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AGRARIAN REFORM IN EL SALVADOR

PROCESS AND PROGRESS

by

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September, 1986

EL SALVADOR'S AGRARIAN REFORM:

THE BACKGROUND

For tiny El Salvador, with approximately 600 persons for each of its 8,260 square miles (greater density than India and four times the density of its Central American neighbors), land has an importance beyond that known in the United States. It is central to the economic, social and political struggle taking place within El Salvador. Appreciating the upheaval brought about by the Salvadoran Agrarian Reform requires one to suspend prior notions of land as a natural resource or economic factor of production and view it within the Salvadoran context. Status, wealth and income, even survival, are tied to land and access to it.

The importance of land in El Salvador stems from its scarcity, a chronic state of overpopulation and the value associated with coffee, El Salvador's principal agricultural export crop. El Salvador's total land area comprises about 5.2 million acres of which 3.6 million acres (69%) were reported as "Land in Farms" in the 1971 agricultural census, the most current source available. (Due to the armed conflict in some zones of the country this area has decreased somewhat since 1971.)

The land most suitable for intensive agriculture (Classes I, II, and III within the USDA soil classification system1/) comprises 17 percent of the nation's lands. Class IV lands comprise 6 percent of the land area; and marginal lands (classes V, VI, VII, and VIII), many of which are being intensively farmed, constitute 77% of the nation's farmland (see Figure 1). The situation in 1971 was one of persons farming (or trying to farm) almost all available land, regardless of its suitability for agriculture. Considering the population pressures within El Salvador, this is not surprising.

Since the 1500's when the territory which is now El Salvador had an estimated 150,000 inhabitants, El Salvador has been overpopulated in comparison to its Central American neighbors. During the Spanish conquest, population dropped to about 60,000; but by 1821, the year of independence from Spain, it had increased to about 250,000. In the following 150 years of independence, population increased to 1.4 million persons in 1921 and to 3.6 million by 1971. In 1986 population is estimated by the U.S. Agency for International Development (A.I.D.) to be 5.1 million (no census has been conducted since 1971) and by 2000 it will reach 8.0 million persons. Population growth is a major contributor to the level of unemployment which, in 1983, was estimated by the Government of

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1/ Land classifications (USDA Soil Conservation Service) are base on soil and topographic characteristics which affect the productivity and profitability of agronomic crops. Class I land is the most desirable for crop production

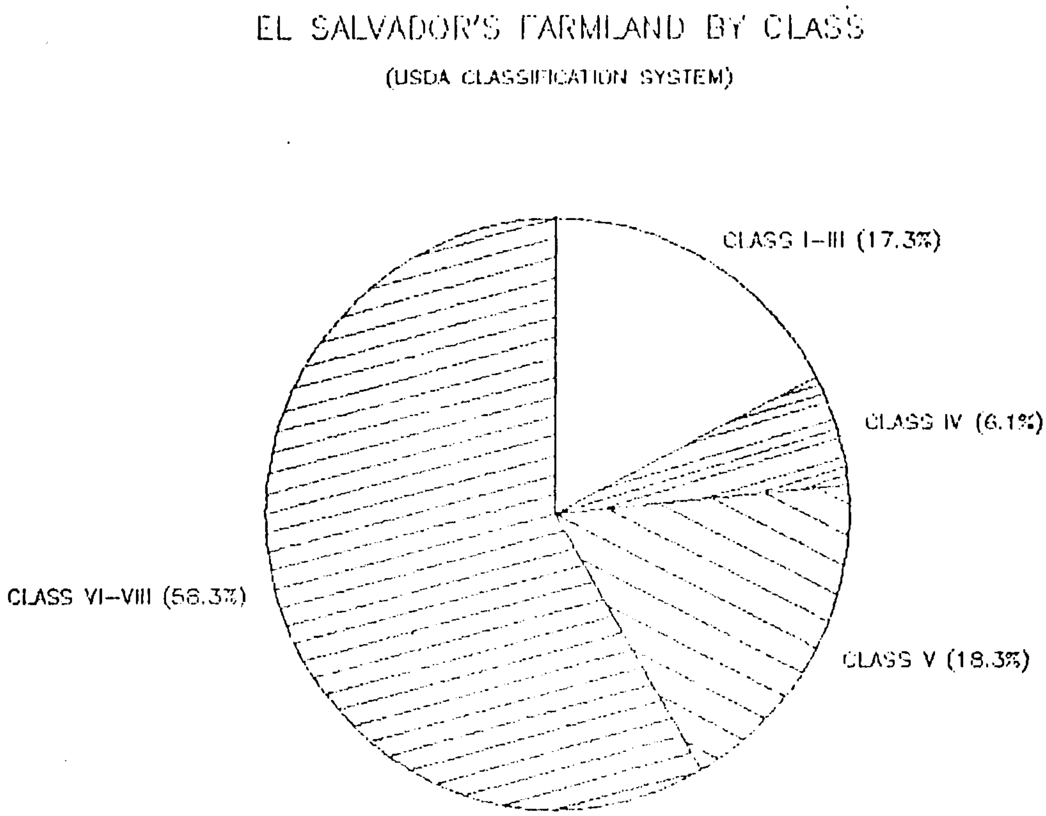
EL SALVADOR'S FARMLAND BY CLASS
(USDA CLASSIFICATION SYSTEM)
CLASS I–III (17.3%)
CLASS IV (6.1%)
CLASS V (18.3%)
CLASS VI–VIII (58.3%)

FIGURE 1

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El Salvador (GOES) to be 30 percent but which is more realistically close to half the working population. What work is available is dominated by agricultural labor which employs over 40 percent of the economically active population. Coffee, cotton and sugar cane--El Salvador's major export crops--employ most of this labor, although the employment is seasonal, peaking in the harvest period between November and February.

Coffee has dominated the economy of El Salvador since the 1800's, and likely will for some time to come. Salvadoran land tenure patterns began to change with the advent of coffee production. Prior to the 1800's land tenure had two principle forms: Ejidal lands which were farmed communally by mostly Indian communities and planted to basic grains: and haciendas, privately held estates which produced indigo and cacao for export. As coffee grew in export value hacienda owners recognized the suitability of ejidal lands for coffee production, and the Salvadoran State assumed an active role in effecting their conversion from subsistance cultivation to export production. In 1856 the State decreed that if two-thirds of all ejidal lands were not planted in coffee, ownership would revert to the State. Given the three year lag between planting coffee trees and harvesting the first crop, the switch from subsistence farming to coffee production required capital which was unavailable to most communal farmers. In 1881 the State decreed all ejidal properties not planted in coffee be divided into privately owned plots, and within a year the State dropped all pretense and abolished communal ownership altogether.

With communal ownership outlawed and a lack of capital restricting entry of all but a few into coffee production, land ownership passed to and was concentrated within a landed few while the disenfranchised scrambled to obtain access to land unsuitable for coffee through rental agreements, sharecropping or colono status whereby permanent workers on haciendas received a small salary and/or plot of land (milpa) on which to subsist. Those who could not obtain access became the landless poor who still provide much of the seasonal labor in El Salvador at minimal wages. The trend of concentrated land ownership, accumulated wealth and increased political power of the few continued into the 1900's, surrounded by a growing number of landless poor.

The resulting land pressures erupted into the first communist inspired revolt in the western hemisphere, the campesino revolt of 1932, which was violently quelled by Government troops who killed between ten and twenty thousand peasants in what has become known as the matanza or massacre. In reaction to the matanza, the large landowners and the military strengthened their symbiotic relationship of coercion which lasted until 1979.

After the _matanza_ an Agrarian Reform Agency was established and operated under various names from 1932 to 1975: _Mejoramiento Social_, _Administración de Bienestar Comunitario_ (ABC), _Instituto de Colonización Rural_ (ICR). Regardless of name, the accomplishments were small. In the 43 years of the Agrarian Reform Agencies, they settled 10,700 families on 132,000 acres which were voluntarily acquired.

In 1965, as part of a growing social awareness in the country, minimum wage legislation was enacted, but its effect was to abolish the _colono_ system under which families worked on a _hacienda_ for the right to live there. Landlords who had found it advantageous to maintain many _colono_ families evicted all in excess of their minimum permanent labor needs. The evicted _colonos_ joined the growing number of landless poor and lived around the estates or moved to cities to compete for the few job opportunities opening there.

A United Nations's study reported the number of persons without any access to land increased from 12 percent to 40 percent of the rural population between 1960 and 1975. Two percent of the persons owned 60 percent of the land, much of which was extensively farmed or grazed, while El Salvador had the highest ratio of landless families to total population in Latin America. Rental was the dominant form of land tenure. The situation could not maintain against the growing crisis of rural poverty, and the call for land reform began.

Supported by the large landowners, a succession of military governments ruled El Salvador from 1961-79 through the official party, "Partido de Conciliacion Nacional" (PCN) but not without challenge. In 1967, "Partido Acción Renovadora" (PAR) called for expropriation with prior compensation of all land in excess of 260 acres. Compensation would be paid in 20 year bonds. The platform was declared illegal and the party disbanded. In 1970 the "First Congress on Agrarian Reform" was held, but private sector representatives withdrew and the government attended only as an observer. In 1972, the "Partido Demócrata Cristiano" (PDC) introduced agrarian reform legislation which was ignored and never debated. In 1973, the "Central American University--Jose Simeon Cañas" (UCA) published an edition of its economic review (ECA) on the subject of agrarian reform. As a result of growing pressures, the government of Colonel Arturo Armando Molina (1972-77) took the first concrete steps toward reform, then retrenched.

In a July 1973 address to the Salvadoran people, President Molina affirmed a policy of growth in the agricultural sector and improvement in campesino family living conditions. In June 1975 the Salvadoran Institute for Agricultural Transformation (ISTA) was created from ICR, the existing Agrarian Reform Agency, to acquire land through voluntary sales and administer it with the purpose of changing the land tenure structure in favor of the campesinos.

