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Land, Peace, and Participation: The Development of Post-War Agricultural Policy in El Salvador and the Role of the World Bank

By

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with
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Introduction

The fiftieth anniversary of the founding of the World Bank served to open a vigorous debate about the role of the institution in promoting sustainable development. Critics of the Bank charged that the institution pursued economic growth without being sufficiently sensitive to the issue of poverty reduction or to the political dimensions of the development process. And, citing research on the increased effectiveness of development projects when affected communities are involved in the decision-making, they charged that the Bank had failed to establish appropriate mechanisms for consulting with stakeholders and with civil society in the lending process.

This paper examines those criticisms through a case study. It looks at the role of the World Bank in shaping and supporting agricultural policy in post-war El Salvador. The paper addresses two critical questions:

a) Have the policies that the Bank advocated in its policy dialogue and loan conditionality been tailored to the specific post-war situation of El Salvador, or have they been, as critics have charged, imposed as broad formulas without sufficient sensitivity to the particularities of the country?

b) Have the lending conditions set by the Bank (particularly the adoption of sectoral economic policies) been developed after adequate consultation with stakeholders in El Salvador and those who will be affected by the loan?

The Washington Office on Latin America (WOLA) monitors the impact of U.S. and international financial institutions' policies on human rights and economic and social justice in Latin America. In the case of El Salvador, WOLA has closely followed the impact of international policies on the land distribution, rural poverty, and agricultural policy. While WOLA's interest in agricultural development policy in El Salvador emerges from our long-term monitoring of human rights issues there, we believe this case study can help contribute to the broader debate about the role of the World Bank.

Overview

Agrarian issues have been at the heart of social and political conflicts in El Salvador. The 12 year civil war which wracked El Salvador from 1980 to 1992 arose in part from efforts to address the pressing questions of land and rural poverty. In 1992, the Peace Accords negotiated between the Salvadoran government and the rebels of the Farabundo Marti National Liberation Front (FMLN) established a land transfer program to provide small plots of land to some 35,000 families in an effort to re-integrate former combatants into civilian life. And today, as we write, the National Assembly in El Salvador, with a new make-up after the March 1997 elections, is seriously debating proposals to forgive agrarian debt.

This report examines the agrarian issue in El Salvador as it has taken shape over the last three or four years, and the role of the World Bank in shaping and supporting Salvadoran government policy. The Bank, through a series of loans and policy dialogues with the Salvadoran government, has been a key participant in decision-making about the agricultural sector. We argue that the Bank's approach did not sufficiently take into account the requirements of the consolidation of the peace process in El Salvador or the needs related to the successful re-integration of ex-combatants. In making this case, we examine the likely outcomes of the Bank-sponsored government proposal for consolidating agricultural debt and conclude that the proposal will undercut the small farm and reform sectors, to the detriment of the peace process.

We turn to the question of participation and look at the consultative process the Bank employed in El Salvador. We document a recurrent lack of public participation and consultation with stakeholders in the formulation of what became, at a crucial juncture, significant policy conditions for loans.

Part One: The Rural Economy in El Salvador

Land Reform in El Salvador

Rural poverty and the unequal distribution of land provoked unrest in El Salvador during the 1970s and was a major contributing factor to the rise of the guerrilla insurgency. The reformist military junta which took power in October of 1979 initiated a land reform program intended to undercut the appeal of the insurgency. Opposed by many large landholders, and only partially implemented, the reform program nonetheless had some real impact. Nearly 85,000 families received land under the two phases of the reform that were implemented.[1] This land reform program, along with two smaller programs, re-distributed some 295,694 hectares, about 20 percent of the agricultural land in El Salvador. About a third of the total beneficiaries was organized into cooperatives, and the rest had individual title. Former owners received compensation in the form of long-term bonds of varying maturities, at six or seven percent interest. The bulk of the financing for the indemnifications to large landholders came from the United States via grants to the Salvadoran government.[2]

The Peace Accords signed in January of 1992 established a Land Transfer Program (*Programa de Transfarencia de Tierras,* or PTT) designed to provide ex-combatants of both sides with plots of land that would enable them to re-integrate economically into Salvadoran society. Though slow and troubled, this program eventually settled about 35,000 families, the vast majority of them former combatants of the rebel FMLN and their supporters, on plots of land. Many of them were integrated into existing cooperatives, or settled onto abandoned large farms which they worked cooperatively; others received small private plots. Former owners were compensated, and about 85 percent of the financing came from the United States. The PTT transferred about ten percent of the agricultural land in the country.

The Land Reform programs of the 1980s and the Land Transfer Program implemented after the signing of the Peace Accords reduced the concentration of landholding (as noted above, the two programs together redistributed about 30 percent of the country's cropland) and increased substantially the number of individuals who own small plots or share in the ownership of cooperative lands. These changes addressed the perception of inequity among the most active and organized sectors of the rural population and contributed to reducing political tension in the countryside significantly. But they have not fundamentally altered the economic insecurity of rural life in El Salvador.

