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STUDIES ON FINANCING AGRARIAN REFORM  
IN LATIN AMERICA

by

Arthur L. Domike and Eric B. Shearer\*

\* Mr. Domike is an official of FAO stationed in Washington, and Mr. Shearer served as a consultant to FAO for the preparation of this report.

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## PRESENTATION

The Eighth Regional FAO Conference for Latin America requested that the Organization give assistance to the member countries in solving problems related to the financing of agrarian reform. At the behest of the countries of the Region, FAO had previously taken active leadership of studies of land tenure problems through the Inter-American Committee for Agricultural Development (CIDA).

The Inter-American Development Bank joined FAO in the study of reform financing and provided the resources needed to undertake several field studies. Close collaboration was also assured with ongoing CIDA studies of the tenure situation and agrarian reform programmes in Mexico, Venezuela, Bolivia and Central America.

Through this unique collaboration of international and national agencies a series of studies were prepared on the financial aspects of land reform projects and programmes in Peru, Venezuela, Mexico, Bolivia and Chile. The most important direct benefits from the work undoubtedly came from the collaboration of the field investigators with the government institutions in Bolivia (under Ing. Guillermo Gallo Mendoza), in Peru (under Mr. Gamaliel Carrasco), and Chile (under Mr. John A. Menz). In Venezuela, the team worked in close cooperation with the Centro de Estudios de Desarrollo (CENDES) and, particularly, with the Technical Coordinator of the CIDA Study, Mr. Gustavo Pinto Cohen. In México, Dr. Juan Ballesteros, working with the Centro de Investigaciones Agrarias under Ing. Sergio Reyes, led the study.

In 1970, the John C. Lincoln Institute of Hartford, Conn., USA, which has long interested itself in problems of the land and agrarian reform, provided the funding necessary to complete a more general analysis of agrarian reform finance issues in Latin America.

For the preparation of this report, FAO contracted Mr. Eric B. Shearer to collaborate with Mr. Arthur L. Domike, who had served as director of the overall study. Mr. Shearer, who had been earlier associated with the CIDA studies for Venezuela, Mexico, Bolivia and Colombia, assembled and selected valuable new material in order to bring the previously available studies up to date.

Important contributions to the study were also provided by Messrs. Solon Barraclough of FAO and Thomas F. Carroll of IDB who, together with Mr. Domike, constituted the supervision committee for the overall study. Other contributors included Mr. John Strasma of the University of Wisconsin, Mr. Jacques Kozub of the IDB, and Mr. Michael Nelson, formerly of Resources for the Future and presently with the Ford Foundation.

## CHAPTER I

### STUDIES ON FINANCING AGRARIAN REFORM: INTRODUCTION AND SUMMARY

#### 1.1 Introduction

This study had its origins in the concern of many governments that they were unprepared to handle the financing problems peculiar to agrarian reform programmes. Even countries with ample experience in planning, financing and executing "conventional" agricultural development schemes, recognize that agrarian reform programmes are of a very different character.

The central concern of agrarian reform is the redistribution of power - political, social and economic - and the subsequent incorporation of the mass of the rural population into the mainstream of the nation's life. The clientele of agrarian reform programmes are the impoverished, powerless and poorly educated, rather than the established commercial farmers and land-owners. Programmes to benefit each group demand different approaches, different priorities, and different financial arrangements.

This report attempts to present an overview of the issues and problems peculiar to financing reform programmes which decision makers and planners have to face in the Latin American context. Distinctions are drawn among various strategies of development and reform. These strategies arise from the general political context, time and place of the reform. In this study, these political decisions, and the constraints underlying specific reform strategies, are not critically examined. Nevertheless, it is necessary to recognize how financial requirements and cost effectiveness differ under the various reform strategies, and how they change as the reform passes through progressive steps or phases.

Detailed attention is not given in this report to the economic and social costs and benefits of agrarian reform per se. A number of evaluations of land reform projects and programmes were undertaken in conjunction with this study. <sup>1/</sup> Although use is made here of these results, they have not been incorporated as part of the financing study itself. This study centers on the problems of securing the appropriate kinds and amounts of financing in the proper time to execute a reform programme. It is also an appraisal of the principal solutions to the financing problems which have been encountered in the Latin American Region.

Financing is not assumed to be the "key" to agrarian reform. The study does not ask, "can the country afford to carry out a reform?". That question, it will be seen, is largely rhetorical and cannot be answered in financial terms. Rather, an attempt is made to reduce the area of legitimate debate concerning types of financing needed to initiate, execute and consolidate a reform programme.

The supporters of reform cannot be indifferent to the problems of financing or to the techniques available for overcoming them. The factors which most obviously limit rapid and effective reform execution are lack of legal powers, institutional capacity, technical personnel and basic information. Nevertheless, opponents of agrarian reform are indeed able to impede its implementation by blocking its funding.

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<sup>1/</sup> See Alezones/Esteves, June 1969; Carrasco, February 1968; Carrasco et al, June 1969; CENDES/CIDA, 1969; CIA, 1970; Dorner/Kanel, June 1970; Dovring, June 1970; Esteves, February 1967; FAO/IDB, 1971; Felstehausen, June 1970; IDB, June 1970; Mathiason/Shearer, 1967; Menz, February 1971; Nelson, March 1970; Ratinoff et al, January 1969; Van de Wetering, May 1970.

