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**PROJECT ASSISTANCE  
COMPLETION REPORT**

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

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

## I. INTRODUCTION

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

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

### A. Project Goal:

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

### B. Project Purpose:

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

### C. Project Objectives:

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

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

## **II. PROGRAM ORGANIZATION STRUCTURE**

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

## **III. OVERVIEW OF THE PROGRAM'S OPERATIONAL PROCEDURES**

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

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

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

#### **A. Farm Selection**

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

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

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

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

#### **B. Farm Purchase**

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

#### **C. Topographical Survey**

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

#### **D. Social Aspects**

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

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

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

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

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

#### **D. Agricultural Technical Assistance**

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

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

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

## **F. Production Credit**

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

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

## **G. Education and Housing**

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

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

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

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

#### **IV. RESULTS ACHIEVED:**

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

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

##### **A. Land Purchase**

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

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

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

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

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

#### **D. Credit Assistance**

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

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

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

## **B. Land Use**

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

## **C. Distribution of the Land**

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

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

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

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

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

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

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

**Projected:**

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

**Actual:**

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

**Breakdown of Production Credit by tenor**

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

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

#### **E. Education and Housing**

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

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

### **V. FINANCIAL SUMMARY**

#### **A. Financial Plan**

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

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

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

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

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

## **B. Penny Foundation Counterpart Contributions**

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

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

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

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

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

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

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

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