In June 1976 Decree 31 proposed the purchase (price based on land quality) of 142,000 acres of prime agricultural land (58 percent Class I-III) with irrigation potential in the cotton growing regions of San Miguel and Usulutan. The land was to be divided into parcels of from 7-85 acres each and distributed to 12,000 campesino families. PCN controlled both legislative and executive branches of government so legal opposition to the measure was limited, but the measure was opposed.

The issue polarized interest groups within El Salvador. Traditional landed interests represented by the National Association of Private Enterprise (ANEP) and the cotton and cattle producers of the Eastern region (FARO) strongly opposed the plan. Two popular organizations (FAPU and BPR) which later joined the guerrillas, as well as the Salvadoran Communist Party (PCS) and the National Association of Salvadoran Educators (ANES), denounced the reform as inadequate and counterrevolutionarty. The major campesino organization (UCS) supported it enthusiastically. The Roman Catholic church remained publicly silent.

Strong traditional interests prevailed. An extended dialogue between those opposed to the measure and the government resulted in modifications to Decree 31 which specified all sales would be voluntary and at market prices. In the end, almost none of the land intended for transfer under the Decree changed hands. From 1975 to 1979, ISTA did manage to acquire

35,000 acres which were distributed to 3,900 beneficiary families. Like the lands distributed by its predecessor institutions, ISTA land was given in cooperative holdings and together these efforts resulted in the 103 farming enterprises now known as "Pre-Reform Cooperatives." These efforts were not enough, however, to alleviate the rural crisis which was growing within El Salvador's relatively successful, agriculturally based, macroeconomy.

The agricultural which had developed in El Salvador during the 1900's was, if lacking in equity, nonetheless efficient and profitable. Basic grains, harvested in late summer and fall, were produced on small, usually rented, family operated parcels which supplied the nation's food requirements at a very low cost. Export agriculture produced the nation's foreign exchange and the harvest of export crops provided off-farm income to large numbers of small farmers who would leave their parcels each winter to follow the coffee, cotton and cane harvest, returning with their wages in time to begin preparing their parcels for the next planting of basic grains. The relationship worked well except that it exacerbated the income disparity between the subsistence farmers/laborers and those who controled the highly profitable export agricultural sector.

Export producers paid an export tax which financed the comparatively well developed economic infrastructure which existed in at least the urban areas of El Salvador, and it financed the beginnings of the manufacturing sector which was growing and providing much needed urban employment opportunities in the mid-1970's. Higher education was free and some social services were being introduced, but basic education and health services in the countryside were minimal. While the economic system was efficient and the social system, financed by exports, was improving, it wasn't enough. Land concentration maintained and, in concern with the growing population pressure and income disparity, conditions worsened for the majority, setting the stage for more radical change.

On Octobeer 15, 1979, amid depending social crisis, increasing radicalization of popular labor unions and escalating violence from leftist guerrillas, Colonels Adolfo Majano and Jamie Abdul Gutierrez overthrew the government of General Carlos Humberto Romero and, inviting three civilians to join them, constituted themselves as the first Civilian-Military Revolutionary Junta. Their statement of October 15, 1979, accused the Government of: (1) Violating the human rights of the majority, (2) Fomenting and tolerating corruption, (3) Creating an economic and social disaster, and (4) Profoundly embarassing the country and its armed forces.

After announcing the coup which was bloodless (General Romero and his Cabinet fled to Guatemala), the Junta proclaimed an emergency program of the following: (1) Cessation of violence and corruption, (2) Guarantee of human rights, (3) Redistribution of national resources--including specific statements creating the bases of agrarian and financial reforms but guarranteeing the right of private property within the social context, and (4) Improving foreign relations, including reestablishing relations witn Honduras (A brief war was fought between Honduras and El Salvador in 1969) and strengthening ties with the Nicaraguan people (The Sandinista government of national reconstruction had taken power three months earlier.)

Amidst a situation of general violence and pressure from traditional interests, while attempting to give participation to diverse and opposing sectors, the first Civilian-Military Revolutionary Junta self-destructed on January 3, 1980, with the resignation of the three civilian members.

Six days later, a pact between the military and the PDC resulted in two important events: (1) PDC dissidents left the party and with others formed the "Frente Democratico Revolucionario" (FDR), the political wing of the insurgents currently attempting the overthrow of the GOES, and (2) the second Civilian-Military Junta was formed which shortly proclaimed the current agrarian reform.

On February 2, 1980, the Junta froze land sales and announced a series of economic reforms would be forthcoming, including nationalization of banking, government control of export marketing and an agrarian reform. On February 8 the

Constitution of 1962 was suspended and a state of emergency declared in order to introduce "structural changes" within Salvadoran society. On March 5 the Junta issued Decree 153, the Basic Law of the Agrarian Reform, and implemented the reform on March 6 by Decree 154. On March 7 the Junta nationalized the private banking sector. On March 9 one of the Junta members resigned, and Jose Napoleon Duarte was called as the member to replace him.

In December 1980 Col. Majano resigned from the Junta, naming Jose Napoelon Duarte as President of the Junta Government. Duarte affirmed that the revolutionary government was opposed to the private sector. Later in December the guerrillas launched their ill fated final offensive. Attacked by leftist guerrillas trying to overthrow the fragile reform government and rightist seeking to reverse or moderate the reforms, the Junta functioned but without stability, ruling by Decree.

In March 1982 elections were held for a Constitutional Assembly and, despite violence and denunciations by the left, a Constitutional Assembly was convened in April. The Constitutional Assembly, led by Roberto D'aubuison of the conservative "ARENA" party, choose Doctor Alvaro Magaña as provisional President and created three Vice-Presidencies, one for each of the three major parties--ARENA, PCN and PDC. From March 1982 to March 1984, the country was run by the provisional government while the Constitutional Assembly struggled to write a Constitution. During this period, the Ministry of Agriculture was in the hands of the "ARENA" party which, ironicly, became responsible for implementing the agrarian reforms it had opposed.

In March 1984, Jose Napoelon Duarte was elected President and installed PDC appointees as Ministers, and the next year the PDC won control of the Legislative Assembly.

The rest of this report provides an in-depth examination of the Salvadoran Agrarian Reform, but the political context within which the reform has existed since March 1980 should be kept in mind.

EL SALVADOR'S AGRARIAN REFORM: IMPLEMENTATION

El Salvador is an agrarian country, depending upon agriculture for much of its employment and 65 percent of the country's foreign exchange earnings, so it is logical that efforts to implement economic and social structural change focused on agriculture and its most basic resource, land. The nationalization of the private banking sector and the marketing of export crops, both activities which were controled in large part by the large landowners, were important adjuncts to the expropriation and redistribution of agricultural land.

In a 1985 Iowa State University address to the American Agricultural Economics Association meeting, Col. Majano, leader of the Revolutionary Junta and one of the Architects of the reform (now living in Canada), stated, "When we started the process of land reform, we were thinking of the peasants, of changing the structure of the ownership of the land and of social justice."

Agrarian reform, as envisioned by the Revolutionary Junta had three goals: (1) Greater income equality, (2) Expanded employment opportunities in the rural sector, and (3) Increased and diversified agricultural production. Redistribution of the land and creation of viable, productive agricultural cooperatives and owner operated farms have been the objectives of the reform since its inception.

The reform is being implemented in the midst of continuing violence. Its success in terms of increased income equity, employment opportunities and agricultural diversification cannot be objectively evaluated until the reform is completed and the incentive of free ownership has had a chance to take hold within a country at peace.

The Decrees that implemented the reform were intended to insure: (1) Compensation of the former owner, (2) Payment by the new owners to amortize the debts incurred compensating former owners, and (3) The rights of individuals and cooperatives to private property. The land reform itself was envisioned in three phases, each of which affected different properties and individuals and in different ways. Each is at a different stage of implemencation.

Phase I and Phase III have intervened about 22 percent of El Salvador's farmland 2/ and have benefited almost 20 percent of the rural poor 3/ (See Figure 2). Phase II was to extend expropriation to smaller properties, setting 250-370 acres (depending on soil classification) as the maximum size private landholding in El Salvador.

Decree 154, which implemented the reform, created the distinction between Phase I and Phase II by stipulating that during the initial phase only properties of persons owning more than 1235 acres would be expropriated. Smaller land holdings would be dealt with in Phase II which applied to landholdings between the 1235 acre and 250 acre maximum limit. Phase II was

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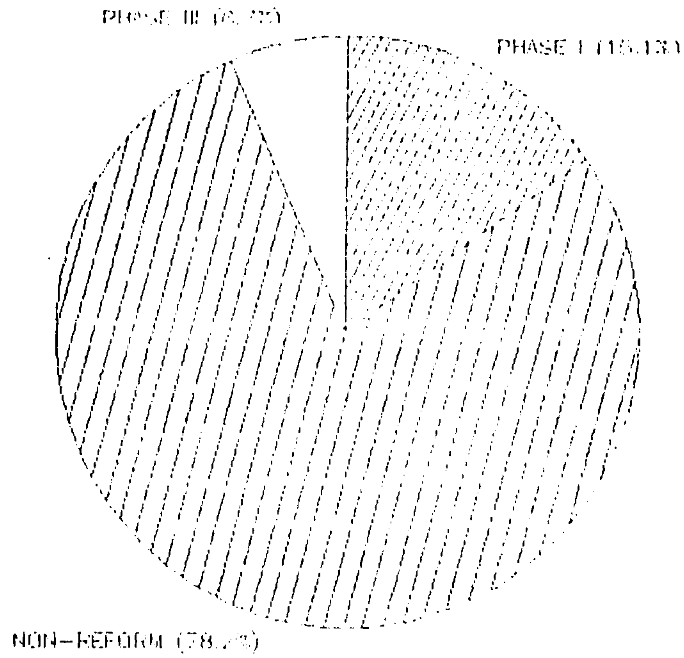
2/ Assumes 1,452,000 Hectares (3,588,000 Acres) of land in farms
3/ Assumes 2,202,700 as the rural poor population