The Rural Economy Today

Agriculture no longer employs the majority of economically active Salvadorans, and agriculture is no longer the largest contributor to the country's gross domestic product. But about half the population of the country still lives in rural areas, and agriculture continues to be the largest single source of employment. Rural poverty continues to be a major problem. More than a quarter of rural households live in extreme poverty, according to World Bank data.[3] The agricultural economy has stagnated, growing only 2.5 percent a year since 1991, while the overall economy grew an average of 6.7 percent a year. Small farmers, including those who hold land as a result of the land reform and land transfer programs, are in economically precarious positions. Many small farmers, along with those who own no land, must work as day or seasonal agricultural laborers on bigger farms. And many larger farms (including both cooperatives and medium and large private farmers), including producers of livestock and of basic grains, are making little profit. Non-farm rural employment is scarce, and there is no government policy for stimulating rural, non-farm employment.

The Salvadoran Rural Economy and the Peace Process

There is no single magic formula to address the issue of rural poverty and the role of agriculture in developing countries. The issues of rural development and agriculture are difficult everywhere, particularly with the insertion of small, traditionally agricultural economies into a very competitive global market. In El Salvador, these issues are especially sensitive because of the peace process. Landlessness, access to land, and rural poverty were issues that helped generate the war, and the U.S. and the Salvadoran government pursued significant, if flawed, programs to help address these issues. The U.S. invested substantial resources into this, and the land reform did help change the face of Salvadoran agriculture and landholding patterns. The peace and political stability that El Salvador has achieved today rest in part on the fact that political tension in the countryside has been reduced because the short-term demands of organized campesino groups for land redistribution have been at least partially addressed.

But, as the previous section suggests, the viability of rural small holders, of the cooperatives that benefitted from the land reform, and of the rural sector as a whole, is not assured. Landholding patterns have changed and a significant minority of the rural population has acquired ownership of a plot of land. But under current conditions, substantial numbers of the beneficiaries of the land reform programs will fail financially and run the risk of bankruptcy and economic marginalization or foreclosure. This could have serious repercussions for the consolidation of peace in El Salvador.

The land transfer program designed under the Peace Accords was intended to re-integrate former combatants, providing them with a plot of land that would be the basis for economic re-ingration into society. That re-integration has always been tenuous, and the post-war crime wave in El Salvador has been fueled in part by former combatants who have turned to criminal activity to support themselves. Delinquency on an alarming scale is rife in those rural departments most densely populated by ex-combatants from both sides. Any policy, accordingly, which exacerbates the precariousness of life for this population must be considered threatening to peace in the countryside.

More broadly, if the peace process has succeeded in part by addressing, however imperfectly, the concerns of the rural poor for access to land, an economic policy that threatens the viability of the land reform beneficiaries, without offering meaningful alternative sources of income, will weaken campesino support for the democratic political process. In a country emerging from civil war, this is a dangerous, and potentially destabilizing trend.

Part Two: How Has the World Bank Approached These Issues?

When Republican Nationalist Alliance (ARENA) presidential candidate Alfredo Cristiani was elected in 1989, he introduced a program of economic reform and governmental restructuring that reflected the "Washington consensus" on development: governments had to be downsized and programs had to be reshaped in favor of market-driven solutions. Tight money policies were instituted to control inflation, while borders were opened to increasing flows of goods and capital.[4] These policy prescriptions corresponded with the policy preferences of the World Bank and other donors. The World Bank, which had been largely absent from El Salvador since the late 1970s, moved quickly to support the new government's initiatives. The first structural adjustment loan (SAL I), for $75 million, was approved in 1991. It was followed by SAL II, approved in 1994 for $50 million and by four sectoral loans, which together supported the government in wide-ranging reforms.

Up until 1994, the ARENA-controlled government had no sectoral agricultural policy as such. It was felt that merely correcting the macro-economic imbalances of the past and removing the state from direct intervention in the sector would serve to stimulate growth and help agriculture to recovery. But in the mid-1990s, the outline of an agricultural policy began to emerge. The new policy was developed in connection with two projected World Bank loans. The first, the

Agricultural Sector Reform and Investment Project (PRISA), was approved in 1994 for a total of $56.5 million. The major thrust of the loan was institutional reform.

The second loan was originally conceived to broadly support an agricultural "policy matrix" worked out by the government in consultation with Bank personnel. Bank staff and government officials developed a matrix of recommended policies, which focused on six objectives:

1) finalizing the transfer of properties under the terms of the Peace Accords;
2) guaranteeing juridical security of property in land;
3) modernizing the institutional apparatus concerned with the agrarian question;
4) consolidating and restructuring the agrarian debt;
5) stimulating a market in land; and
6) implanting an efficient system of rural finance.[5]

In a letter dated November 4, 1994, to the Ministers of Agriculture and Justice, the Bank urged the Salvadoran government to approve this policy matrix. It set specific conditions related to the policy matrix that the government had to meet in order for the loan to be approved.

