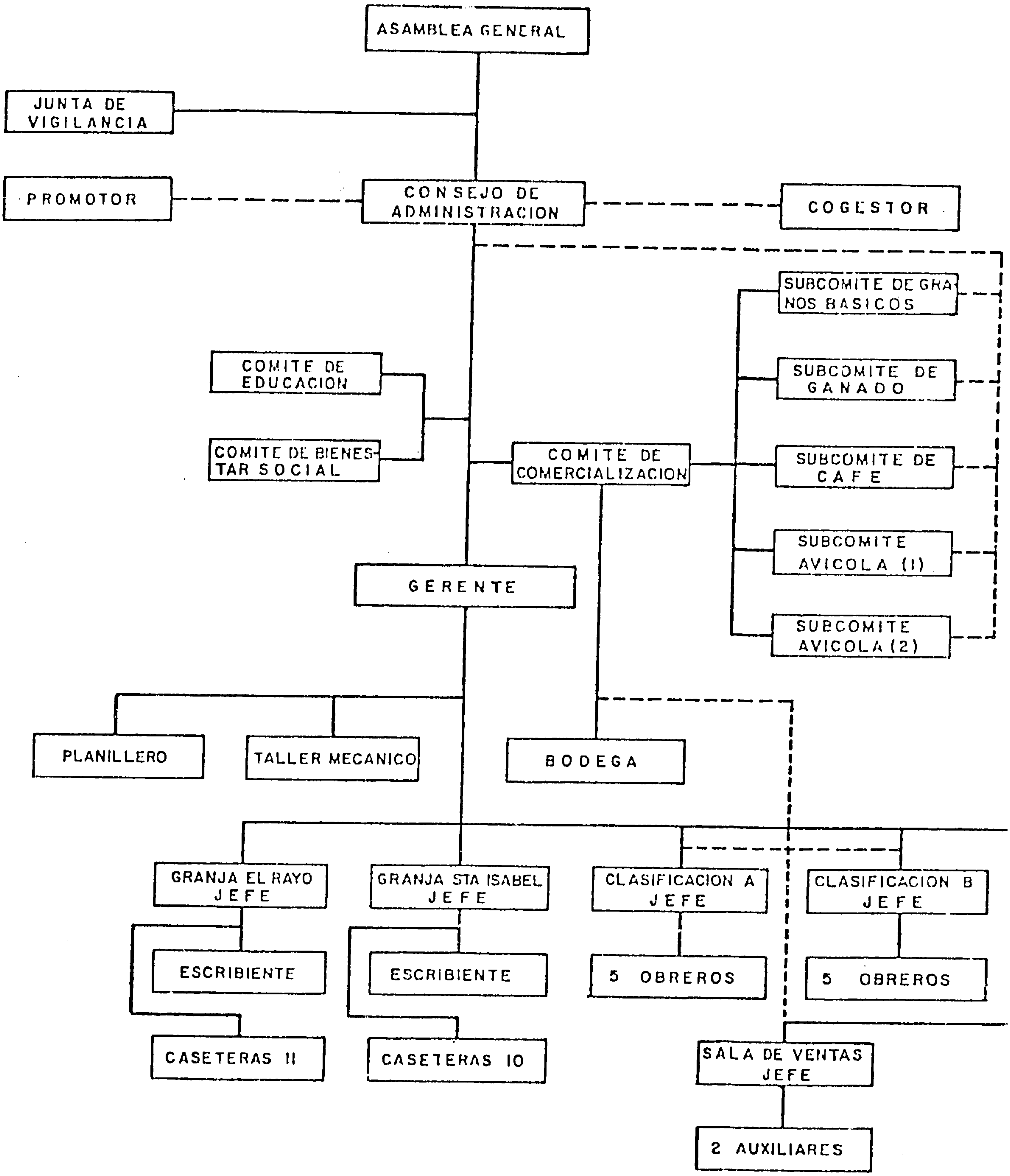
ASOCIACION AGROPECUARIA I.S.T.A. 6/3/1982