FIGURE 2

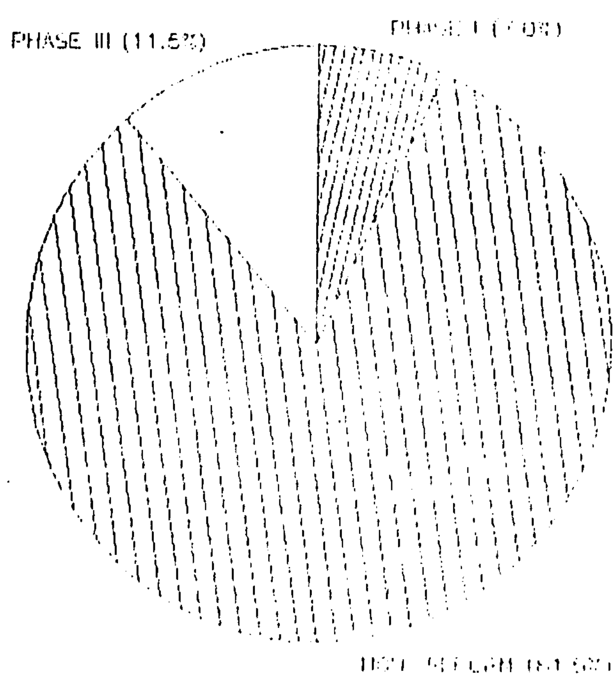
DISTRIBUTION OF EL SALVADOR'S FARMLAND

TOTAL [illegible] MILLION ACRES



DISTRIBUTION OF EL SALVADOR RURAL POOR

TOTAL [illegible] MILLION PERSONS



not implemented at the time, and the maximum landholding limit was increased to 600 acres in the 1983 Constitution. The 1983 Constitution also stipulated that instead of immediate expropriations, owners had three years to sell off land above the limit. The extent and impact of Phase II are difficult to assess and will be discussed later.

PHASE I

THE PROPERTIES AFFECTED

Phase I of the Agrarian Reform affected the largest of the land owners in El Salvador by expropriating their holdings although the farming operations themselves were preserved, nearly intact, rather than broken up and distributed as smaller parcels. Col. Majano has stated that this was done in an effort to maximize employment, and although this reasoning may be questionable from the point of view of labor utilization, the strategy did preserve important economies of scale which had evolved over the years, especially in crops such as coffee, cotton and sugar cane.

Phase I of El Salvador's agrarian reform began on March 6, 1980, when the GOES began expropriating properties subject to Decree 153, the Basic Law of Agrarian Reform which states: "Land affected by this Decree is understood to be any property within the National territory belonging to one or more individuals, estates or associations exceeding one hundred hectares for land classifications I, II, III and IV; and one hundred and fifty hectares for land classifications V, VI and VII."

The property affected by the Decree included all livestock, machinery and equipment permanently located on the expropriated property, as well as fixed properties which constituted industrial, agricultural and livestock complexes, i.e. sugar mills, coffee processing plants, slauther houses, etc.

In addition, holdings below the limit could be affected if any of the following conditions were not met: (1) Land must be worked directly by its owners 4/; (2) Minimum productivity level must be maintained; (3) Renewable natural resources must be managed, conserved and protected; and (4) Labor and social security laws must be complied with. The reform did not apply to land or property belonging to duly registered agricultural cooperatives or campesino organizations.

A freeze was placed on sales of affected property and owners were instructed to maintain their machinery complements and

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4/ This condition became the basis of Decree 207 which authorized Phase III herd levels. Military forces were sent to conduct the expropriations, and owners were allowed minimal, if any, access to the property once the expropriations began.

During Phase I almost 400 landholders were identified as owning single or multiple properties exceeding the limit of 500 hectares (1235 acres) total. Each property, regardless of its individual size, belonging to one of these owners was expropriated. All Phase I expropriations have taken place, although there has been continuing confusion over the exact number of properties expropriated under Phase I of the reform.

This confusion stems from several sources, not the least of which was the rapidity with which the GOES moved to expropriate in an attempt to prevent counterreform efforts by affected owners. Adding to the confusion is the problem of defining exactly what constituted an "Expropriation." There may have been several owners of one property; subdivision may have taken place; the property may have consisted of different complexes, inventories, movable goods and livestock pastured on land not belonging to the owner. Under these circumstances, separate acts of expropriation had to be recorded making it difficulty to determine a single number of properties affected.

Although expropriations themselves have ended, the land transfer process is continuing, and decisions on expropriations have been changed or are still being reviewed because of technical or legal factors or because of claims of former owners. In the rush to expropriate, some of the owners identified (estimates range as high as 50 percent) did not, in fact, own 1235 acres, although most would have been eventually subject to Phase II. After the expropriations were completed and these errors discovered, another Decree was passed allowing these owners to sell their properties to the State. Many chose to do so while others are still fighting for return of their land through the legal system. As a result, the Phase I properties acquired by the State are a combination of those expropriated and those sold voluntarily by their owners.

The most exhaustive inventory to date indicates that 469 properties were acquired through expropriation or sale during Phase I of the Agrarian Reform. The total area represented by these properties is 228,000 hectares (563,000 acres); but the net Phase I area remaining after adjustments for reserve rights and various other transfers is 214,000 hectares (529,000 acres) or 15 percent of the land in farms.

The conflict in some regions continues to make an accurate and consistent accounting of what was expropriated difficult.

THE PHASE I BENEFICIARIES

The beneficiaries of Phase I are the former permanent workers and colonos (and their families) of the expropriated haciendas who are now members of cooperatives, altogether about 188,000 rural persons as of April 1986 (8.5 percent of the rural poor population). From the 469 properties acquired since 1980, 317 cooperatives currently are organized 5/.

A 1985 census of cooperatives reported almost 28,000 members (168,000 persons including family members) organized into 309 active cooperatives and 29 cooperatives with 20,000 persons abandoned or functioning only intermitantly.

During the expropriations GOES personnel arrived on the haciendas (often accompanied by military troops) to explain the meaning of the reforms to the workers and begin organizing them into cooperatives. Amid increasing violence from the left and sometimes violent recalcitrance of the right, it was a time of fear, hope and confusion for many of the workers who had known only a system which on many of the haciendas resembled feudalism. Before the reform these persons were laborers on the haciendas, now they are cooperative members, experiencing

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5/ Up to 338 cooperatives were organized, but over the years the number of currently active cooperatives has changed for a variety of reasons, because there is not a one-to-one correspondence between the number of properties and the number of cooperatives (or "productive units" some confusion has arisen. Many of the same factors confusing the issue of the both the advantages and disadvantages that the Salvadoran reform cooperative system brings.

Some aspects of current and initial membership appear below in Table I:

TABLE I
CURRENT (1984/85) AND INITIAL (1980/81) MEMBERSHIP IN PHASE I COOPERATIVES

MEMBERSHIP CATEGORIES	NO. OF PERSONS	% OF TOTAL CURRENT MEMBERS
Current Total Members (84/85)	27,436	100
Males	24,714	90
Females	2,722	10
Initial Members (80/81)	31,183	114
Initial Members as of (84/85)	19,537	71
Probationary Members (84/85)	2,997	11
Refugee Members (84/85)	968	3

We see from Table I that current membership is about 14 percent less than initial membership, although adding persons waiting to join the cooperatives (probationary members) and refugee members (displaced persons accepted into the cooperatives on a probationary status) makes current membership more or less equal to what it was at the beginning of the reform. About 10 percent of members are women who enjoy the same benefits and responsibilities as men within the reform.

Eighty percent of members live on the cooperatives, but almost 18,000 non-member families (108,000 persons) also live within the limits of the cooperatives. These are generally families which former landlords allowed to "squat" on the _haciendas_ in return for services. These non-members still supply much of the labor needed at peak harvest seasons, but they also are a cause of friction on some cooperatives where non-members are denied services available to neighbors who, because they were full-time employees at the time of the expropriation, happen to be members. The GOES is currently trying to incorporate as many members into the cooperatives as possible.

The members of each cooperative must assume a collective agrarian debt equal to the compensation paid to the former landowner by the GOES Phase I land reform implementation agency. Members are responsible for paying the agrarian debt over a period of years and under terms agreed to between the cooperative and the implementing agency.

A member's share (or equity) within the cooperative is an unresolved issue on most cooperatives, and the right to sell or otherwise capitalize one's membership is not addressed in the law governing Phase I cooperative organization. Even the right of inheritance is obscure and handled on a case-by-case basis on most cooperatives. The cooperative itself is also restricted from selling or renting its land (although in practice this is sometimes done).

Surveys of Phase I cooperative members indicate that many still see themselves as wage laborers rather than owners. Almost all agree that the assurance of work and access to a milpa and homesite provided to most members are the most important benefits of membership. Thw whole issue of beneficiaries' rights (and obligations) is being addressed in pending GOES legislation.

THE ROLE OF THE SALVADORAN INSTITUTE OF AGRARIAN TRANSFORMATION (ISTA)

ISTA, a semi-autonomous GOES agency, is the Phase I implementing authority. In fulfilling the goals of Phase I, ISTA has five major roles:

1. ISTA acquires the land by expropriation or voluntary sale from the former landowner(s).

2. ISTA organized the former workers into cooperatives and co-manages the property (Cogestion) with the cooperative for an indefinitve amount of time, usually equal to the amortization period of the cooperative's agrarian debt.