When the policy matrix and the conditionality behind the loan became public in late 1995, Salvadoran organizations, later seconded by WOLA and others, began pressuring World Bank officials to revise the Bank's position. They argued that the matrix reflected an economic formula that did not take into account the post-war situation of El Salvador. Bank officials responded by insisting that the policies in question were wholly up to the Salvadoran government and were not conditions, but merely the "policy context" for the loan.

The New Policy and Its Implications

The critics of the policy matrix that the Bank and Salvadoran officials had negotiated that many of the specific policies advocated in the document were inappropriate ways to address the issues of agricultural policy in El Salvador. Implementation of some parts of the matrix would threaten the viability of the cooperatives and farms held by beneficiaries of the 1980s Land Reform and the Land Transfer Program of the Peace Accords (PTT), both of which were heavily supported by the United States as measures addressed specifically to the social and economic causes of the conflict in El Salvador. These issues are of special importance in El Salvador because of the role of land issues in generating the civil war and because of the goal, shared by most of the international community, of assuring the long-term re-integration of former combatants into productive civilian life.

The critics focused on two major components of the policy matrix: the mechanisms for consolidating and managing the outstanding agrarian debt; and concern over the clear bias towards breaking up (or “parcelizing”) the cooperatives.

A. Consolidating the agrarian debt. How agrarian debt is consolidated is a critical question that could have disastrous consequences for Land Reform and PTT beneficiaries, depending on the mechanisms chosen. The World Bank had already pushed for and won agreement that Agricultural Development Bank (BFA) loans would be at commercial rates, and the general bias of both Salvadoran government and World Bank policy was against subsidized credit of any sort. Land reform beneficiaries paying (or in many cases unable to pay at) six percent or seven percent feared that the same approach would be applied to them; they were afraid that they might be offered debt reductions combined with debt "privatization", in which they might have to pay at up to 22 percent annually on a smaller principal. The result would be a high rate of default, followed by foreclosures or new calls for restructuring the debt. Were foreclosures (or pre-emptive sales on the part of debtors) to occur, the result would undoubtedly be a massive redistribution of land away from campesinos and towards those, both investors and wealthier farmers, who could pay off the debt at once or afford the higher rates of interest. This could have a negative impact on political stability in the post-war countryside.

Perhaps the most alarming sign of the Bank's indifference to the objective of consolidating the peace embodied in the Peace Accords is their response to this criticism. Bank officials argue that land is not the solution to rural poverty. In the Bank's view, continued access to land for the beneficiaries of the Land Reform and PTT programs is simply not a pressing issue. What is needed is not more land distribution, but more and more diverse sources of income.[6]

Land may not be the answer to rural poverty in the long run, and only a portion of the rural population has benefited from the land distribution efforts sponsored by the United States and the international community over the last 17 years, but the politics of land was central to both the outbreak of the civil war and to a negotiated settlement in El Salvador. Campesinos rely, however uncertainly, on access to land, and this reality must be acknowledged and accommodated, at least until other non-farm alternatives emerge. This was certainly the thrust of the agreement to re-integrate former combatants by providing them small plots of land, and yet the Bank advocated policies that appear to undercut these agreements, without providing meaningful alternatives.

B. The bias towards parcelization. The second issue raised by the policy matrix, its evident bias towards parcelization, is directly related to the first. With the parcelization of the cooperatives and the PTT properties comes the increased likelihood that farmers who are facing financial difficulties will sell, "opening up the market in land", as the policy matrix and Bank officials would have it.

But under current economic conditions, and in the absence of other programs specifically designed to protect individual farmers, the policy bias towards parcelization, translated into enhanced incentives to choose individual freehold tenure, undermines what little security the collective forms of tenure offer peasant farmers, encouraging bankruptcies and forced sales, with the same effects on land distribution discussed above. While it is true that many cooperativists and PTT beneficiaries want the freedom to dispose of their property as they see fit, reform in this direction has to be accompanied by positive efforts to strengthen peasant agriculture and give campesinos, not just speculators and investors, greater access to land and agricultural credit. Nothing in the policy matrix or in recent World Bank or government policy, however, points in that direction. (See Annex I for a detailed analysis of the implications of the current debt reduction proposal.)