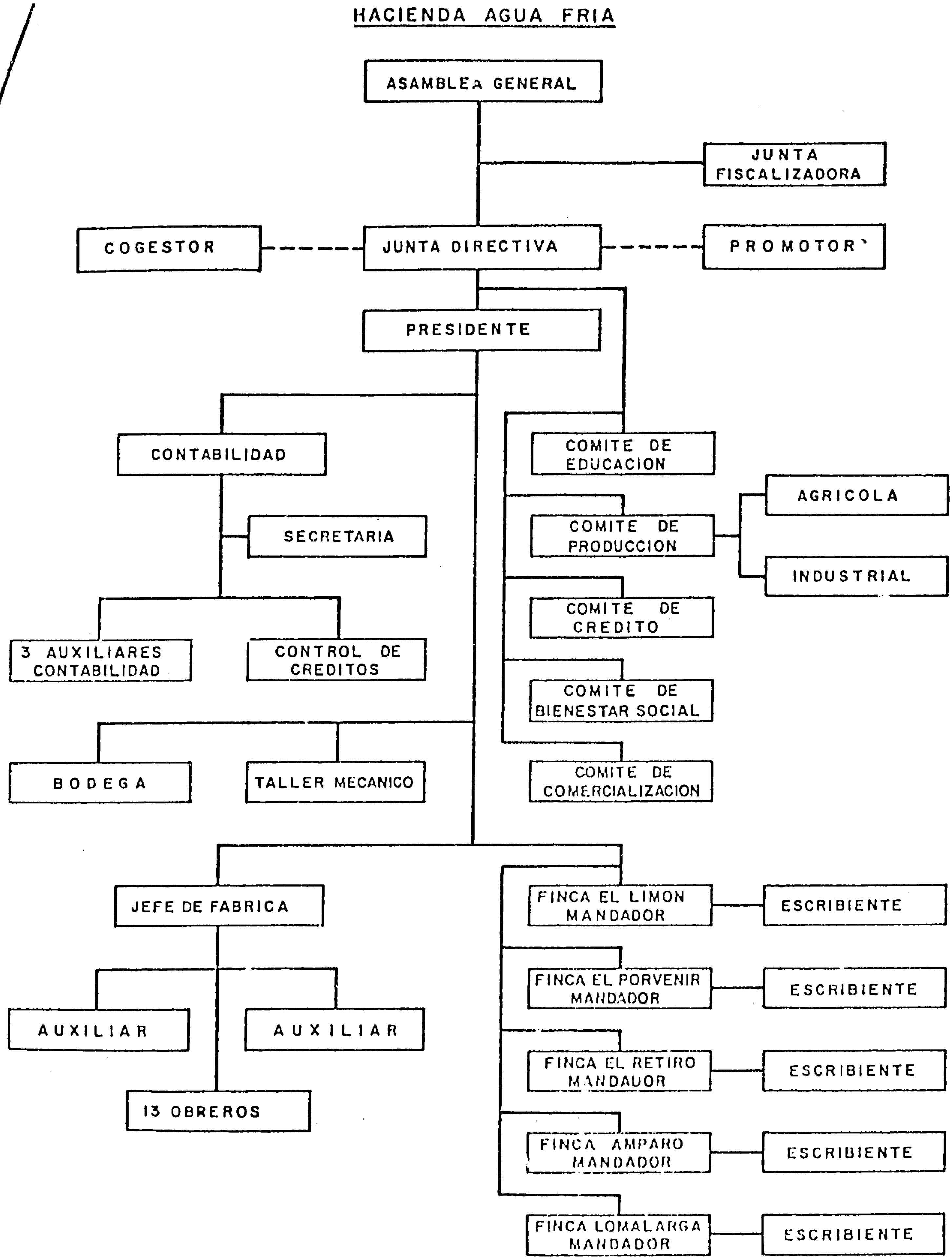


HACIENDA CHANMICO



ASOCIACION AGROPECUARIA I.S.T.A.- HACIENDA EL TRANSITO




HACIENDA AGUA FRIA
ASAMBLEA GENERAL
JUNTA FISCALIZADORA
COGESTOR
JUNTA DIRECTIVA
PROMOTOR
PRESIDENTE
CONTABILIDAD
SECRETARIA
3 AUXILIARES CONTABILIDAD
CONTROL DE CREDITOS
BODEGA
TALLER MECANICO
COMITE DE EDUCACION
COMITE DE PRODUCCION
AGRICOLA
INDUSTRIAL
COMITE DE CREDITO
COMITE DE BIENESTAR SOCIAL
COMITE DE COMERCIALIZACION
JEFE DE FABRICA
AUXILIAR
AUXILIAR
13 OBREROS
FINCA EL LIMON MANDADOR
ESCRIBIENTE
FINCA EL PORVENIR MANDADOR
ESCRIBIENTE
FINCA EL RETIRO MANDADOR
ESCRIBIENTE
FINCA AMPARO MANDADOR
ESCRIBIENTE
FINCA LOMALARGA MANDADOR
ESCRIBIENTE

APPENDIX C

The Study Team reviewed a great deal of information on credit used by the reform sector. Some readers may be interested in the tables which follow, prepared for an earlier draft but not used in the final text.

EXHIBIT 6-17

BANKS PROVIDING CREDIT TO PHASE I FARMS 1980/81 AND 1981/82

(Evaluación) PERA

FINANCIAL INSTITUTION	NO.OF Co-ops Assigned 80/81	No.of Co-ops Assigned 81/82	No.of Co-ops with financing 81/82	No.of Co-ops without financing 81/82	Status Unknown	Amount Approved 81/81
1. BANCO DE FOMENTO AGROPECUARIO	91	91	78	13	---	₡58,685.836.00
2. BANCO HIPOTECARIO	43	46	43	3	---	34,671,057.80
3. BANCO DE CREDITO POPULAR	9	10	10	---	---	12,182.870.00
4. BANCO DE COMERCIO	8	10	10	---	1	9,679.540.00
5. BANCO CAPITALIZADOR	11	12	9	3	1	4,751.724.48
6. BANCO MERCANTIL	7	8	7	1	---	1,376.791.00
7. BANCO INTERNACIONAL	5	6	6	---	---	1,574.880.00
8. BANCO CUSCATLAN	15	15	15	---	---	11,224.392.00
9. BANCO AGRICOLA COMERCIAL	13	14	13	1	1	11,811.210.00
10. BANCO SALVADOREÑO	9	15	14	1	1	16,145.447.00
11. BANCO FINANCIERO	1	1	1	---	---	713.450.00
12. BANCO DE DESARROLLO E INVERSION	3	3	3	---	---	2,870.760.00
13. FEDERACION DE CAJAS DE CREDITO	20	21	19	2	---	4,437.195.59
14. INSTITUTO NACIONAL DEL CAFE	33	31	31	---	---	41,625.278.00
TOTAL	268	283	259	24	4	₡211,750.431.87

OBSERVATIONS: The amounts include the following credits:-production loans, coffee refinancing, agricultural machinery and parts, bee-farms, debt payment, etc.

Source: Central Bank

Exhibit 6-18 Phase I Production Credit by Crops
1980/81 - 1981/82 */

	Thousands of Colones	
Item	1980/81	1981/82
TOTAL	141,381	176,762
Basic Grains	17,973	25,900
Coffee	55,553	62,220
Cotton	56,308	68,851
Sugar Cane	6,894	13,458
Others	4,653	6,333
Approx. No. Hectares **/	75,441	86,264

* Source: MAG/PERA "Análisis de la Situación Crediticia de las Cooperativas Agrícolas del Sector Reformado" Sept. 1982

**/ Source: ISTA, Department of Marketing and Credit

Exhibit 6-19 **Number of Phase I Cooperatives Receiving Credit by Financial Institutions, 1980/81 and 1981/82**

	1980/81		1981/82	
Banco de Fomento Agropecuario	83	(31.8)	80	(31.0)
Banco Hipotecario	41	(15.7)	43	(16.6)
Instituto Nacional del Café	35	(13.4)	32	(12.4)
Federación de Cajas de Crédito	21	(8.1)	18	(7.0)
Bancos Comerciales Nacionalizados	81	(31.0)	85	(33.0)
TOTAL	261	(100%)	258	(100%)

Source: MAG/PERA "Análisis de la Situación Crediticia de las Cooperativas Agrícolas del Sector Reformado," Doc. 1-10, Sept. 1982

Exhibit 6-20 Recovery Rates of Financial Institutions for Reformed Sector Loans, 1980/81 and 1981/82

	Thousands of Colones				Recovery Rates (%)	
	Loans (1)		Recovery (2)		(2) ÷ (1)	
	1980/81	1981/82	1980/81	1981/82	1980/81	1981/82
Total	141,381	176,762	107,922	135,617	76.3	76.7
1. Banco de Fomento Agropecuario	31,135	32,917	10,886	22,568	35.0	68.6
2. Banco Hipotecario	30,724	33.680	23,899	20,117	77.8	59.7
3. Instituto Nacional del Café	33,903	36,360	33,903	36,035	100.0	99.1
4. Federación de Cajas de Crédito	1,078	2,253	65	886	6.0	39.3
5. Bancos Comerciales Nacionalizados	44,541	71,552	39,169	56,011	87.9	78.3

Source: MAG/PERA "Análisis de la Situación Crediticia de las Cooperativas Agrícolas del Sector Reformado" Sep. 1982.