3. ISTA negotiates with the former owner(s), issues compensation and settles reserve right claims.

4. After reaching agreement on compensation with the former owner(s) and agreement on the agrarian debt with the cooperative, ISTA transfers title to the property to the cooperative.

5. ISTA coordinates the support services (technical assistance, management and accounting systems, and credit) to the Phase I cooperatives. (During a recent reorganization of ISTA this function was given to the Ministry of Agriculture.)

The tasks of ISTA are difficult and onerous, especially the complicated process of land transfer which is sometimes further delayed by Court actions of former landowners. The cooperative members themselves are sometimes reluctant to assume the large agrarian debt which accompanies the transfer of title to the haciendas which in many cases are large, complex and capital intensive agricultural operations. To assist ISTA in completing the land transfers, a recent reorganization has focused ISTA's resources almost exclusively on the task of land transfer, compensation and titling.

ISTA is programmed to complete land transfer to all cooperatives by the end of 1986, although it is recognized that issuing titles to cooperatives in conflictive zones and to cooperatives organized on 15-20 properties still subject to Court decisions will be almost impossible within the timeframe.

ISTA is represented on the cooperatives by Cogestores who act as the Government's agents on the cooperatives (assisting in decision-making, development of plans and obtaining credit) and social promoters who work with the beneficiaries in cooperative development and social welfare projects. During the 1985 census of 309 cooperatives, 75 percent of them were served by ISTA's 183 Cogestores and 84 percent received the services of ISTA's 254 social promoters.

A separate program of administrative development was in place on 118 cooperatives and uniform management/accounting systems had been installed on 97 cooperatives. One hundred, eighteen cooperatives (118) had employed one or more professional managers under a program subsidized by A.I.D.

ISTA has coordinated the technical assistance provided to the cooperatives by other agencies. Ninety-four cooperatives in the census had received no technical assistance during 1985 while 215 had, mostly from CENTA, the GOES agricultural research and extension service.

Forty-four percent of the 309 cooperatives in the 1985 census had schools, providing education to 33,000 students, and schools were available in the area for all but 10 percent of the cooperatives. Most of the cooperatives without access to a school were in or near conflict zones. Almost 5,000 persons on 138 cooperatives were enrolled in a literacy course of some type.

Almost 16 percent of the cooperatives (49) have housing programs which have benefited over 1,800 persons. Only 12 percent have a clinic or other medical service available, although 24 percent pay for members' medicines and 30 percent provide some resimbursement for medical and/or hospital care.

It is difficult to obtain reliable information about the cooperatives located in the conlfictive zones. The 1985 census of cooperatives reports 29 abandoned or worked only intermitantly due to violence, but this number changes with the tides of the conflict. In recent years the number of abandoned cooperatives has been as high as 48, comprising over 24,000 hectares (59,000 acres).

RESERVE RIGHTS

The 100-500 hectare (250-370 acre) limits applied to class 1-IV and class V-VIII land respectively constitute the former owner's reserve right. The reserve right entitles the former owner to retain a portion of the land to continue farming. If, at the time of acquisition, the GOES found the owner had maintained or increased productivity or otherwise improved the property, the reserve right could be increased by 20 percent, a move designed to discourage decapitalization and reward investment.

Owners had 12 months from the date of expropriation to file a claim specifying which land and assets were to be included in the reserve right. The owner was obligated not to claim land or assets which would debase the remaining land's productive potential. Reserve right claims were filed with ISTA which has final authority to arbitrate and grant reserve rights.

Only 125 owners filed reserve right claims. As of July 1986, eighty of these had been approved and/or granted; 33 still require further processing or surveying and the remaining 12 are in litigation or located in conflict zones that make swift resolution of the claim impossible.

COMPENSATION

Decree 153 provides for compensation to be paid to owners of properties acquired by ISTA. The former owner's compensation was to be the average of the property's stated value on the owner's 1976 and 1977 tax declarations. For various reasons, deciding compensation has not been as simple as envisioned. Tax declarations have been missing and, in some cases, altered. The strategic behavior of owners in 1976-77 led some to undervalue their properties to avoid taxes. Other owners overvalued their properties as the bases of bank loans or because they anticipated the reform and its compensation scheme based on declared values.

Capital improvements made after 1977 and adjustments for reserve rights are also considered when determining final compensation. Verifying and valuing the capital improvements and determining the reserve rights have delayed compensation to many former owners. Simply locating and certifying the necessary documents for compensation is an arduous task.

When tax declarations or other documents are not available, the former owner delcares a value which is then accepted by ISTA or rejected with a counteroffer. Whatever compensation amount is finally agreed upon has great significance for not only the former owner, but also the beneficiaries since by law the debt they assume must equal the compensation paid to the former owner.

METHOD OF PAYMENT FOR PHASE I COMPENSATION

Compensation payment for expropriated properties is being made in cash and agrarian reform bonds. All Phase I land (and Phase II land voluntarily offered for sale and subsequently purchased under Phase I) is paid for in bonds only. Livestock and machinery are paid for with 25 percent cash and 75 percent bonds.

Agrarian reform bonds are issued in four series depending upon the type and utilization of the property they compensate. Series "A Preferential" bonds (five year maturity) are issued for the portion of livestock and machinery not compensated in cash. Series "A bonds (20 year maturity) are issued for land and fixed capital that was utilized efficiently; Series "B" bonds (25 years maturity) for less efficiently utilized land and capital; and Series "C" bonds (30 years maturity) for land that was rented, underutilized or abandoned.

Agrarian reform bonds pay 6-7 percent interest and the interest and capital represented by them are tax exempt. Decree 220 authorized various other uses for the agrarian reform bonds to enhance their acceptability. The most important of these other uses has been the acceptance of bonds and coupons to pay various taxes. A market exists for the bonds which are traded privately at 40-60 percent of their nominal value depending upon their denomination and maturity.

Table II presents the GOES cash and bond obligations necessary to complete Phase I titling, settling the compensation on all 469 ISTA properties by the end of 1986. As the Table shows, for compensation purposes there are three categories of Phase I properties: (1) 337 properties for which compensation has been approved and paid, (2) 83 properties for which compensation has been approved by ISTA but are as yet unpaid (due to lack of funds, court actions, disagreements over valuations, etc.), and (3) 49 properties still pending approval. The total paid to date is almost 520 million colones ($104 million), and it is estimated that the total cash and bond obligation will be 706 million colones ($141.2 million) when all 469 properties are settled.

TABLE II

CASH AND BOND OBLIGATIONS FOR PHASE I PROPERTIES THROUGH 1986
(MLLIONS OF COLONES)

	NUMBER OF PROP	FORM OF PAYMENT CASH	BONDS	A PREF	A	B	C	TOTAL VALUE
Approved and paid	337	39.82	480.12	47.84	379.43	19.12	33.73	519.94
Approved but paid	83	14.73	111.61	10.59	69.35	4.11	7.56	126.34
Pending Approval	49	3.88	55.92	5.53	44.29	2.18	3.92	59.80
TOTAL	469	58.43	647.65	63.96	513.07	25.41	45.21	706.08

In addition to the cash and bond obligation, the GOES is incurring interest charges on the bonds issued thus far. Through 1986, the total accumulated interest for Phase I property compensation is expected to be 232 million colones ($46 million), bringing the total cost of Phase I compensation through 1986 (assuming all 469 properties are compensated) to 938 million colones ($187 million).

These obligations of almost one billion colones will eventually require cash to settle. In order to meet its obligation to pay the 25 percent initial cash portions of compensation, redeem the five year series "A Preferential" bonds and pay interest on other bonds issued, the GOES will need 355 million colones ($71 million) before the end of 1986.

The GOES has been making cash payments, redeeming bonds and paying interest, as well as accepting bonds and coupons in lieu of taxes, since the reform began. While it is not current on its obligations, Table III shows the Phase I cash obligations through 1986 and the amounts already paid by the GOES.

TABLE III
1986 CASH REQUIREMENTS FOR ALL PHASE I PROPERTIES
TOTAL OBLIGATIONS MINUS PAYMENTS MADE THROUGH 30 APR 86
(MILLIONS OF COLONES)

	TOTAL OBLIGATION	PAID AS OF 30 APR 86	1986 CASH REQUIREMENT
337 PROPERTIES PAID			
Initial Cash	39.82	39.82	-0-
Redeem A Pref Bonds	47.84	15.00	32.84
Interest thru 1986	172.37	89.26	83.11
Subtotal	260.03	144.08	115.95
83 PROPERTIES APPROVED BUT UNPAID			
Initial Cash	14.73	-0-	14.73
Redeem A Pref Bonds	10.59	-0-	10.59
Interest thru 1986	40.08	-0-	40.08
Subtotal	65.40	-0-	65.40
59 PROPERTIES PENDING			
Initial Cash	3.88	-0-	3.88
Redeem A Pref Bonds	5.53	-0-	5.53
Interest thru 1986	20.08	-0-	20.08
Subtotal	29.49	-0-	29.49
TOTAL (PHASE I)	354.92	144.08	210.84

Table III shows us that of the 355 million colones ($71 million) in cash required for compensation through 1986, the GOES has paid 144 million colones ($29 million) and still owes 211 million colones ($42 million). It is anticipated that with assistance from A.I.D. local currency generations and GOES budget allocations, the GOES can be current on its compensation obligations by the end of 1987.

A total of 138 million colones ($27.6 million) in bonds and coupons has been accepted by the GOES in lieu of taxes.

TITLING AND DEBT REPAYMENT

Once the former owner's reserve right is settled and compensation determined, the cooperative's agrarian debt level is set, as well as its payback schedule. When the coöperative accepts the debt and payback schedule, title can be transferred. As of June 1, 1986, titles had been transferred to 149 of the 317 (47 percent) Phase I cooperatives.