The Case of Chile

The World Bank, and other defenders of the policy matrix agreed to in El Salvador, sometimes cite the Chilean case as an example of the success of this approach to agriculture. When the last of the cooperatives of the Chilean Land Reform were dissolved in 1979, the result was not a reconcentration of land in the hands of former *hacendados* but a new land tenure structure, in which medium-sized farms became an important component of the agrarian structure. In fact, however, as early as 1979 almost 37 percent of those who received parcels (and only 49 percent of former beneficiaries received parcels under the military government' s program) had sold or rented their land.[7] By 1988, reliable studies showed that between 35 percent and 40 percent of parcels had been sold off.[8] The reasons given were inexperience with full responsibility for farming and marketing on the part of ex-cooperativists, the loss of infrastructure accompanying dismantling of the cooperatives, the lack of technical and financial assistance, an adverse economic climate, and the severe weakening of supporting organizations, both governmental and campesino.[9]

The buyers appear to have been about equally divided between larger growers and local professionals, merchants and truckers. Only ten percent of buyers, according to one study, were neighboring campesinos.[10] Those who lost their land, moreover, faced doubtful prospects in the agricultural labor market, where, despite a spectacular growth in profits in fresh fruit for export during the late 1970s and 1980s, agricultural wage levels in 1979 stood at just 90 percent of 1965 levels for permanent workers and 80 percent for temporary workers. The proportion of temporary workers, moreover, was on the increase.[11] This situation was essentially unchanged in 1990.[12] The "liberalization of land markets", in short, did not bring a return to the situation pre-Land Reform. While it may have contributed to significant economic growth in the sector, it did not enhance rural welfare in the short or medium term.

Was the Policy Matrix Designed with the Peace Process in Mind?

This analysis suggests that the economic policies urged by World Bank officials, and incorporated into policy by the Salvadoran government were not designed with the peace process in mind. Unfortunately, this is not a new criticism of the way that the World Bank has approached post-war El Salvador. In a 1994 article, Alvaro de Soto and Graciana del Castillo worried that the United Nations (UN) brokered peace process and the International Monetary Fund (IMF) and World

Bank sponsored economic program for El Salvador could be on a "collision course".[13] The UN's chief negotiator and the architect of the PTT program, respectively, De Soto and Castillo, singled out two agreements as crucial to the consolidation of peace in El Salvador: the new National Civilian Police and the transfer of land to former combatants and guerrilla supporters. Both were hampered, they argued, by fiscal restraints imposed on the Salvadoran government by the stabilization and structural adjustment programs demanded by the multilateral lending agencies.

De Soto and Castillo's specific arguments point to the danger of a clash between the political requirements for consolidation identified by the parties to the conflict with the help of the international community and the economic imperatives imposed by the Bank in the name of economic orthodoxy. In this respect, the Bank's perspective is stubbornly long-term. In the long run, it may be true that land reform and PTT beneficiaries who leave the land may find better employment elsewhere, or that land currently occupied by cooperatives and PTT communities might be more productively employed under some other system of tenancy. But in the long run, as Keynes remarked, we are all dead. Forging the peace cannot await the long-term fulfillment of economic promises based on theoretical generalizations about the long run equilibrium achievable by unaided markets. Peacemakers make provisions for the here and now, and for the middle term, in hopes of averting the sorts of disruptive strains often imposed by markets in flux. And these provisions generally depend upon the political will of governments and the dynamics of interest-group politics to see to it that recurrent causes of conflict do not again reach the point of no return.

The Peace Accords have afforded Salvadorans unprecedented opportunities for influencing the political process. Both justice and prudence seem to dictate that the World Bank not throw its considerable weight against the hard-won gains of the Accords. It should be the role of the Bank to devise a program of structural adjustment that reinforces the attainment of social peace. The recent strategy of the Bank in El Salvador, on the contrary, has worked against the peace process. El Salvador is thus an object lesson in the sort of "collision course" of which De Soto and Castillo warned.

Part Three: Participation and the "Policy Matrix"

The Bank’s policy on participation calls for “systematic client consultation and stakeholder involvement, particularly of the poor”.[14] Did World Bank staff consult with stakeholders, and affected parties, including campesino groups, in the formulation of the agricultural policy matrix?

According to the Bank, the process began in February 1994, with a "policy seminar" on land policy options. "A wide range of stakeholders participated, including representatives of political parties, small and large agricultural producers, agricultural workers, universities, and nongovernmental organizations. After the seminar, a Salvadoran agrarian policy working group drafted an agrarian policy focusing on market-based incentives and poverty alleviation. This policy was approved by the highest government authorities as the policy context for the proposed project.”[15]

The seminar referred to was planned for February 23-25, 1994. The letter of invitation and the introductory materials provided by the government and the World Bank promised a non-partisan event, designed to inform the incoming government and legislature of policy options and the views of society."[16] The initial agenda, however, promised anything but impartiality, as speakers were equally divided between World Bank specialists and government functionaries, with scant time for discussion. There were no presentations scheduled for "representatives of political parties, small and large agricultural producers, agricultural workers, universities, and nongovernmental organizations". In the list of invitees, just nine out of a total of 45 represented the agricultural sector.