Exhibit 6-21 - Phase I Production Credit, Delinquent Payments, and Amounts Refinanced by Credit Institutions: 1980/81 and 1981/82

Thousands of Colones

Financial Institutions	Credit Granted		Delinquents Payments		Amount Refinanced		Not Refinanced	
	1980/81	1981/82	1980/81	1981/82	1980/81	1981/82	1980/81	1981/82
TOTAL	141,381	176,762	33,459	41,145	25,694	33,823	7,765	7,322
Banco de Fomento Agropecuario	31,135	32,917	20,249	10,349	20,197	8,761	52	1,588
Banco Hipotecario	30,724	33,680	6,825	13,563	2,476	12,527	4,349	1,036
Instituto Nacional del Café (INCAFE)	33,903	36,360	-0-	325	-0-	325	-0-	-0-
Federación de Cajas de Crédito	1,078	2,253	1,013	1,367	966	909	47	458
Bancos Comerciales Nacionalizados	44,541	71,552	5,372	15,541	2,055	11,301	3,317	4,240

Source: MAG/PERA "Analisis de la Situación Crediticia de las Cooperativas Agrícolas del Sector Reformado" Dec. 1 - 10, Septiembre de 1982

Exhibit 6-22 Reformed Sector Cooperatives and Their Situation of Solvency or Indebtedness for 1980/81 and 1981/82

Credit Institutions	1980/81 Funded	Solvent	Indebt	Refinanced	Not Refinanced	1981/82 Funded	Solvent	Indebt	Refinanced	Not Refinanced
1. Banco de Fomento Agropecuario	83	8	75	72	3	80	30	50	43	7
2. Banco Hipotecario	41	18	23	20	3	43	12	31	27	4
3. Inst.Nacional de Café	35	35	--	--	--	32	27	5	5	--
4. Federación de Cajas de Crédito	21	5	16	15	1	18	1	17	11	6
5. Bancos Comerciales Nacionalizados	81	55	26	14	12	85	37	48	35	13
TOTAL	261	121	141	121	19	258	107	151	121	30

Exhibit 6-23 Estimated Sources of Funds for the BFA for 1983

Millions of Colones

		BFA Estimate		Consultant Estimate
1. BID funds		78.0		78.0
2. AID "		57.0		-0-
3. PL.480 (micro-enterprises)		8.0		8.0
4. Central Bank (BCR)		145.0		145.0
Production Credit	100.0			
Development Fund	5.0			
Refinance	30.0			
Transfers	10.0			
5. BFA resources		61.0		74.0
Net recuperations	47.0		60.0	
Product sales	14.0		14.0	
Total Supply		349.0		305.0

Sources: AID/El Salvador Consultant Report, November 1982

Exhibit 6-24 BFA Estimated Financial Returns and Losses for Loans to Phase I Farms by Region, 1982 - 83

	Estimated Items	Western	Central	Para Central	Eastern	Total
1.	No. of Haciendas financed by BFA	25	15	35	19	94
2.	Est. Production 1982-83 (colones)	12,084,469	7,514,980	12,119,198	9,017,096	40,735,743
3.	Value of crop in Storage Previous Years (with) (colones)	863,901 (INCAFE)	1,578,037 (INCAFE, COPAL + INAZUCAR)	2,227,838 (INCAFE+COPAL	1,778,479 (COPAL	6,448,255
4.	Cooperative Savings (colones) and (# of coops)	27,700 (1)	30,850 (1)	0	8,641,00 (1)	67,191
5.	Expected Coop. Worth at end of 1982-83 (colones)	12,976.070	9,123,867	14,347,036	10,804,216	47,251,189
6.	Average Worth/Hacienda (colones)	519,042.8	608,257.8	409,915,31	568,642,94	502,672,22
7.	BFA Loans due by end of 1982-83 (colones)	11,323,144	5,381,014	12,025,198	12,360,489	41,089,845
8.	Total Delinquent Loans Previous to 1982-83 (colones)	4,064,589	6,623,021	13,913,655	3,061,576	27,663,441
9.	Est. Debt at end of 1982-1983	15,387,733	12,004,635	25,938,853	15,422,065	68,753,286
10.	Unpaid Loans to:					
	INCAFE	863,901	568,310	1,083,960		2,516,171
	COPAL		67,553	1,143,878	1,778,479	2,989,910
	INAZUCAR		942,174			942,174
11.	Net Delinquent Loans due BFA (row 8-9 in colones)	3,200,688	5,045,584	11,685,817	1,283,097	21,215,186
12.	No. of Coops with BFA credit expected to produce excess	14	15	7	2	36
13.	Est. Value of Excess	1,549,752	2,141,578	823,140	1,426,125	5,940,595

Estimated Items	Western	Central	Para Central	Eastern	Total
14. No.of Coops with BFA credit expected to produce deficit			24	15	51
15. Est.Value of Deficit	788,427	7,612.00	729,140	3,343,392	4,868,571
16. Didnot use credit 1982-83	-0-	1	4	2	7
Accumulated debt up to 1982-83 of No. of coops (In parenthesis)	3,228,388 (16)	5,076,434 (11)	11,685,817 (32)	1,291,738 (9)	21,282,377
18. Expected debt accumulated by March 83 and No. of coops needing refinancing (in parenthesis)	3,737,406 (14)	3,401,468 (10)	11,591,817 (35)	6,029,788 (16)	24,760,436
No.of Coops which have Removed (Added to) Past Debts (row 16-14)	2	1	(3)	(7)	3 (10)
No.of Relatively Solvent Coops (row 1-17)	9	5	-0-	3	17

*/ The Departments included in the regions include:

Western - Ahuachapán, Santa Ana, Sonsonate

Central - Chalatenango La Libertad, San Salvador, Cuscatlán

Para Central - La Paz, Cabañas, San Vicente

Eastern - Usulután, San Miguel, Morazán, La Unión

The underscored Departments are the most afflicted by rural violence.