By law, the agrarian debt of each cooperative must equal the compensation paid to the former owner. Each cooperative is expected to retire the debt on its property. The debt originally bore interest charges of 9.5 percent per year, and repayment was spread out over 20-30 years depending on the type of bonds issued to the former owner.

Equating the cooperatives' agrarian debts to the owners' compensation has led to some problems. Because the amount of compensation (and thus the agrarian debt) is determined by negotiating from a declared amount, it often bears little resemblance to the productive capacity of the land or the ability of the cooperative to repay.

During a 1984 analysis of the total debt structure of the cooperatives, it was found that the debts faced by the cooperatives consisted of three components: (1) 87 percent was the agrarian debt incurred for the land and other expropriated assets, (2) four percent was the "ISTA-BFA Cartera" of 75 million colones in emergency credits extended during the first year of the reform, and (3) the remaining nine percent was "rolled-over" production and investment credits. The analysis determined that almost 75 percent of the cooperatives could not meet their current debts (production and investment loans) and 95 percent could not service their total debt load. It was recommended that if the agrarian debt itself could not be reduced (since it was inextricably linked to compensation paid), the terms of the agrarian debt portion of the cooperatives' total indebtedness be administratively restructured by ISTA.

In April 1986 this recommendation was acted upon and the agrarian debt of the cooperatives is currently being restructured to include: (1) reduced interest of 6 percent, (2) extended payback period to 50 years, (3) an extended grace period of five years from when the title is issued, and (4) freezing of the interest on the "ISTA-BFA Cartera".

PHASE I PRODUCTION

Throughout the Salvadoran agrarian reform, emphasis has been placed on maintaining agricultural production. The incomes of Phase I beneficiaries, the Nation's foreign exchange earned by agriculture and, to a large extent, the success of the agrarian reform depend upon the ability of the Phase I farms to maintain production even during the disruptive process of changing ownership and management.

It is difficult to measure precisely how well the Phase I farms have maintained production because comparative pre-reform and post-reform data for the Phase I sector don't exist. Isolating the production effects of world market conditions and domestic economic policies from the impact of the war and disruption cuased by the reform itself is almost impossible. Export crops like cotton, coffee and sugar cane have suffered poor world prices and have been particularly targeted by the guerrillas for destruction.

Also affecting the apparent production trends are changes in land use patterns on the cooperatives, especially between collective and individual cultivation of particular crops. Table IV shows land use on the 309 cooperatives in the census for the 1984/85 crop year. The 24,000 hectares cultivated individually is more than double the 10,400 hectares cultivated individually the year before. Official Phase I production reported by the GOES is normally for the area planted collectively only, thus underestimating actual production available.

TABLE IV
1984/85 LAND USE ON 309 PHASE I COOPERATIVES

LAND USE	HECTARES	PERCENT
Cultivated collectively	69,094	32
Cultivated individually	24,141	11
Pasture	46,050	22
Forest	35,228	16
Infrastructure	9,379	4
Idle during 1984/85	15,977	8
Unusable (swamps, salt flats, etc)	14,180	7
TOTAL	214,049	100

The following Tables are presented to illustrate the experience of the Phase I cooperatives, and the agricultural sector as a whole, during the years of the reform. The data are for the major basic grains and export crops of El Salvador. Tables V and VI show area planted, an important determinant of production and one of the few variables over which agriculturists have any control. Tables VII and VIII show yields which are determined mostly by weather and land quality but are certainly influenced by cultural practices and management. The area planted times the yield determines production, and this is shown in Tables IX and X. The final set of Tables, XI and XII, show reform area and production as percentages of national production. All the Phase I data report only the collective production.

Table V presents, in thousands of hectares (one hectare equals 2.471 acres): (1) The national average area planted for the five years (1975-80) preceding the reform; (2) The actual area planted for each year of the reform (1981-1985); (3) The average area planted during the years of the reform; and (4) A comparison of pre- and post-reform five year averages.

TABLE V
NATIONAL AREA PLANTED (000'S HECTARES)

	75-80 AVG	80/81	81/82	82/83	83/84	84/85	85/86	80-85 AVG	% CHANGE 75/80-81/85
Corn	247.1	291.9	276.5	238.7	241.5	243.6	253.4	257.6	4.25
Rice	14.7	16.8	13.3	11.2	12.6	15.4	17.5	14.5	-1.59
Beans	53.2	52.5	49.7	55.3	56.0	57.4	58.1	54.8	3.07
Sorghum	133.7	119.7	115.5	119.0	110.6	116.2	114.1	115.8	-13.35
Total Basic Grains	448.7	480.9	455.0	424.2	420.7	432.6	443.1	442.7	-1.33
Coffee	170.0	185.0	180.0	175.0	170.0	170.0	170.0	175.0	2.94
Cotton	92.4	70.7	63.7	58.1	45.5	44.8	26.6	51.6	-44.19
Cane	32.9	26.6	27.3	31.5	34.3	36.4	39.9	32.7	-0.71
Other									
Total Export Crops	295.3	282.3	271	264.6	249.8	251.2	236.5	259.23	-12.21

Table V shows that there has been virtually no change (-1.33 percent) between the pre-reform and post-reform five years averages of national area planted in basic grains. A 12 percent decrease in area planted to export crops has occurred between the two periods, reflecting both the world price situation and destruction by the guerrillas. No crop increased dramatically while cotton area planted decreased by almost half. Eight and 16 percent drops, respectively, have ocurred in area planted in basic grains and export crops between the first and the sixth years of the reform.

Table VI shows almost the same data categories for the Phase I reform sector, except that a five year pre-reform average cannot be computed because the data are not available.

TABLE VI
PHASE I AREA PLANTED (000'S HECTARES)

	80/81	81/82	82/83	83/84	84/85	85/86	80-85 AVG	% CHANGE 80/81-84/85
Corn	15.1	16.0	8.9	6.7	4.7	N/A	10.3	-68.87
Rice	3.3	4.1	2.9	2.6	2.8	N/A	3.1	-15.15
Beans	5.2	4.2	2.6	2.3	0.5	N/A	3.0	-90.38
Sorghum	5.2	2.9	1.7	1.3	1.7	N/A	2.6	-67.31
Total Basic Grains	28.8	27.2	16.1	12.9	9.7	N/A	18.9	-66.32
Coffee	22	19	19	19	20	N/A	19.8	-9.09
Cotton	20	19	16	14	14	N/A	16.6	-30.00
Cane	11	11	13	14	15	N/A	12.8	36.36
Other	10	10	10	12	14	N/A	11.2	40.00
Total Export Crops	53	49	48	47	49	N/A	49.2	-7.55

A 66 percent decrease in the Phase I area planted and cultivated collectively in basic grains has occurred during the years of the reform. The consistent downward trend indicates that the decrease is more systematic than a random difference between the two crop years compared. The explanation for this decrease is the low profitability of collectively cultivated basic grains. (There has been an almost corresponding increase in cultivation of basic grains by individuals on the cooperatives. Some of this increase is due to the reactivation of abandoned cooperatives which usually begin their renewed operations by planting basic grains as individuals before farming other crops collectively.)

Table VI shows a 7.5 percent decrease in area planted in export crops with most of the decrease in cotton and most of the offsetting increasing in sugar cane and other, diversified crops.

Tables VII and VIII compare yields between the national and Phase I reform agricultural sectors. The comparison shows that with the exception of rice, and to a lesser extent sugar cane, Phase I yields equal or exceed the national averages on a consistent basis throughout the crop years presented.

TABLE VII
NATIONAL AVERAGE YIELD (QQ/HA)

	75-80	VG80/81	81/82	82/83	83/84	84/85	85/86	80-85 AVG
Corn	38.70	39.22	39.30	37.70	39.89	47.05	42.05	42.50
Rice	70.48	78.57	81.95	68.75	74.60	89.42	85.60	79.82
Beans	16.58	16.50	16.74	15.01	16.39	18.40	12.93	15.99
Sorghum	26.16	25.40	25.54	22.69	24.20	26.28	25.09	24.87
Total Basic Grains	33.38	34.67	34.59	31.35	33.68	39.18	35.84	34.89
Coffee	22.03	20.98	21.16	23.38	20.19	20.96	20.19	21.14
Cotton	44.97	35.95	38.70	40.79	36.92	38.77	52.63	40.63
Cane	87.08	74.55	77.55	86.06	90.93	88.27	91.48	84.81
Other								
Total Export Crops	36.45	29.78	30.97	34.67	32.95	33.89	35.86	33.02

TABLE VIII
PHASE I AVERAGE YIELDS (QQ/HA)

	75-80 AVG	80/81	81/82	82/83	83/84	84/85	85/86
Corn	64.77	50.00	43.03	68.61	66.17	N/A	57.06
Rice	67.88	73.17	53.45	74.62	80.00	N/A	57.06
Beans	16.73	21.67	16.92	20.87	20.00	N/A	18.92
Sorghum	39.04	31.38	22.35	43.08	18.82	N/A	32.81
Total Basic Grains	51.81	47.13	38.51	58.84	59.48	N/A	49.95
Coffee	18.36	23.16	27.74	19.42	25.05	N/A	22.64
Cotton	48.55	44.95	56.19	48.57	49.36	N/A	49.34
Cane	77.36	79.91	71.85	82.29	82.33	N/A	78.92
Other							
Total Export Crops	42.00	44.35	49.17	46.83	49.53	N/A	46.29

Table IX shows that pre-reform and post-reform five year averages for national production indicate a slight increase (3.4 percent) in basic grains and a large decrease (-20.7 percent) in production of export crops. Much of the change is due to the 50 percent decrease in cotton production, mostly attributable to the world price of cotton and guerrilla actity. Reduced coffee production is probably due to undertainty over government policies regarding coffee marketing and Phase II of the agrarian reform which has led producers to delay or reduce expenditures for necessary cultural practices and tree replacement.