After vigorous protests, a final program was established, granting one panel to representatives of the sector, including spokespersons for commercial agriculture, the FMLN's Secretariat for Agrarian Affairs, and a representative of one (out of a small handful) of the cooperative confederations.[17] Nevertheless, the event was anything but participatory and anything but non-partisan. As the representative of the FMLN complained in his vigorous letter of protest to the Bank, “We had to listen to a whole series of distortions and arguments that were insulting to us and even to the intelligence of the participants.”[18] Even ARENA legislator Rodolfo Varela recalls the event as notably nonparticipatory. "I didn't participate directly. I was invited, but more as a listener."[19]

Nor was the follow-up participatory. A World Bank mission in October 1994, worked with the government's interdepartmental Agrarian Policy Group (GOPA) to finalize the policy matrix, whose approval by higher levels of the government was presented by Bank officials at the time as the necessary basis for the continuation of the project.[20] The distribution list for the memorandum summarizing the Mission's activities gives no indication that organizations in civil society were consulted. Indeed, at least one supposed recipient of the memo in the diplomatic community denies ever having received a copy.[21]

When the direction of the new policy became evident, accompanied by evidence of the World Bank's role in its formulation, first peasant organizations within El Salvador, then members of the Washington policy community, including the Washington Office on Latin America, representatives of the United States Agency for International Development (USAID) and the Treasury Department, began pressuring Bank officials for assurances that policies adverse to the peace process in El Salvador were not being promoted by the Bank. Representatives of campesino organizations came to Washington to lobby Bank officials over proposed policy changes linked to the Land Administration Project and over aspects of the Project itself, including the bias towards parcelization evident in provisions of the Loan . They were roundly rebuffed by Bank officials, who insisted that there was no connection between the Loan and the new policy.[22]

At this point (February 1996), representatives of the Washington Office on Latin America, later joined by USAID and Treasury Department officials, began meeting with World Bank personnel on the issue. Bank officials denied any linkage between Bank policy and the policy matrix being discussed in El Salvador until they were confronted with the leaked documents cited earlier;

they then insisted that there was no conditionality on the loan in question. Official U.S. concerns were reiterated in the statement of Jan Piercy, United States Executive Director to the Bank, when the Board of Directors of the World Bank took up the question of the Land Administration Loan in March 1996. Faced with the concerns of USAID and Treasury officials, the Bank agreed to issue a policy statement disassociating the upcoming loan from any conditionality, affirming that the new policy was still "under discussion" in El Salvador, and committing the Bank to a fully participatory process in its conversations with the government about a new policy.[23]

In fact, however, the policy matrix had long since been approved by the Salvadoran government, and the public participation over the issues raised by its legislation was prompted by the protests of campesino organizations, opposition parties and disgruntled landowners, not through the efforts of the Bank. Most opponents of the direction signaled by the policy matrix, moreover, were anxious to affirm that El Salvador needed help in surveying and registering rural properties. In the end, most agreed that the Land Administration Project should not be blocked merely because of its ties to the development of the policy matrix.

The Bank has made subsequent efforts to adopt a more participatory approach to policy development in El Salvador. World Bank President James Wolfensohn has voiced strong support for participation initiatives and has requested quarterly reports on model or “flagship” participation projects, one of which is in El Salvador. In addition, Wolfensohn has agreed to conduct a study of the impact of structural adjustment policies in selected countries through a process in which local NGOs participate. El Salvador has been selected as one of the target countries, and a number of Salvadoran NGOs have been actively involved in the initial stages of the process.

But the most visible example of the Bank’s new approach to participation did not succeed in persuading Salvadoran NGOs that the Bank was serious about participation. In 1996, El Salvador was chosen as one of a number of countries for a pilot study of participation in the formulation of the tri-annual Country Assistance Strategy Paper. The World Bank’s NGO coordinator for Central America and staff contacted a number of Salvadoran NGOs and think tanks and asked them to bring together other interested parties to dialogue with the Bank about the Country Assistance Strategy. They were provided with some background documents and a ten-page question and answer document about the Country Assistance Strategy, most of it in English. With only ten days advance notification, NGO officials asked for more lead time and a more extensive opportunity to comment on the issues raised by the staff paper but were denied these requests.

At that point, some in the NGO community refused to participate in the process. Others, while unhappy, continued to discuss the structure of the dialogue with the Bank. In the end, the Bank held a two day consultation that some 30 NGOs attended. In the sessions, there was much criticisms of the Bank’s approach. In addition to the criticisms about advance preparation, some NGO officials complained that the topics set for discussion -- poverty alleviation and the environment -- were not even contemplated in World Bank plans for substantive action over the next few years, which focused on "modernization of the state", and "enhancing private sector competitivity..."[24]

The Bank, faced with these criticisms, has acknowledged that "NGOs and other stakeholders justifiably fear that the Bank is merely trying to validate or legitimize its assistance strategy . . . In the case of El Salvador, the onus should be on the Bank to demonstrate its sincerity and openness."[25]

Conclusion

The World Bank recently announced a "Strategic Compact" intended to increase the institution's "development effectiveness" and transform it from a "shareholder organization" to a "stakeholder organization". In the framework document which the Bank circulated, it was very self-critical of its own past practices, and the Compact reflects an institutional willingness to change the way the Bank behaves.

