MEMORANDUM

October 15, 1986

TO: William C. Doherty, Jr., Executive Director
FROM: Richard Hough

SUBJECT: Phase III Land Reform Program in El Salvador

You should be aware of some of the significant changes that are now taking place at the farm level among Phase III beneficiaries. The information on these changes comes from in-house reports of the USAID office of Rural Development in San Salvador. A brief summary follows below:

A. **Family Income** derived from Decree 207 parcels increased 37 percent in current prices from $303 in 1982 to $417 in 1984. 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.

B. **Landsize** -- the family average parcel size-- has increased since 1982 by almost 20 percent from 4.1 to 4.6 acres per family, usually through the purchase of additional land.

C. **Production** of basic grains attributable to Phase III beneficiaries has increased from 11 to 25 percent of national production levels, 1982-84.

D. **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.
E. **Capital formation** -- the value of productive capital goods (plows, sprayers, irrigation equipment, etc.) has increased 197 percent (in constant prices adjusted for inflation) since 1982.

In brief, many small farm families, having gained access to land, are now responding quite remarkably to the incentives that secure tenure provide. Further, the above figures reflect the forgoing of consumption for investment. Put differently, while family incomes have increased, the standard of living of Phase II beneficiaries has remained more or less constant. However, this is the consequence of an above average propensity to invest the additional disposable income into capital formation, such as technological improvements with longer-term pay-outs. In addition, most of the farm-level improvements -- the use of improved seed varieties and new production technologies, for example -- are being made without access to formal technical assistance and credit. Only twenty-two percent of the Phase III beneficiaries received technical assistance in 1984. Government support services, as well as those of campesino organizations, for Phase III farmers on the whole have been weak.

These initial, and hopeful, figures noted above on the economic and agronomic impact of the Phase III program compare favorably with the results of the highly successful land reform programs in the Far East in the 1950s and 1960s. We will know more in this regard by the end of the year when the findings of the present CLUSA (Larry Harrison's Group) Study, contracted by AID, on the economic consequences of the Phase I and Phase III programs in El Salvador will be available.

A second bit of good news is that the Salvadoran National Assembly passed last month a new property mortgage law which among other things should significantly expedite the titling process of Phase III beneficiaries. FINATA has estimated that over half of its expropriated properties will be affected positively.

The difficulty of all this for us and our campesino organizations is that we cannot really identify with, or take any of the credit for, these recent successes, at least not without stretching the truth considerably. As you know, since the closing of the application window in 1984, our campesino organizations have largely withdrawn from field participation in the implementation of the Phase III program.
We sought to remedy this in our new Cooperative Agreement with the USAID by providing funds for a refurbished group of 24 promotores (half UCS and half ACOPAI) to reactivate the role of campesino organizations in the program. However, we cannot seem to get the UCS and ACOPAI untracked in this effort. UCS leaders have particularly resisted, apparently taking the view that Phase III is no longer a priority for them. ACOPAI continues to be somewhat more involved, but appears to want to work in one limited area, supporting campesino beneficiaries whose claims are being challenged in the court system of El Salvador.

Needless to say, neither of the two thus far have reacted positively to renewed field participation in the Phase III implementation process, notwithstanding an open request for help from the President of FINATA, one of their own, Orlando Arevalo, the ex-President of ACOPAI.

It is possible that the leaders of the campesino organizations are not aware of the dramatic changes that are taking place before their eyes. (AIFLD/ES should now have made sure this is not the case.) The great potential for the domestic political exploitation of these changes also seems to have slipped from sight. Leastwise, the organizations are now not only but marginally involved in the Phase III program, but have made little effort to organize the beneficiaries. Given that "power abhors a vacuum", some other organization likely will.

This lack of involvement of our people is also harmful to us. We should be situated politically to share fully in the successes of the Phase III program on the Hill and with State and AID. We certainly are not in position to do that now. In the context of struggle against budget cuts, this is especially important the coming year. I would note that the Embassy and USAID in San Salvador are all too aware of this disengagement by UCS and ACOPAI (and they think by AIFLD as well). This makes it not only difficult for us to bring any leverage to bear on the U.S. field mission and the GOES, for example, to accelerate titling and compensation, to protect campesino claimants better etc., but also difficult to play an influential role, which reflects positively our own self-interest as well, here in Washington. We are being progressively caught in the unenviable position of being the father of a program which after much controversy and struggle is increasingly showing signs of genuine success but which we can now take only limited credit for; of relegating ourselves more and more to the sidelines, and in the process making any claim that "we were right", or "I told you so" less and less credible.
Much remains to be done on the Phase III program in virtually all its aspects. There is a major role for the campesino organizations still to play, particularly in protecting the interests of the beneficiaries in the implementation process given the penchant for undue legalism in FINATA and the still dominant local power of the ex-landlord. There is also much domestic political benefit to be accrued by UCS and ACOPAI from such a role. As already noted, we also have a large stake in reactivating this role. I would like your support in bringing about this reactivation, especially in establishing the group of 24 promotores, training them and getting them back out in field. May I talk to you further on this at your earliest convenience.

RH:nw

cc. M. Donovan, J. Friedman, J. Estrada, J. Heberle, R. Cazares, J. Hernandez, N. Schipull