Source: BFA Memorandum from Ing. Manuel Rafael Henríquez, Chief of the Coordination Unit for the Reformed Sector to Lic. Roberto Alvarado, Credit Manager, 25 November 1982.

Exhibit 6-25 PAYMENTS TO RESTRICTED ACCOUNTS BY INCAFE FOR COFFEE DELIVERED BY PHASE I COOPERATIVES FROM 1980/81 HARVEST */

Bank	BALANCE DUE AFTER PAYMENT on Coffee 1/ Credit	On Other 1/ Credit	Total No. of Bk. Coops.	CREDIT OF CO-OP EARNINGS TO: Agr. Debt	Cartera ISTA/BFA	Net Surplus (savings)
1. Agrícola Comercial	3	-0-	6	3	2	1
Amount ₡	1,546,629.40	-0-	-	586,337,96	677,692.47	162,650.83
2. Capitalizador	-0-	1	10	8	7	1
Amount ₡	-0-	22,687.17	-	1,534,627.45	1,362,820.00	2,381.12
3. de Comercio	1	-0-	3	2	-0-	-0-
Amount ₡	111,391.31	-0-	-	136,525.13	-0-	-0-
4. Crédito Popular	1	1	4	2	2	-0-
Amount ₡	618.98	12,118.67	-	495,082.99	397,471.67	-0-
5. Cuscatlán	8	6	16	13	5	1
Amount ₡	1,380,043.62	134,110.64	-	1,785.186.61	1,386,744.24	135,633.64
6. Des.E.Inv.	1	2	2	1	1	-0-
Amount ₡	177,403.11	87,147.51	-	97,637.00	312,519.03	-0-
7. Hipotecario	6	-0-	13	12	5	-0-
Amount ₡	1,427,930.02	-0-	-	1,454,695.50	303,203.39	-0-
8. Mercantil	3	2	5	-0-	-0-	-0-
Amount ₡	134,030.41	15,191.48	-	-0-	-0-	-0-
9. Salvadoreño	2	1	7	6	4	-0-
Amount ₡	680,545.23	135,144.14	-	1,265,161.65	427,801.52	-0-
0. Fedecrédito	1	1	1	1	-0-	-0-
Amount ₡	108,885.57	36,105.90	-	55,953.65	-0-	-0-
Total Co-ops	26	14	67	48	26	3
Amount ₡	5,567,477.65	442,505.51	-	7,411,207.94	4,868,252.32	300,664.59

Exhibit 6-26 Profiles of Six Phase I Cooperatives with Debts Which Were

Not Refinanced by Financial Institutions for 1982-83*/

	ISTA HACIENDA - COOPERATIVE OR ASSOCIATION					
	I	II	III	IV	V	VI
Related Features	Zacamil Santa Teresa	El Junquillo o Rancho Grande	Tonalá	Melara and San Juan Buena Vista	San Juan Bosco	San Raymundo
1. Financial Institution	Banco Agrícola Comercial	Banco de Crédito Popular	Banco Salvadoreño	Banco Salvadoreño	Banco de Crédito Popular	B.F.A.
2. Area in hec.	289.5	766	560	924	475	470
3. Number of Members	129	48	181	244	65	96
4. Number of Hectares Planned for Crops (81/82)	800	322	420	840	225	1,052 (multiple cropped)
5. Number of Hectares Actually Sown to Crops in 1981/82.	543	151	400	N.A.	230	997
6. Principal Crop	Corn-Beans	Corn-Sorghum	Cotton	Cotton	Corn	Coffee, Corn Rice

Related Features	Zacamil Santa Teresa	El Junquillo o Rancho Grande	Tonalá	Melara and San Buena Vista	San Juan Bosco	San Raymundo
7. Main Reasons for Shortfall in Funds	-credit also went to purchase tractor and for improvements on farm -work load poorly organized -Low price for grains-main crop -No full time ISTA technical assistance	-late credit & inputs -member unfamiliar w/ coop principals -No. ISTA promotor and part time technician -Coop. members borrowed funds from production credit	-mismanaged funds by Board of Directors -Poor quality pesticides -low cotton price -Late credit -Credit spent on farms repairs -No ISTA promotor or technician -High illiteracy	-irresponsible members not familiar w/ cooperation -low cotton prices -poor quality inputs -split in coop membership resulting in creation of San Juan Buena Vista -Problems w/ Bank imposed consultants called "Compañía Azteca"	-poor administration and lack of internal controls -lack of technical assistance -high costs of transport on the farm -poor cooperative organization and problems with ISTA promotor.	-used credit for machinery + improvements -poor administrative experience + poor member motivation -poor coordination and planning w/ lenders -low coffee yield -poor marketing -3 different Boards

Source: MAG/PERA "Analisis de la Situación Crediticia..." Sep. 1982

*/ Not refinanced as of Sep. 1982

Exhibit 6-27 Phase I Production Credit by Crops and Ratio of Unpaid Loan to Credit for 1980/81 and 1981/82

(Thousands of Colones)

	1980/81			1981/82		
	(1) Production Credit	(2) Amount Unpaid	(1)/(2)	(1) Production Credit	(2) Amount Unpaid	(1)/(2)
TOTAL	141,381	33,454	23.6	176,762	40,167	22.7
Basic Grains	17,973	8,323	46.3	25,900	7,667	29.6
Coffee	55,553	6,060	10.9	62,220	2,701	4.3
Cotton	56,308	11,635	20.7	68,851	24,290	35.3
Sugar Cane	6,894	2,952	42.8	13,458	298	2.2
Others	4,653	4,484	95.8	6,333	5,211	82.3

Source: MAG/PERA "Analisis de la Situación Crediticia de las Cooperativas Agrícolas del Sector Reformado" El Salvador, Sep. 1982 - Cuadros No. 3 y 6

Exhibit 6-28 Phase I Cooperatives - Estimates of Repayment Capacity Compared to Net Income Figures for 1981/82