As this study makes clear, the Bank will need to both increase its political sensitivity and revamp its mechanisms for participation, in order to live up to the commitment it has made in the Strategic Compact. The study demonstrates that the Bank's approach to agricultural policy was not developed with sufficient sensitivity to the needs of El Salvador's peace process, particularly the need for political stability in the countryside. The study also demonstrates that the Bank's rhetorical commitment to participation is not matched by its practice on the ground.

In El Salvador, a debate about rural development policy is continuing. The Bank has just released a draft of a study it commissioned on rural development, and it is likely to engage in consultations about rural development policy in the coming months. In these consultations, and in its subsequent policy discussions with the Salvadoran government, the World Bank has the opportunity to help shape a policy that is both more politically sensitive and more participatory.

ANNEX I

The Debate over Debt

The policy matrix agreed to by the Salvadoran government and World Bank staff called for the consolidation of agrarian debt which had accumulated during the war and in the various processes of land reform. The approach that the Salvadoran government took, with the support of Bank officials, is worth examining in detail, for what it shows about the impact of this economic orthodoxy on beneficiaries of the land reform and land transfer processes.

Land Reform and PTT beneficiaries did not receive land for free; they were expected to pay off 30 year loans, though on relatively easy terms. However easy the terms, they do not ensure that beneficiaries will be able to pay, nor, therefore, that they will continue to hold the land. Accumulated debt, including agricultural credit,[26] is such that many beneficiaries are ineligible for further credit, essential for production in most cases.

The total size of the debt, both agrarian and agricultural credit, is difficult to determine. A 1996 study by the Regional Program for Research on Development and the Environment (PRISMA) estimated that outstanding agricultural debt is about 2.5 billion colons (approximately $287 million).[27] Of this, the cooperative sector owed more than half, 1,290.4 million colons; individual beneficiaries of the land reform 165.9 million colons; the PTT beneficiaries 716.5 million colons; and the commercial sector the rest.[28] Average debt for the PTT beneficiaries is 19,365 colons, or $2,224, not a substantial sum by U.S. standards but difficult to pay off working as little as 1.6 hectares of land under adverse economic conditions. The cooperatives vary considerably in their degree of indebtedness, but they average $423,000 apiece or approximately $4,753 per member. The 63,600 individual land reform beneficiaries (those who received land under the reform of the early 1980s, and the beneficiaries of two other small programs), by contrast, owe on average just 2,608 colons, or $299 each, thanks to their small plots, and the fact that relatively little agricultural credit was ever made available to them.

Lifting the Burden of Debt or Forcible Parcelization: The May 1996 Legislation

The policy matrix that World Bank staff had negotiated with the Salvadoran government called on the government to “consolidate and restructure agrarian debt”. In response, in February 1996, the Salvadoran government’s economic team began to develop a proposal for partial debt forgiveness, accompanied by "privatization" of the remaining debt.

The government's proposal brought a wave of counter-proposals and, eventually, mobilizations. There emerged a broad-based Agricultural Forum, led by representatives of the Agrarian Affairs Secretariat of the FMLN, but encompassing a wide spectrum of the sector, including, initially, some representatives of large landowners. There was also strong opposition from the Association of Democratic Campesinos (ADC).[29]

Major demonstrations in March and April of 1996, led by the ADC and the Forum, but also including dissident large landowners, prompted a softening of the government's position. In the end, the Legislative Assembly approved a 70 percent forgiveness for all, on the condition that the remaining 30 percent be paid immediately. Potential beneficiaries had until June 1997 to make final payment, or lose the opportunity to enjoy the 70 percent forgiveness. Resigned to what they were able to get, even the FMLN legislative delegation voted for the proposal.

The law addresses both the agrarian debt of the cooperatives of the Land Reform, the Land Reform individual beneficiaries and PTT beneficiaries and their accumulated start-up and production credits. It provides that individual debt up to 16,665 colons (approximately $1,913 at current exchange rates) would be forgiven totally. Debts greater than this amount would be discounted 70 percent, provided debtors paid off immediately (*pronto pago*) the remaining 30 percent. In this way, the various lending agencies of the government would be rid of the debt, and beneficiaries would be on new financial footing vis-a-vis the commercial banks, to which they would have to go for future loans.

Impact of the Legislation

<u>The Government's Perspective</u>

Though a substantial write-off of government-held debt is included in the new policy -- the debt in question comes to as much as 2.5 billion colons ($308.6 million) -- the direct fiscal impact will be favorable, on the whole. As the PRISMA study referred to earlier notes,

> On the income side, the fiscal impact could be considerable. If [the government] recovers 30 percent of the total, approximately 750 million colons would flow to the state and its financial institutions. On the other hand, on the expense side, the impact on public finances should not be important. In the case of the beneficiaries [of the Land Reform and the PTT] . . . a good part of the debt (around 65 percent) was financed via donations, which implies that the Government of El Salvador would not contract additional international obligations in forgiving the debt.[30]

From a policy perspective, too, the government initiative generally fulfills the aims of the policy matrix negotiated with the World Bank. The law foments the parcelization of the cooperatives and the sale of cooperative land, thus overcoming an important obstacle, in the eyes of the designers of the policy, to the liberalization of rural land markets.