TABLE IX
NATIONAL PRODUCTION (000's/QQ)

	75-80 AVG	80/81	81/82	82/83	83/84	84/85	85/86	80-85 AVG	%CHANGE 75/80-81/8
Corn	9526	11448	10867	9000	9633	11461	10769	10529.	10.5
Rice	1036	1320	1090	770	940	1377	1498	1165.	12.5
Beans	882	866	832	830	918	1056	751	875.	-0.7
Sorghum	3497	3040	2950	2700	2677	3054	2863	2880.	-17.6
Total Basic Grains	14941	16674	15739	13300	14168	16948	15881	15451.	3.4
Coffee	3745	3881	3810	4092	3432	3564	3432	3701.	-1.1
Cotton	4155	2542	2465	2370	1680	1737	1400	2032.	-51.0
Cane	2865	1983	2117	2711	3119	3213	3650	2798.	-2.3
Other									
Total Export Crops	10765	8406	8392	9173	8231	8514	8482	8532.	-20.7

Table X presents production data for the Phase I cooperatives. The decreased collective basic grain production on the Phase I cooperatives (-61.3 percent) parallels the decrease in collective area planted (-66.3 percent) on the Phase I cooperatives. The almost ten percent increase in export crops reflects tenure certainty enjoyed by the cooperatives and favorable credit policies. It also is a natural result of the higher yields on the Phase I cooperatives much of which has to do with the high quality of the basic land resource on the properties intervened.

TABLE X

PHASE I PRODUCTION (000's QQ)

	80-81	81/82	82/83	83/84	84/85	85/86	80-84 AVG	%CHANGE 80/81-84/85
Corn	978	800	383	461	311	N/A	587	-68.2
Rice	224	300	155	194	224	N/A	219	0.0
Beans	87	91	44	48	10	N/A	56	-88.5
Sorghum	203	91	38	56	32	N/A	84	-84.2
Total Basic Grains	1492	1282	620	759	577	N/A	946	-61.3
Coffee	404	440	527	369	501	N/A	448	24.0
Cotton	971	854	899	680	691	N/A	819	28.8
Cane	851	879	934	1152	1235	N/A	1010	45.1
Other								
Total Export Crops	2226	2173	2360	2201	2427	N/A	2277	9.03

Tables XI and XII show Phase I area planted collectively and corresponding production as percentages of national area planted and yields. For 1984/85, a comparison of the two tables says that on the two percent of the national land area planted in basic grains, Phase I beneficiaries produced, in a collective manner, three percent of the basic grain; while on 20 percent of the area planted in export crops they produced 29 percent of the national total.

TABLE XI

PHASE I AREA PLANTED AS A % OF NATIONAL AREA PLANTED

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
Corn	0.05	0.06	0.04	0.03	0.02	N/A
Rice	0.20	0.31	0.26	0.21	0.18	N/A
Beans	0.10	0.08	0.05	0.04	0.01	N/A
Sorghum	0.04	0.03	0.01	0.01	0.01	N/A
Total Basic Grains	0.06	0.06	0.04	0.03	0.02	N/A
Coffee	0.12	0.11	0.11	0.11	0.12	N/A
Cotton	0.28	0.30	0.28	0.31	0.31	N/A
Cane	0.41	0.40	0.41	0.41	0.41	N/A
Other						
Total Export Crops	0.19	0.18	0.18	0.19	0.20	N/A

TABLE XII
PHASE I PRODUCTION AS A % OF NATIONAL PRODUCTION

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
Corn	0.09	0.07	0.04	0.05	0.03	N/A
Rice	0.17	0.28	0.20	0.21	0.16	N/A
Beans	0.10	0.11	0.05	0.05	0.01	N/A
Sorghum	0.07	0.03	0.01	0.02	0.01	N/A
Total Basic Grains	0.09	0.08	0.05	0.05	0.03	N/A
Coffee	0.10	0.12	0.13	0.11	0.14	N/A
Cotton	0.38	0.35	0.38	0.40	0.40	N/A
Cane	0.43	0.42	0.34	0.37	0.38	N/A
Other						
Total Export Crops	0.26	0.26	0.26	0.27	0.29	N/A

In summary, it appears that the Phase I cooperatives are holding their own, although they have (and the data reflect) the advantage of owning some of the best farmland in El Salvador and have enjoyed a priority in credit and technical assistance. They are increasingly important producers of export crops although their collectively produced proportion of basic grains has diminished greatly. The most striking trends on the Phase I cooperatives, such as the reduction in cotton production, are mirrored by El Salvador's agricultural sector as a whole.

Some diversification is ocurring, increasing 40 percent in area planted collectively (see Table VI); and despite GOES policies which limit or leave undefined the rights of individuals on the cooperatives, the members seem to be moving toward individual production of those crops which enjoy only limited economies of scale and have a subsistence value (basic grains).

CREDIT TO THE PHASE I REFORM SECTOR

Adequate production and investment credit is essential to the operation of the Phase I cooperatives. Since 1980 over $178 million dollars of agricultural credit from foreign assistance sources has been channeled to the reform sector, mostly the Phase I cooperatives. Over the years of the reform, the Phase I cooperatives have enjoyed a priority in obtaining credit supplied through A.I.D. projects, although the actual credit supplied to them in later years has decreased in both nominal and real terms.

There are four classes of lenders to the agricultural sector: (1) The Agricultural Development Bank (BFA), (2) The mixed banking system, so called since nationalization of the private banks during the reform, (3) The Mortgage Bank (Banco Hipotecario), the only private bank remaining, and (4) others which includes several minor lenders such as credit cooperatives (FEDECREDITO) and the National Coffee Institute (INCAFE).

After the agrarian reform, all lenders were assigned Phase I cooperatives and expected to lend to them. Table XIII shows the credit flows (including reflows) to the entire agricultural sector and to the Phase I cooperatives from 1980 to 1984).

TABLE XIII
CREDIT TO THE AGRICULTURAL SECTOR AND PHASE I COOPERATIVES
1980-84 (MILLIONS OF COLONES)

YEAR	1980	1981	1982	1983	1984	AVERAGE ANNUAL GROWTH RATE
NOMINAL TERMS						
Total Ag Credit	974.4	1424.9	873.5	893.5	1749.6	15.8%
Ref Sector Credit	165.7	204.4	218.6	194.1	224.5	7.9%
% Share of Ref Sec	17.0	14.3	25.0	21.7	12.8	
REAL TERMS						
Total Ag Credit	974.4	1242.0	681.0	616.1	1079.4	2.6%
Ref Sector Credit	165.7	178.0	170.4	133.9	138.5	-4.4%
% Share of Ref Sec	17.0	14.3	25.0	21.7	12.8	

During 1984, 244 of the then 311 active cooperatives (78.1 percent) received credit. This is fewer than the 256 cooperatives which received credit during the first year of the reform, and the 269 which received credit in 1982. Reasons for which cooperatives may not be served by a credit institution are: (1) Location in zones of heavy conflict, (2) outstanding delinquent debt levels which make them ineligible for fresh credit (although many credits have been "rolled over" several times), (3) some did not request credit, (4) others are too disorganized to be considered creditworthy.

Responsibility for providing them credit was distributed among the lenders as shown in Table XIV:

TABLE XIV
DISTRIBUTION OF PHASE I COOPERATIVES AMONG LENDERS
(1984)

LENDER	NO. OF COOPS	PERCENT
Ag Development Bank	119	49
Mixed Banks	94	39
Mortgage Bank	28	11
Other	3	1
Total	244	100

High delinquency rates characterize the lending experience of the credit institutions to the Phase I reform cooperatives. The BFA's delinquency rate in 1980 was 14 percent. The rate climbed to a high of 28 percent in 1982 and has hovered a point or two below that ever since. However, extensive refinancing masks the true delinquency rate which is considerably higher.

A survey of credit agents reveals the three major problems affecting the creditworthness of the Phase I cooperatives: (1) Lack of management capability, (2) Lack of organization within the cooperative, and (3) A lack of sense of urgency and responsibility to repay on the part of the membership.

MARKETING AND DISTRIBUTION OF PROFITS

Much of the production credit extended by the financial system goes to pay the daily wages for which most members still work. The perception that members have of themselves, that of daily wage laborers, influences the way in which production and investment credit resources are used on the cooperatives. Activities which maximize the use of daily labor, as opposed to maximizing profits, are the result of this wage earner perception. The perception itself is reinforced by a system of restricted accounts which intercedes between the members and income which the cooperative may generate.

Income derived from each cooperative's production and sales is, according to the law governing agricultural cooperatives, to be used for the following purposes, in order of priority: (1) Payment of production and operating loans, including wages, (2) Payment on the agrarian reform debt, (3) Social development programs, and (4) Capitalizing a legal reserve. Any remaining profits are to be shared equally among the members. This system tends to restricts individual initiatiave as we know it in traditionally capitalist enterprises such as farming, and it would be an even greater disincentive to production than it is if it weren't, at least on some cooperatives, ignored or subverted.

To insure, to the extent possible, that the distribution of income conforms with the priorities dictated by the GOES, the reform has a built-in collection mechanism known as "Restricted Accounts." Most export crops are sold to parastatal marketing monopolies: Sugar cane to INAZUCAR, cotton to COPAL and coffee to INCAFE. Basic grains are marketed through IRA, the National Food Supply Institute, which subsidizes basic grain prices but can afford to purchase less than 20 percent of the production and thus has little power to affect prices.