Cooperative	Net Income for 1981/82 Without Agrarian Debt */	Est.Net Income for 1983/84 with 1st Payment on Ag.Debt**/ 25-30 yr. Mortgage 6% Interest	DIECRA's Assessment of Repayment Capacity in the Long Run
Intervenidos			
Comapa	(-217,463.80)	45,968,29	Yes
El Obrajuelo	(- 71,107.42	(-287,482.00) ***/	Yes, with 7 year grace period
Pasatiempo	(-207,132.80)	(-196,371.43)	Maybe
Cafetalera Los Pinos	145,863.92	116,167.85	Yes
Venta Voluntaria			
Santa Rosa II	30,603.46	1,466.96	Yes
Buena Vista	4,001.23	27,079.40	Yes, beginning in 6th year
Santa Elvira	26,790.60	(-85,445.00)	No capacity to pay
Los Naranjos	(No Production)	6,312.96	Yes, in four or five years
Corral Viejo	(-120,533.90)	(-591,188.90)	Maybe,with improved management and innovations
Nueva York	42,132.39	(- 96,562.24)	No
El Chaparral	(- 12,225.00)	7,032.32	Yes, in the fourth year (1985)
El Izote	18,328.71	(- 60,802.00)	Yes, in the long run

Source: MAG/DIECRA, individual copies of "Plan de Amortización de la Deuda Agraria"and Diagnóstico Agro-Socio-Económico de la Asociación Cooperativa, Nov.1982

*/ This is the second year of the grace period of the agrarian debt.

**/ These estimates are based on DIECRA's study of costs and returns for 1981/82 plus an adjustment made by DIECRA which assumes that the cooperatives will shift to more profitable crops and/or livestock activities. In other words, these are DIECRA's estimates of the best possible net returns.

***/ This is the negative net return facing the cooperatives before any calculated payment on "agrarian debt".

Exhibit 6-29 Other Phase I Cooperatives With DIECRA's Impressions of Long Term Repayment Capacity With the Agrarian Debt

Cooperative-Hacienda/Department	Will Cooperative be Able to Pay Long Term Debt?
1. Colima, Chalatenango	No
2. Los Lagartos, Sonsonate	Maybe, with extended grace
3. El Refugio, La Libertad	No
4. Los Achotales	No
5. Jalapa, Usulután	Yes, with 7 year grace period
6. Arada Vieja, La Libertad	Yes, with extended grace period
7. El Aguacate, La Libertad	Yes, " " " "
8. El Progreso, Ahuachapán	No
9. Rancho Montevista, Santa Ana	Yes
10. El Pedregal, Santa Ana	No
11. La Presa, Santa Ana	No
12. El Recuerdo, La Paz	Yes
13. El Socorro, La Libertad	No
14. Las Hojas	Maybe
15. Los Granadillos	No
16. San Miguel Buenavista	No
17. San Alfonso	No
18. Tepeagua II	Yes

Source: DIECRA, November 1982, Preliminary reports

Exhibit 6-30 Comparison of Features of Phase I Cooperatives With and Without the Determined Capacity to Repay the Agrarian Reform Debt. */

Cooperatives With Repayment Capacity **/	Land Area (ha)	Hectares Per Member of Co-op.	Assessed Value of Land Per Hectare ¢	Agrarian Debt ¢	Literacy Rate of Members 10-60 yrs Old % read & write	% of Family Members Living on Farm
1. Comapa	180.62	4.88	4,318.45	977,000	59.4	16.2
2. El Obrajuelo	272.30	6.64	744.77	328,575	61.9	95.1
3. Pasatiempo	516.50	2.61	7,363.79	4,714,177	N.A.	63.1
4. Café Los Pinos	175.61	1.78	7,898.34	1,407,985	30.0	100.0
5. Santa Rosa II	378.72	15.15	3,445.82	1,305,000	27.0	8.0
6. Buena Vista	68.66	2.75	3,183.48	468,100	50.0	100.0
7. Los Naranjos	133.25	16.66	1,578.35	178,900	N.A.	-0-
8. Corral Viejo	180.06	5.30	6.892.92	1,377,832	61.0	64.7
9. El Chaparral	146.77	7.00	3,406.67	500,000	29.0	76.2
10. El Izote	97.92	3.16	7,676.56	750,000	49.0	22.6
11. Jalapa	344.71	5.84				
12. Arada Vieja	133.25	4.76				
13. El Aguacate	272.00	9.38				
14. Rancho Montevista	1,042.40	11.33				
15. El Recuerdo	77.35	4.07				
16. Las Hojas	163.68	4.96				
17. Tepeogua	94.68	3.95				
Cooperatives With No Repayment Capacity						
18. Santa Elvira	190.38	7.32	5,252.93	1,000.000	61.7	34.6
19. Nueva York	176.31	4.91	6,158.66	1,297,702	75.0	47.5
20. Colima	2,049.40	26.97				
21. El Refugio	659.65	5.04				
22. Los Achotales	453.42	5.86				
23. El Progreso	342.70	6.12				
24. El Pedregal	34.40	1.38				
25. La Fresa	491.82	1.82				
26. El Socorro	267.40	10.70				
27. Las Granadillas	441.40	2.37				
28. San Miguel Buenavista	353.39	8.41				
29. San Alfonso	466.27	6.39				

Related Features	Zacamil Santa Teresa	El Junquillo o Rancho Grande	Tonalá	Melara and San Buena Vista	San Juan Bosco	San Raymundo
7. Main Reasons for Shortfall in Funds	-credit also went to purchase tractor and for improvements on farm -work load poorly organized -Low price for grains-main crop -No full time ISTA technical assistance	-late credit & inputs -member unfamiliar w/ coop principals -No. ISTA promotor and part time technician -Coop.members borrowed funds from production credit	-mismanaged funds by Board of Directors -Poor quality pesticides -low cotton price -Late credit -Credit spent on farms repairs -No ISTA promotor or technician -High illiteracy	-irresponsible members not familiar w/ cooperation -low cotton prices -poor quality inputs -split in coop membership resulting in creation of San Juan Buena Vista -Problems w/ Bank imposed consultants called "Compañía Azteca"	-poor administration and lack of internal controls -lack of technical assistance -high costs of transport on the farm -poor cooperative organization and problems with ISTA promotor.	-used credit for machinery + improvements -poor administrative experience + poor member motivation -poor coordination and planning w/ lenders -low coffee yield -poor marketing -3 different Boards