Impact on the Individual Land Reform Beneficiaries

All observers agree that under the terms of the law these beneficiaries come off relatively well. Because of the small size of their initial debt and the relative neglect of the financial institutions, the majority of these owners (around 60 percent) do not have debts in excess of 16,665 colons. They will enjoy 100 percent debt forgiveness. [This depends on the government putting mechanisms in place in time to allow them to take advantage of the law. In particular, many beneficiaries do not yet have title to their land, making cancellation of financial obligations difficult.]

Impact on PTT Beneficiaries

The PTT beneficiaries, likewise, benefit from smaller debt obligations, on average 19,365 colons, or $2,224 apiece. Antonio Alvarez, of the Agrarian Affairs Secretariat of the FMLN, estimates that some 800 PTT beneficiaries, have debts below the 16,665 limit. The rest will have to pay something in order to be quit of their indebtedness.[31] According to Alvarez and most of those interviewed on the question, the majority cannot raise even the modest sums required.

As matters stand, PTT beneficiaries face the choice of continuing under original terms of sale of their land, with the possibility of foreclosure should they fail to meet payments promptly, or finding funds to make the immediate payment required to enjoy a measure of debt forgiveness. The latter option appears difficult for most. [PTT beneficiaries may take advantage of this program if non-governmental organizations or community organizations find ways to pool funds to leverage payoffs for the hardest pressed, or if international donor agencies provide support.]

The Dilemma of the Cooperatives

The Land Reform cooperatives, by all accounts, are the least able to take advantage of the new policy, and the most severely threatened by it. Versions differ over the ability of the sector to take advantage of the government's offer; but all agree that for the majority to do so would require substantial sacrifice, including in many cases sale of land, livestock, or other productive assets.

Most observers group the cooperatives into four or five categories. The first case includes those cooperatives, primarily coffee or sugar cane growers, which are currently profitable and could pay the 30 percent from their own resources or through a bank loan. The second includes cooperatives which possess good land and which might pay the 30 percent through the sale of land. These include those with land susceptible to urban, industrial or tourist development. The third category includes cooperatives that might be profitable, but whose debts are elevated and whose land is relatively less valuable. Such cooperatives would likely encounter some difficulty securing a loan to cover the 30 percent and more difficulty paying it off. These might find it tempting to divide up the land among their members, with the result that the debt would largely disappear, but so would the productive structure. In the fourth category fall those cooperatives that are not currently profitable and which cannot sell their land. Here, too, the option is parcelization; and this would undoubtedly appear more advantageous than trying to pay off the debt on the original terms. Most observers likewise agree that the majority of cooperatives probably fall into the latter two categories.[32]

Many evoke the prospect of a reconcentration of landholding in discussing the new policy, though it is more likely that available land would be bought up by investors and speculators, at least where property might be exploited in urban, industrial or tourist development. The tremendous urban growth in areas surrounding San Salvador and Sonsonate, investor interest in new free zones and beachfront properties near the international airport at Comalapa and down the coast mean that a substantial portion of the cooperatives and PTT properties are being eyed by speculators and investors.[33] The prime vehicles the new policy offers the majority of cooperatives, notes Eulogio Villalta of the ADC, are selling assets, mortgaging their property and parcelizing.[34]

ENDNOTES

1. See Thiesenhusen, William C. Broken Promises: Reform and the Latin American Campesino. Boulder, CO: Westview Press, 1995: 149. For slightly higher estimates, see PRISMA, La Deuda del Sector Agropecuario: Implicaciones de la Condonación Parcial, Clemente San Sebastián, principle investigator, in cooperation with Deborah Barry. San Salvador: PRISMA, 1996: 6-8.

2. Thiesenhusen. 1995:149. Mitchell A. Seligson, "Thirty Years of Transformation in the Agrarian Structure of El Salvador, 1961-1991". Latin American Research Review 30, 3 (1995):43-74.

3. Wolfensohn, James B. “Memorandum of the President of the International Bank for Reconstruction and Development to the Executive Directors on a Country Assistance Strategy of the World Bank Group for the Republic of El Salvador”, February 19, 1997: 2.

4. Williamson, John ed., Latin American Adjustment: How Much Has Happened? Washington, D.C.: Institute for International Economics, 1990.

5. World Bank, "Ayuda de Memoria: El Salvador Proyecto de Tierra y Servicios al Agro", Misión de Preparación y Proyecto de Reforma e Invarsión Sectorial Agropecuaria, Misión de Supervisión. Banco Mundial, 11 al 28 de Octubre de 1994, Memorandum, n-p., typescript, 1994.

6. Interview with World Bank official, Washington, D.C., 20 December 1996.

7. Cereceda, Luz Eugenia and Fernando Dahse, Dos décadas de cambios en el agro chileno. Santiago: Instituto de Sociologia de la Pontificia Universidad Católica de Chile, 1980: 109, 113.