The parastatals take in the farm produce it; record weight, measure and quality; and issue a voucher to the cooperative. Money is later credited to a restricted account within the Bank which lends to the cooperative. The bank has a record of the cooperatives' total debt and, in turn, pays the creditors according to legal priorities.

Delays by the parastatals in selling cooperatives' products and crediting their accounts, as well as delays in required ISTA administrative approval for withdrawals from the restricted accounts, have increased the financial uncertainties faced by the cooperatives and reinforce members' incentive to get their benefits via wages paid from production credit.

PHASE II

Phase II of El Salvador's Agrarian Reform, affecting landholdings between 250 and 1,235 Acres, was authorized in Decree 153, the basic law of agrarian reform, but wasn't implemented at the same time as Phases I or III. The expropriation of Phase II properties (approximately five times the number of Phase I properties) would have required administrative, financial and personnel requirements beyond those available to the struggling Revolutionary Junta. Phase II would have required a political commitment and popular support greater than what existed during the Phase I expropriations since smaller, family operated farms would have been affected and owner resistance would have been much greater than was that of the mostly absentee landlords affected by Phase I.

The uncertainty which surrounded Phase II, however, from the reform's announcement in 1980 to the clarification of landowner rights in December 1983, immeasureably damaged Salvadoran agriculture, especially in the coffee sector where decisions to invest in needed cultural practices and tree replacement require the assurance of secure tenure over the payback period.

The implementation of Phase II was clarified somewhat in Article 105 of the 1983 Constitution. It changed the size criteria of properties affected by Phase II, increasing the maximum size landholding in El Salvador from 250 acres to 600 acres, and it gave landowners three years, until December 1986, to sell off their excess to small farmers, campesinos and cooperative organizations or face expropriation. Unfortunately, the Article also specified that implementing legislation would be forthcoming, defining the conditions of sale, elegible buyers and the method of expropriation. As of July 1986, this legislation has not been developed, giving rise to confusion and resentment among those potentially affected. The eventual impact of Phase II has been dampened by: (1) The voluntary sale of some 27,000 acres of Phase II land to ISTA, (2) Claims by Phase III beneficiaries to approximately 32,000 acres of Phase II land, and (3) Voluntary sales of potentially affected land to elegible (and possibly some inelegible) individuals.

A late 1985 census of the 389 persons who where registered owners of more than 600 acres produced 282 usuable interviews. Of these, 89 still owned more than 600 acres but all except 22 of these were trying to sell their excess above the limit. They indicated that the lack of GOES resolve to implement Phase II, as evidenced by the lack of called for implementing legislation, was their basis for not selling. During the summer of 1986, President Duarte called on the Minister of Agriculture to prepare the required legislation.

Regardless of the eventual disposition of remaining land subject to Phase II, the political implications of more expropriations will far outweigh any productive impact on El Salvador's agricultural economy or its rural poor.

PHASE III

Phase III, enacted in April 1980 by Decree 207 of the Revolutionary Junta, created the opportunity for renters and sharecroppers to secure title to small, individual land holdings as opposed to the cooperative landholdings of Phase I. Decree 207 allowed for expropriation of land based on the type of tenure arrangements between owner and tenant instead of the total number of acres held by the owner as provided for in Decree 153. Implementation began in March 1981.

Phase III, or "The land-to-the-tiller" program, was based on the principle that agricultural land should belong to the persons who directly farm it. Decree 207 allowed small, independent farmers who rented or sharecropped land to claim up to 17 acres of it. Its objective was to give secure title to persons who traditionally had cultivated different parcels each year under a variety of *ad hoc* arrangements with various landlords. Coupled with El Salvador's chronic land scarcity and overpopulation, the former system not only weighted the terms of trade heavily in favor of the landlord, but gave the farmer little incentive to conserve soil or make long term investment.

Phase III titles also gave formerly disenfranchised citizens with little to lose a stake in the growing political/military struggle going on within El Salvador.

Decree 207 defines rental and sharecropping agreements broadly to include: (1) Written and verbal agreements, (2) Payments in cash, kind or service and (3) Arrangements whereby renters or sharecroppers farmed the same or different parcels every year. Renters and sharecroppers who thought they were elegible had one year to file a title petition at local offices of the National Financial Institute for Agricultural Lands (FINATA), the Phase III implementing authority. After initial processing in the local office, FINATA issued a provisional title which gave petitioners usufructory rights to the land while the complex and time consuming titling process of verification, measurement, valuation, etc. ground away toward defintive titles which could then be registered in the name of the beneficiaries.

Phase III freed elegible beneficiaries from further rent payment. Renters who continued to make payments to their landlords and obtained a receipt could deduct the amount paid from their future amortization payments, as well as from the compensation eventually paid to the owner.

Granting ownership rights to the tenant and freeing the tenant from the burden of rent was intended to initiate a chain of desirable events. By making modest, long-term amortization payments to the government (to cover the cost of the land) instead of rent to the landlord, family income was expected to rise. Increased income would be invested in improved agricultural inputs, leading to increased and diversified production and better family nutrition. Investments in soil conservation measures and the opportunity for secure homesites were also considered likely results of land ownership.

Former landlords affected by the claims were contacted by FINATA and a value for compensation (based on tax declarations when available) agreed upon. The beneficiary assumed a debt equal to the former owner's compensation. While beneficiaries waited (and some still wait) for definitive titles, former owners endured (and some still endure) similar delays in compensation payments. Some former owners resisted the expropriations by evicting claimants, others fought in Court, and for a while a controversial decree aimed at preserving cotton production (much of it on rented land) reduced the program's effectiveness.

When it turned out that some affefcted landlords were smallholders themselves, economic peers and, in some cases, relatives of claimants, the program appeared to merely redistribute poverty among the poor until a FINATA administrative ruling (the so called "Windows and Orphans Rule") "dissaffected" properties belonging to persons who owned less than 17 acres themselves and/or were otherwise disadvantaged.

The inability of FINATA personnel to service petitioners in conflictive zones has reduced the total number of Phase III beneficiaries and has always denied the opportunity for secure land ownership to persons within those zones.

In June 1984, after three extensions, the filing period closed and FINATA shifted its resources from extending the program to as many elegible claimants as possible to the laborious task of verifying petitions and transfering titles. FINATA continues these tasks today, and with the aid of a modernized land registry system, the number of definitive titles being registered has increased. A law which is expected to pass the Legislative Assembly soon will allow propoerties with existing mortgages (heretofore unregisterable) to be registered, increasing the rate of transfer even more.

THE EXTENT OF DECREE 207 PROPERTIES AND BENEFICIARIES

Because tenancy is found in many kinds and sizes of properties in El Salvador, a priori estimation of the extent of Decree 207's impact was difficult to determine. Properties of any size which were indirectly exploited were subject to Decree 207. The most reliable pre-reform estimate of the potential area affected by Decree 207 was 490,000 acres (14 percent of the land in farms). This included land rented on properties subject to Phase II and some pre-reform ISTA cooperatives which had been subdivided and rented.

It was equally difficult to estimate the number of potential Decree 207 beneficiaries. Estimates ranged from 60,000 to 150,000 direct beneficiaries although most observers finally agreed on about 117,000 persons. Assuming this estimate is correct, given the current state of implementation, Decree 207 reached approximately 50 percent of the land and 45 percent of the persons subject to it.

There are several reasons why some renters did not file claims despite Decree 207's provisions: (1) To some farmers who traditionally rent land, longstanding rental agreements represent assurances of access to the rented parcel and the opportunity to earn income from it: (2) Some landlords intimidated tenants or coerced them into not applying for elegible lands; (3) Some tenants rented from family, friends or economic peers and felt an obligation not to claim these parcels; and (4) Some potential beneficiaries were unaware of Phase III or lived in areas of conflict where implementation was impossible.

Much of the land rented in El Salvador and subject to Phase III is of poor quality and/or on steep erosion prone hillsides.

Some tenants felt their chances were better if not tied by a long term debt to this marginal land.

It is important to note that unlike Phase I which was initiated by GOES expropriation, no action took place under Phase III until the renter initiated the claims procedure. In an environment of threat, violence and civil unrest, the "self-implementing" aspect of the program was impaired.

TITLING AND DEBT REPAYMENT

The preparation of application documents, carried out in FINATA field offices located in all 14 of El Salvador's Departments, began a multistep process which led quickly, in most cases, to a provisional title and more slowly to definitive titles. Once a claimant has received a provisional title, however, he/she is assured of the right to cultivate the land and reap the full benefit of its harvest. The provisional title also provides the former renter with access to BFA production credit.

After a provisional title has been issued, a set of actions, approvals, notifications and registrations are required to complete the titling process. This involves detailed searches of tax and property registry documents, visits to the field to locate and survey the parcels, soil classifications and signing of official documents by the former owner and the applicant. Adjoining property owners must verify the parcel's location. A credit plan is developed for the applicant. Legal procedures to determine compensation of the former owner and the new owner's mortgage and repayment schedule complete the process.

As of April 30, 1986, FINATA estimates there will be 52,000 direct Phase III beneficiaries. About 79,000 petitions (beneficiaries can file more than one petition so long as they don't exceed the 17 acre limitation) were filed, resulting in 62,0000 provisional titles to over 240,000 acres (about 17,000 petitions having been declared invalid or deferred). The 62,000 valid petitions for which provisional titles have been issued have resulted in 13,000 definitive titles and 6,000 registered titles. Given an average family size of six, the estimated total number of Phase III beneficiaries will be about 312,000 persons. This is almost twice the number of Phase I beneficiaries, although the land area affected by Phase III is only half that of Phase I.

Cash payments to amortize the new owner's mortgage, which must equal the former owner's compensation, are to be made annually over a 30 year period or the land is subject to repossession by FINATA. Allowances for the type of crop and the time of harvest are considered in setting repayment terms. The mortgage may be paid in full at any time, and many beneficiaries have elected pay-off periods of less than five years which entitle them to FINATA discounts of from ten to 33 percent of the land value.