Source: MAG/PERA "Analisis de la Situación Crediticia..." Sep. 1982

*/ Not refinanced as of Sep. 1982

Exhibit 6-31

Comparison of Beneficiaries of Phase I and "207" from Rural Poor Study

	Phase I Potentially Affected families (83)	"207" Potentially Affected Families (259)
Median family size	6.0	6.0
Level of Living Index score out of 8 points	3.16	3.33
Lighting source		
electricity	16.9%	15.1
kerosene	80.7	84.9
other	2.4	
Access to potable water		
access	28.9% *	72.2 **
no access	71.1	27.8
Sanitary Facility		
indoor	No data	8.9%
outdoor latrine	No data	23.2
none	No data	68.0

Access to land

Phase I	(N)	"207"	
no access	24		
less than .50	15	less than .50	20.0%
.50 - .99	8	.50 - .99	33.5
1.00 - 1.49	2	1.00 - 1.49	27.3
1.50 - 1.99	1	1.50 - 1.99	4.6
2.00 - 9.99	5	2.00 - 7.00	12.7
		more than 7.00	

Access to credit

	Phase I	"207"
have access	7.2%	20.0
no credit	92.8	80.0

* piped water

** any source except river and rainwater

Source: Flinn Study - complete

Exhibit 6-32 Summary of ISTA-DIECRA Socio-Economic Studies of ISTA Cooperatives

Cooperative ISTA-Hacienda	DIECRA NO.	No. of Socios	Houses	Health	Literacy %	Education
*Comapa	266	37	5 for 6 families	Health Clinic (? Kms)	59.4	no data
*El Obrajuelo	270	41	31*for 40 families	No first aid on Clinic in Atiquizaya 8 kms.	61.9	no data
*Pasatiempo	272	198	55 single fam.houses, 11 multi-fam. for 125 families	Clinic on Property	N.A.	School on property + school nearby
*Cafetalera Los Pinos	280	99	14 single fam.houses, 3hses for 8-10 families, 125 total families	Infirmary w/full time practical nurse, good medical supplies	30.0	1-6 grade school on finca-4 classrooms 3 teachers 180 studs.
De "Venta Voluntaria						
Santa Rosa II	268	25	3 for 3 families	Own first aid supplies Clinic 12 kms.	29.0	no data
Buena Vista	274	25	9*for 13 families	No first aid and supplies, clinic at Izalco ? kms	50.7	no data
Santa Elvira de P.L.	276	26	12*for 9 families	Clinic in Tecapan 3ks.	61.7	school at 3 kms.
Los Naranjos (Arada Vieja)	278	8	This property is practically inaccessible by vehicle - 4 kms. independently - no control/no supervision			
Corral Viejo	282	34	27 for 24 fams!.	Mid wife in area Hosp. at 10 kms.	61 61	school at 1.5 kms.

Exhibit 6-33 Summary of ISTA-DIECRA Socio-Economic Studies of ISTA Cooperatives

Nueva York	292	40	23 for 29 families	First aid supplies clinic at 3 kms.	75		
El Chaparral	294	21	6 hses.for 16 fams (10.5 persons per house)	No first aid supp. Clinic in Aguilares ? kms.	29.	Good school at 2 kms/no one goes	no data
El Izote	296	31	7 for 7 families	Clinic at 5 kms.	49	3 attend school*at 5 kms distance	₡6 p/day worker ₡14.25 p/day overseer

*/ Propiedades ISTA
ex-propiedades

Exhibit 6-34 Contrasts Between Phase I and Phase III Including Technical Assistance

	Phase I (March 1980)	Phase III (April 1980)
1. Implementing Laws	Decree 153 + 154	Decree 207
2. Responsible Agency (Agency Founded)	ISTA June 1975 Decree 302	FINATA December 1980 Decree
3. Initial Move Required by	ISTA/ARMED FORCES	Tiller of the Land
4. Purchaser of Land	ISTA	FINATA
5. Responsible for Titling Process	ISTA	FINATA
6. Beneficiaries (number of persons) as of Dec. 1982	Workers of haciendas (178,530)	Tiller of land as renters or sharecroppers o. with purchase pending (215,616)
7. Management of Farm	Co-Management Cooperative Association with ISTA	New title holder alone
8. Major products	export commercial	domestic, basic grains
9. Credit	ISTA and Nationalized Banking System	Tillers Depends on initiative and BFA
10. Compensation to Ex-owners	Payment in bonds for land and cash for capital items	50 bonds + 50 cash to owners with less thai 100 hectares
11. Technical Assistance		
a. Management Training and Assistance	- ISTA Division of Enterprise Development - MAG/OSPA/DIECRA - CODIZO - Voluntary groups like	None
Nationalized Banks	- FESACORA, UCS, ACOPAI	
b. Social Organization	ISTA promotor UCS, ACOPAI	Limited help from MAG for Youth Groups and home economics via grupos solidarios UCS, ACOPAI

c. Agriculture Production	ISTA cogestor CENTA ISIC (coffee) MAG technical assistants	practically none, limited to zonal technical assistant of MAG
12. Housing Assistance	Pilot projects being considered with BFA + Min Housing	none

Exhibit 6-35 Cooperatives Aggregated by Department and Size Category in Hectares

Department	0 to 99	100-199	200-499	500-999	1000-1999	2000-2999	3000 +	Total
Ahuachapán	0	2	10	10	4	0	0	26
Santa Ana	2	3	6	8	1	2	1	23
Sonsonate	3	5	7	15	3	3	0	36
La Libertad	4	4	19	17	5	3	0	52
Chalatenango	0	2	3	0	1	1	1	8
San Salvador	0	2	1	6	1	1	1	12
Cuscatlán	0	0	2	0	0	1	0	3
San Vicente	2	5	11	6	1	0	0	25
Cabañas	0	0	2	0	0	0	0	2
La Paz	4	9	17	8	4	0	2	44
Usulután	2	5	11	14	8	0	1	41
Morazán	0	0	1	1	0	0	0	2
San Miguel	1	0	3	7	4	2	2	19
La Unión	1	0	3	9	4	0	0	17
TOTAL	19	37	96	101	36	13	8	= 310

Source: ISTA, December 1982

(To be used as an Example)

Exhibit 6-36
ASSESSMENT OF STAFF AND BOARD RESOURCES

Variable	Small, limited resource coop.	Large, expansive cooperative
1. Average Number of full-time staff		
2. Average full-time managerial/professional accountant staff		
3. Educational background of manager and accountant 8 years 8 - 12 years 12 - 16 years		
4. Manager/Accountant experience average % of current responsibilities held in previous job		
5. Board of Directors education % 6 years or more		
6. Board connections: % applications with other tasks or organizations or banks		
7. Board experience: % having similar positions before		
8. Number of non-board coop. members who have similar qualifications of current board.		