8. For the higher estimate, see Sergio Gómez and Jorge Echenique, La agricultura chilena: las dos caras de la modernización. Santiago: FLACSO, 1988: 97. For the lower, see Emiliano Ortega, Tranformaciones agrarias el campesinado: De la participación a la exclusión. Santiago: Corporación de Investigaciones Económicas para Latinoamérica [CIEPLAN], 1987: 40.

9. Ortega, Emiliano. Tranformaciones agrarias el campesinado: De la participación a la exclusión. Santiago: Corporacion de Investigaciones Económicas para Latinoamérica [CIEPLAN], 1987: 1900-1. Sergio Gómez, Instituciones y procesos agrarios en Chile. Santiago: FLACSO, 1982.

10. Gómez, Sergio and Jorge Echenique, La agricultura chilena: las dos caras de la modernización. Santiago, FLACSO, 1988: 97. Luz Eugenia Cereceda and Fernando Dahse, Dos décadas de cambios en el agro chileno. Santiago: Instituto de Sociología de la Pontificia Universidad Católica de Chile, 1980: 115.

11. Gómez and Echenique. 1988:76.

12. Jarvis, Lovell S. "Chilean Fruit Development Since 1973: Manipulating the Cornucopia to What End?" Paper presented for XVI International Congress of the Latin American Studies Association, Washington, D.C., 4-6 April 1991.

13. De Soto, Alvaro and Graciana del Castillo. "Obstacles to Peace Making" Foreign Policy Spring, 1994.

14. Those policies were first officially promulgated in September 1994. See World Bank, The World Bank and Participation, Operations Policy Department, Washington, D.C.: World Bank, September 1994.

15. Wolfensohn, James D. "Memorandum of the President of the IBRD to the Executive Directors on Proposed Loan to the Republic of El Salvador for a Land Administration Project". Washington, DC: 31 January 1996: 2.

16. Lievano de Marques, Mirna. Letter of invitation, 7 February 1994. Gobierno de El Salvador/Banco Mundial, "El Salvador: Opciones de Política Agraria". 11 Seminario de Planificación, 23-25 Febrero 1994, whitepaper, San Salvador, 1994.

17. Gobierno de El Salvador/Banco Mundial, "Opciones para una Nueva Politica Agraria: Programa". San Salvador, 23-25 February 1994.

18. Santamaría, Ricardo Evert. Letter to the World Bank. San Salvador, 25 February 1994. Quoted with author's permission.

19. Interview with Rudolfo Varela. San Salvador, 15 October 1996.

20. World Bank, "Ayuda de Memoria: El Salvador. Proyecto de Tierra y Servicios al Agro," Misión de Preparación y Proyecto de Reforma e Inversión Sectorial Agropecuaria, Misión de Supervisión. Banco Mundial, 11 al 28 de Octubre de 1994, Memorandum, n.p., typescript, 1994.

21. Interview with foreign development agency staff. San Salvador, 15 October 1996.

22. Interviews with campesino leaders. San Salvador, 13-18 October 1996.

23. Letter of Cora Shaw, El Salvador Task Manager, to Gordon Straub, Director, Productive Resources Office, USAID, El Salvador. Washington, D.C., 15 March 1996.

24. Interviews with NGO officials. San Salvador, 13-18 October 1996.

25. The Bank has reflected on its dialogue with NGOs and other stakeholders in El Salvador. See Wolfensohn. 1997: Annex C:1.

26. The agrarian debt has to do with obligations incurred in the purchase of the land, including both principal and interest. Agricultural credit includes loans extended for investment and planting. The cooperatives created in Phase I, for example, received "loans" to cover costs of purchase of their land but were also granted credit lines with the Agricultural Development Bank for purchasing machinery, erecting buildings, and buying seed, fertilizer, and pesticides at planting season. Many of these loans were in default by war's end.

27. PRISMA. 1996.

28. That is, those who could claim to have been adversely affected by the civil war. The PRISMA study looked at those eligible for special treatment under the policy initiatives discussed in Section 3. These included those commercial growers whose debt had already been reduced thanks to a special postwar program for farmers affected by the conflict.

29. The Association of Democratic Campesinos is the largest single campesino organization. Although many of its leaders had historic connections with the political parties of the left, the ADC has disputed the FMLN’s leadership role in campesino movement.

30. PRISMA. 1996: 16.

31. Interview with Antonio Alvarez. San Salvador, 16 October 1996.

32. PRISMA. 1996: 18.

33. See PRISMA, La Deuda del Sector Agropecurio and PRISMA, Dinámica de la Degradación Ambiental. Interview with Eulogio Vililalta Hernández, General Coordinator, ADC. San Salvador, 18 October 1996.

34. Interview with Eulogio Villalta Hernández, General Coordinator, ADC. San Salvador, 18 October 1996.