To protect the intent of the reform, new owners are not allowed to rent or sell the land for a period of 30 years, even if the mortgage has been satisfied. The land distributed under Phase III may be passed on through inheritance but only to a single heir until the 30 year period has passed. An A.I.D. study of the rights of beneficiaries has recommended that forthcoming GOES agrarian reform legislation consider shortening or eliminating this restriction.

COMPENSATION AND METHOD OF PAYMENTS

The law provides that former owners with holdings less than 250 acres be compensated 50 percent in cash and 50 percent in agrarian reform bonds (30 year maturity), a higher percentage of cash than allowed under Phase I. In the case of affected landlords with more than 250 acres, the compensation formula is 25 percent in cash and 75 percent in bonds.

The amount of compensation paid to former owners is determined by FINATA on the basis of the property value as claimed on the 1976 and 1977 tax declarations; or, in the absence of a declaration, on the basis of the land's soil classification and other characteristics.

Phase III claims were made on 6,653 properties during the application period (some properties had up to several hundred claims filed upon them). FINATA has approved and paid compensation on 1,772 of them as of April 30, 1986, and is programmed to complete compensation on the remaining 4,412 properties by the end of 1987. The total obligation estimated to be incurred by the end of 1987 is 125 million colones ($25 million). Interest payments due through 1987 on the bonds issued will add another 21 million colones ($4.3 million) to the obligation, making the total cost of Phase III through 1987 more than 146 million colones ($30 million). (See Table XIV.)

TABLE XIV

1986 AND 1987 CASH REQUIREMENTS FOR ALL PHASE III PROPERTIES: OBLIGATIONS MINUS PAYMENTS MADE THROUGH 30 APR 86 (MILLIONS OF COLONES)

PHASE III PROPERTIES	TOTAL OBLIGATION	PAID AS OF 30 APR 86	1986/1987 REQUIREMENT
Initial Cash	55.44	21.67	33.77
Redeem Bonds	69.55	2.00	4.00
Interest	21.26	5.83	15.43
TOTAL PHASE III	146.25	29.50	53.20

For the 1,772 properties already compensated, FINATA has paid or issued 29.5 million colones ($5.9 million) in cash, bonds and interest to the former owners. Each year two million colones ($400,000) worth of FINATA bonds are redeemed by lottery. The goes will require over 53 million colones ($10 million) in cash before the end of 1987 to be current in its obligation to compensate former owners.

EVICTIONS

One of the early problems of Phase III implementation was the eviction of beneficiaries from parcels of land to which they were entitled. Evictions were a serious form of opposition to the reform process and threatened its validity by undermining the credibility of the provisional title. Evictions discouraged some potential beneficiaries from making and/or continuing applications, fearing that they too could be evicted or denied access to land and be worse off than they might otherwise have been.

There were varying estimates as to the magnitude of the eviction problem. The most reliable study indicated that as of August 1983, there had been 5,634 beneficiaries evicted. Unofficial estimates made by campesino labor organizations representing small farmers and rural workers tended to be much higher. The disparity in the estimated number of evictees was due largely to definitional differences.

The fact remains that evictions of actual and potential beneficiaries of the reform occurred, often times accompanied by acts or threats of violence, and their effect on the process was negative. To counteract evictions and reinforce Phase III credibility, FINATA, in cooperation with the armed forces, initiated a program of returning evicted beneficiaries to their parcels. Under the program FINATA submits a list of evictees to a departmental or local military commander who then confronts the property owner and, if necessary, authorizes troops to accompany the evictee to his/her parcel to insure that they are securely resinstalled on the property.

FINATA also conducts a radio publicity campaign describing the details of the program and encouraging evicted beneficiaries to make their cases known.

Evictions have been much less of a problem since late 1983. Most "evictions" reported now turn out to be "disaffectations", incidents where FINATA determines the beneficiary was ineligible or the owner protected under the "windows and orphans" rule. In these cases FINATA attempts to relocate applicants to abandoned or reclaimed parcels. FINATA's legislation does not permit it to purchase land for resettlement, but changing this is being contemplated.

DECREE 6

Decree 6, issued by the Salvadoran Constituent Assembly during the first weeks of its 1982 session, temporarily confounded the implementation of Phase III. Confusion arose out of the Constituent Assembly's efforts to permit owners of land appropriate for the production of cotton or sugar cane to enter into land rental contracts without incurring the risk of Phase III related expropriation.

To accomplish this, the Assembly passed legislation submitted by the provisional President that suspended Phase III claims on cotton and sugar cane lands for one crop cycle.

The intent of the legislation was to encourage the production of cotton and sugar cane by minimizing the uncertainties and reducing the perceived risks related to the rental of cotton and sugar cane land. Broadening the suspension to include lands rented for basic grains and livestock was widely taken (both in El Salvador and the United States) to be a _de facto_ repeal of Phase III, even though Decree 6 specificaly protected the rights of all beneficiaries, current and potential.

The confusion was temporary and Decree 207 claims and expropriations continued.

THE IMPACTS OF PHASE III

It is always difficult to measure the effects of social and economic structural change, especially within the short time span of the agrarian reform, and more especially within the context of civil violence and general economic chaos. Add to this the natural vagaries affecting agricultural income and attempts to accurately measure change become heroic.

Nevertheless, a Phase III evaluation plan has resulted in two profiles of Phase III beneficiaries from which we see an emerging picture of the effects of secure land tenure on the personal and productive lives of beneficiaries.

Conducted by the Office of Planning and Evaluation for the Agrarian Reform (PERA) of the Ministry of Agriculture (MAG), the two profiles used slightly different sampling methods (dictated by the data available to draw stratified beneficiary samples). but both utilized comparable field survey interviews and yielded statistically significant results. The second profile was conducted in 1984 and data from it are compared, where appropriate, with data from the first profile conducted in 1982.

THE PHASE III BENEFICIARIES--DEMOGRAPHIC CHARACTERISTICS

Demographic characteristics indicate the Phase III beneficiaries are, on the average, among the more disadvantaged of the 2.202 million rural poor in El Salvador. The 1984 illiteracy rate for Phase III beneficiaries is almost 51 percent, exceeding the 1980 rural illiteracy rate of 46 percent and unchanged from the 1982 survey. In the seven essential food items surveyed, Phase III beneficiaries' annual per capita consumption was below considered minimum requirements in six, exceeding the minimum requirements only in consumption of corn. There is virtually no difference between the first profile and the second in living standard indicators such as ownership of their home, basic services (potable water, sanitation, electricity, cooking fuel sources) or household equipment (radios, irons, bicycles, etc.).

Among the demographic indicators surveyed, only a rate of infant mortality below the rural average and decreasing since the first profile shows the living conditions of the Phase III beneficiaries to be responding positively to secure land tenure.

It should be noted that many of the demographic characteristics are long term measures while the majority of Phase III beneficiaries have enjoyed secure land tenure for only 2-3 years (and the provision of basic services is extremely difficult given guerrilla destruction of public infrastructure).

And, as we see in the next section, it is one thing to increase family income while yet another thing to decide how to spend it.

FAMILY INCOME

One of the main objectives of granting secure title was to increase family income. In this regard, Phase III has been very successful. Total family income (on and off farm) has nearly doubled from $371 per year in 1982 to $732 in 1984. Family income derived from the Decree 207 parcels increased 37 percent in current prices from $303 in 1982 to $417 in 1984. Moreover, even when adjusted for inflation, income from the parcels increased 9 percent, a claim which few agriculturalists in El Salvador could make over the same time period.

Net income from the parcels (after subtracting production costs on the parcels) averaged $250 per year in 1984 which was 34 percent of total net family income. The remaining net family income was derived from farm and off-farm salaries, small businesses, and income from parcels not acquired through Decree 207. It is notable that the percentage of Phase III families earning less than $200 per year decreased from 41.5 percent in 1982 to 5.3 percent in 1984.

If family income is increasing, why then is the standard of living of Phase III beneficiaries remaining more or less constant? The answer lies in beneficiaries' responses to questions about their agricultural operations which are expanding and diversifying.

LAND TENURE

Over 81 percent of the land parcels owned by the Phase III beneficiaries were acquired through FINATA as a result of Decree 207. The remaining 19 percent were acquired through inheritance, gifts or, more recently and most importantly, purchase. The family average parcel size has increased since the first profile by almost 20 percent (from 4.1 to 4.6 acres/family), usually through purchase of additional land.

PRODUCTION

Phase III beneficiaries have traditionally cultivated basic grains for sale and subsistence, but with basic grain production on the Phase I farms falling, Phase III beneficiaries have become an important source of basic foodstuffs for the country. From 1982 to 1984, the percentage of national basic grain production attributable to Phase III beneficiaries has increased from 11 to 25 percent, and 62 percent of the production enters the marketing system (versus 58 percent in 1982).

Yields on Phase III parcels are equal to the national average and almost 60 percent of the yield on the Phase I farms with their superior soil and technology. Only in rice, a crop requiring good soil and high technology, do Phase III yields fall below national averages.

Diversified production was an objective of Phase III based on the hypothesis that secure tenure would promote investment in the irrigation, drainage and other structures necessary for crop diversification. In 1982, basic grains accounted for 95 percent of the value of Phase III production. In 1984, basic grains accounted for 72 percent of the value, diversified crops having increased in importance from 5 percent to 28 percent over the two year span. The average value per acre of diversified crops is 250 percent of the value of basic grains.

CAPITAL INVESTMENT, IMPROVEMENTS AND TECHNOLOGY

Although over the years the Phase III beneficiaries have employed only the crudest of tools and technology, secure