Exhibit 7-10 Results of National Survey of 1073 Beneficiaries of Decree "207" September, 1982 by PERA

Size of Parcel
Hectares

0 - 0.35	9.1%
.36 - .69	5.8
.70 - 1.39	39.8
1.40 - 2.09	18.3
2.10 - 3.49	17.5
over 3.50	9.4
	99.9

Rental Payment before FINATA

cash	84%
product	15
mixed	1
	100

"How heard of Decree 207"

Radio	70%
Newspaper	9
T.V.	3
Posters	1
Campesino Organizations	13
Other Beneficiary	15
Other means	6
	117 because of multiple responses

Crops Produced

	%
Corn	50.0
beans	14.7
rice	2.4
sorghum	30.5
other	2.4
	100.0

Exhibit 7-10 (continued) Source of Credit

	Before "207"	After "207"
Own Funds	59%	45%
Private lenders	4	3
Family	1	1
Banks	23	36
Other	1	2
No credit (crops which don't require purchased inputs	11	14
	100	100

How get Bank Credit?

	BFA	OTHERS	TOTAL
Individually	37.5%	77.9%	39.7
Through Coop	1.6	3.3	1.7
Solidarity Group	59.	18.7	57.6
Other	1.1	0	1.0
	99.3	99.9	100.0

Participation of 207 Beneficiaries in cooperatives or other farming organizations

Type of Organization	%
Agr. production Coops	6
Agr. service Coops	2
Savings & Loan	3
Solidarity Group	24
Would like to participate	24
No desire to participate	10
No answer	31
	100

Exhibit 7-10 (continued)

Level of Living Items

Literacy rates of population over 6 years old in "207" beneficiary families

Age	Literate	Illiterate
7 - 9	29.0%	71.0%
10 - 15	58.1	41.9
16 - 25	63.3	34.7
over 25	41.9	58.1
Total	50.0	50.0

Years of School Attended

none	51.6%
1 - 2	19.1
3 - 6	24.0
7 - 9	4.5
more than 10	.8
	100.0

Household Expenses

food	57%
clothes	17
health	12
transport	8
other	5
	99

Water Supply

Piped water	9
Public wash stand	10
Well	28
Other	55
	102

Sanitation

Latrine	13
No sanitary service	87
	100

Exhibit 7-10 (continued)
"Whom do you sell your crops to" in %

	Region I	II	III	IV	Total%
	N =(425)	(282)	(50)	(316)	(1,073)
IRA	17	9	4	2	10
INTERMEDIARY	43	46	72	37	46
CONSUMER	--	1	--	--	--
NO INFORMATION	40	45	24	61	44
	100	101	100	100	100

"Receive Technical Assistance"

Yes	13
No	87
No answer	
	100.

"How would you rate the technical assistance you have received?"

	Total	N
MAG		
Good	72%	(14)
Fair	22	
bad	6	
BFA		
Good	64	(123)
Fair	36	
bad	0	
OTHER		
Good	64	(8)
Fair	36	
bad	0	

Exhibit 7-10 (continued)

Cooking Fuel

Electric	1
Kerosene	1
Wood	97
Other	1
	100

Walls

wood/mud	35%
adobe	37
wood	8
metal	1
straw	5
other	12
	98

Floors

brick	5%
wood	-
earth	84
other	10
	99

Roof Materials

Tile	60%
asbestos	6
metal	18
straw	14
other	2
	100

Source: PERA December 1982

APPENDIX D

The Study Team reviewed a great deal of information on social factors in El Salvador's agrarian reform. Some readers may be interested in tables prepared in our earlier draft, but not used in the final text. (The Exhibit numbers are from the earlier draft, are not consecutive, and may duplicate the number of tables appearing in the text.)

Appendix - D

ISTA-DIECRA: SOCIO-ECONOMIC CHARACTERISTICS OF ISTA-HACIENDA COOPERATIVES AND MEMBERS

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Cooperative ISTA-Hacienda	DIECRA Ref	Total Area (ha) (asignada)	Department (zone)	Intervention date	No. of members (socios)	ha/socio (3) ÷ (6)
Comapa	266	180,6201	La Paz (III)	13 May 81	37	4.88 ha
El Obrajuelo	270	272,30	Ahuachapán (I)	22 Abril 80	41	6.64 ha
Pasatiempo	272	516.50	La Libertad (II)	11 Abril 80	198	2.61 ha
Cafetalera Los Pinos	280	175.60	Santa Ana (I)	6 March 80	99	1.78 ha
De "Venta Voluntaria"						
Santa Rosa II	267	378.72	Chalatenango (I)	19 June 81	25	15.15 ha
Buena Vista	274	68.66	Sonsonate	14 Sep. 81	25	2.75 ha
Santa Elvira R.L.	276	190.38	Usulután (IV)	29 Oct. 80	26	7.32 ha
Los Naranjos (Arada Vieja)	278	133.25	La Libertad (II)	24 Nov. 80	8	16.66
Corral Viejo	281	180.06	La Paz (III)	11 Jul. 80	34	5.30
Nueva York	291	196.31	Ahuachapán (II)	8 Jul. 80	40	4.91
El Chaparral	293	146.77	San Salvador (II)	10 Jul. 81	21	7.00
El Izote	295	97.92	La Libertad (II)	2 Sep. 81	31	3.16

Appendix - D (Continued)

ISTA-DIECRA: SOCIO-ECONOMIC CHARACTERISTICS OF ISTA-HACIENDA COOPERATIVES AND MEMBERS

(1)	(8)		(9)	(10)	
	Residence of Family Membs.		No. of non-member	Pop. of Member Families	
Cooperative ISTA-Hacienda	a) on property	b) off property	families on property	a) Total	b) On Farm (off)
Comapa	6	31	-0-	100	18 (82)
El Obrajuelo	39	2	1	183	
Pasatiempo	125	73	-0-	1049	
Cafetalera Los Pinos	99	-0-	26	755	
De "Venta Voluntaria"					
Santa Rosa II	2	22	1	121	
Buena Vista	25	5	-0-	57	
Santa Elvira R.L.	9	17	-0-	97	
Los Naranjos (Arada Vieja)	-0-	8	-0-	N.A.	
Corral Viejo	22	6	2	N.A.	
Nueva York	19	21	10	140	
El Chaparral	16	5	-0-	63	
El Izote	7	24	1	105	

Appendix - D (Continued)

ISTA-DIECRA: SOCIO-ECONOMIC CHARACTERISTICS OF
ISTA-HACIENDA COOPERATIVES AND MEMBERS

(1)	(11)			
	Economically Active Pop.		No. of (11) who read	
Cooperative ISTA-Hacienda	a) (10-60 yrs) Male & Female	b) % (11)/10a	a) No. 10 yrs-60	b) % 12a/11a
Comapa	64	64.0	38	59.4
El Obrajuelo	105	57.4	65	61.9
Pasatiempo	692	66.0	N.A.	
Cafetalera Los Pinos	474	62.8	142	30.0
De "Venta Voluntaria"				
Santa Rosa II	67	55.4	18	27.0
Buena Vista	40	71.1	20	50.7
Santa Elvira R.L.	47	48.4	27	61.7
Los Naranjos (Arada Vieja)	N.A.	-	N.A.	-
Corral Viejo	57	-	35	61
Nueva York	88	62.9	66	75
El Chaparral	39	61.9	11	29
El Izote	72	68.6	35	49

Appendix - D

ISTA-DIECRA: SOCIO-ECONOMIC CHARACTERISTICS OF ISTA-HACIENDA COOPERATIVES AND MEMBERS

Cooperative ISTA-Hacienda	Area Total (hectarea)	Area Desmembrada	Area Indemnizada	Area Reserva Nat'l	Area Asignada
Comapa	180.62	0	180.62	0	180.62
El Obrajuelo	272.30	0	272.30	0	272.30
Pasatiempo	585.29	63.43	516.52	0	516.52
Cafetalera Los Pinos	175.61	0	175.61	0	175.61

De "Venta Voluntaria"

Cooperative ISTA-Hacienda	Area Total (hectarea)	Area Desmembrada	Area Indemnizada	Area Reserva Nat'l	Area Asignada
Santa Rosa II	378.72	0	0	0	378.72
Buena Vista	68.66	0	68.66	0	68.66
Santa Elvira R.L.	190.38	0	190.38	0	190.38
Los Naranjos (Arada Vieja)	478.99	321.83	24.24	0	133.25
Corral Viejo	180.06	0	180.06	0	180.06
Nueva York	179.21	0	176.31	0	176.31
El Chaparral	146.77	0	146.77	0	146.77
El Izote	97.92	0	0	0	97.92

Appendix - D (Continued)

ISTA-DIECRA: SOCIO-ECONOMIC CHARACTERISTICS OF ISTA-HACIENDA COOPERATIVES AND MEMBERS

Cooperative ISTA-Hacienda	Net Income*/ 1981 - 1982 Gross Income	Expenses	Net (Negative)	Main crops or Livestock Earners	Losers
Comapa	340,633.62	558,097.42	(217,463.80)	-	Corn
El Obrajuelo	188,756.03	259,863.45	(71,107.42)	Beans, Livestock	Rice, corı coffee
Pasatiempo	2,318,801.56	2,525,934.36	(207,132.80)	Coffee, Sugan cane	Milk
Cafetalera Los Pinos	1,621,356.92	1,475,493.00	145,863.92	Coffee	0
De "Venta Voluntaria"					
Santa Rosa II	437,848.69	407,245.23	30,603.46	Sugar cane	Rice
Buena Vista	136,012.45	132,011.22	4,001.23	Coffee, sugar, Catt.	
Santa Elvira R.L.	282,795.73	256,005.13	26,790.60	Coffee+firewood	
Los Naranjos (Arada Vieja)	This property has not sown a crop by a cooperative, organized group but somewhat as individuals who are primarily fishermen. The group has no credit, only agr. debt.				
Corral Viejo	213,604.66	335,138.56	(120,533.90)	Cotton	Vegetabl
Nueva York	707,206.10	665,073.71	42,132.39	Okra, rice, sesame	Livestoc
El Chaparral	39,060.00	51,285.00	(12,225.00)	Maiz	Pasture/ Livesto
El Izote	47,668.88	29,340.17	18,328.71	Coffee	0

*/ Net income is based upon costs of production (without interest changes) using national cost of production tables for inputs and on market price times quantity produced. The costs and returns are based upon national figures and not on the farm (opportunity costs) or region. These are actual (monetary) costs and returns estimates.

Appendix - D (Continued)

ISTA-DIECRA: SOCIO-ECONOMIC CHARACTERISTICS OF ISTA-HACIENDA COOPERATIVES AND MEMBERS

Cooperative ISTA-Hacienda	Valor por Hectaria ¢	Valor del Inmueble	Valor del Ganado	Valor de Maquinaria y Equipo	Otros	Total Cŏst
Comapa	4,318.45	780,000	0	197,000	0	977,000
El Obrajuelo	744.77	202,800	106,100	19,675	0	328,575
Pasatiempo	7,363.79	3,803,400	401,171	285,406	224,200	4,714,177
Cafetalera	7,898.34	1,387,000	0	20,985	0	1,407,985
Los Pinos						
De "Venta Voluntaria"						
Santa Rosa II	3,445.82	1,305,000	0	0	0	1,305,000
Buena Vista	3,183.48	393,800	50,200	24,100	0	468,100
Santa Elvira R.L.	5,252.93	1,000,000	0	0	0	1,000,000
Los Naranjos (Arada Vieja)	1,578.35	178.900	0	0	0	178,900
Corral Viejo	6,892.92	1,241,083.50	0	136,748.18	0	1,377,831.
Nueva York	6,158.66	1,085,817.85	111,697	100,187.00	0	1,297,701.85
El Chaparral	3,406.67	500,000.00	0	0	0	500,000
El Izote	7,676.56	750,000.00	0	0	0	750,000

Appendix - F

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