Agrarian reform programmes take place in two distinct phases. First, the rights in the land are redistributed. Subsequently, the economic, social and political position of the reformed sector is consolidated. The activities for carrying out these programmes are land acquisition, reform planning and administration, and the consolidation of the reformed agriculture. The organization of the report reflects these distinct phases, each of which has its own characteristics with regard to financial needs and sources of funds. The first four chapters are devoted to the financial requirements for reform implementation. First, a summary of experience regarding costs and financial requirements of reform programmes is offered (Chapter II). The question of land acquisition "costs" (Chapter III) is discussed next. The financial implications of reform planning decisions (Chapter IV) are then considered. Finally, the financing needed for consolidation of the reformed rural sector is discussed in Chapter V. An overview of the various domestic financing possibilities is presented in Chapter VI, complementing the solutions discussed in the earlier chapters. External financing is considered in Chapter VII with emphasis on the lending policies, criteria and procedures of the international development financial institutions.

## 1.2 Summary and Conclusions

Each government seeking to remake agrarian power and property relationships, must do so within the context of its own national purposes and resources. In general terms it is possible to characterize the approaches (or "strategies") followed in the Latin American Region as ranging from "nominal" through "gradualist" and "reformist" to "structural". The differences grow out of the importance a government attaches to profound change in the agrarian system, and of the priority with which public financing is provided to the programme.

Even though these categories provide useful orientation for the present study, they must be understood pragmatically. For example, Bolivia achieved a broad reform of the agrarian structure with minuscule public expenditure; other governments have channeled substantial funds through their reform agencies, without achieving perceptible change in the structure. As in all such matters, intentions may be overstated, may change over time, or may not be fulfillable for financial reasons. It is this latter factor on which the study focuses attention.

A review of experience in the Region indicates that reform financing requirements can vary enormously, regardless of the strategy the Government seeks to follow (see Chapter II). Where public sector intervention consists of the confiscation of land and its transfer to the control of campesinos, structural change can be achieved with very low public expenditure. However, where the transformation is combined with capital-intensive "integrated" consolidation programmes, financing requirements rise sharply. Public expenditures for land acquisition, programme administration and initial consolidation investments have ranged from virtually nothing in Bolivia, to about US\$ 20,000 per family in smallholders' irrigation schemes of Venezuela and Colombia.

Overall expenditures on reforms have not, in fact, been large either in relation to national budgets or to the reform task. In four countries of the Region with important reform activity - Chile, Colombia, Peru and Venezuela - annual programme expenditures in recent years have ranged between US\$ 40 and US\$ 80 million. These amounts represent little more than one per cent of the respective public revenues. Even so, the political vulnerability of the reforms often puts even these sums in jeopardy. The means available for reducing public budget requirements, and for channeling other financing to the reform therefore merit close review.

Contrary to common supposition, compensation of ex-landowners has not generally been the most important item to be financed (see Chapter III). In Bolivia and Cuba, almost nothing was spent on land acquisition. In the four study countries - none of which followed confiscatory policies in acquiring land - between 9 per cent and 15 per cent of the reform budgets went to this item.

The burden of landowner compensation on the current government budget depends on both the level of land valuation and terms of remuneration, including the portion paid in cash, period of bond amortization and effective rates of interest on bonds. There are numerous bases on which land can be appraised: tax assessments, capitalized value of returns (either present or potential) and "market" value. Techniques also abound for fitting landowner payments to political restraints and purposes. In practice, the most common compensation system in the study countries provides for appraisal at some average of tax assessment and potential economic values. Once this price is established, compensation is given in low-interest, long maturity bonds. Movable stock is commonly paid in cash. In one study country (Colombia) landowners are paid primarily in cash or negotiable notes, in another (Venezuela) nearly half the payments have been in cash.

In the first stage of a reform the bulk of programme financing is required for administrative and planning activities. In the study countries, where this run-in phase lasted from a few months to a few years, the relative importance of this item dropped from as much as 80 per cent of programme costs, to 15-25 per cent as the programme expands.

The best chance for reduction and control of financing lies in effective planning and administration of the reform programmes. Attention is given in Chapter IV to the major "design" problems facing governments, no matter what reform strategy is pursued. From the financing and cost-effectiveness viewpoint, the most significant issues are those determining budget allocations between reform and commercial agriculture programmes, between marginal and "quick return" agricultural projects and regions, and among various claimants of the reform programme itself. Solutions to administrative problems can also have enormous impact on both the financing requirements and the effectiveness of the reform itself. <sup>1/</sup> Of greatest significance in this regard are: post reform tenure patterns, the structure of the reform agency, and means used to secure basic resource and cadastral information.

Reforms are inherently conflictive and politicized, so that the success of the programme depends upon blancing of social and economic objectives and a continuous adjustment of planning priorities and budgets. How effectively programme objectives are met has been found to depend overwhelmingly on the firmness of the government policy direction, plus sensitivity in decisions concerning tenure and management forms, peasant participation and labour mobilization. No simple rules define the "best" way to organize the reform process to permit more effective utilization of the bureaucracy and involvement of the campesinos, but decentralization of administration, combined with continuous beneficiary participation in the decision-making process, are recognized as important.

The major, long term financing requirement is for development-oriented infrastructure and services to the reform beneficiaries. These consolidation activities are begun more or less concurrently with the redistributive phase of the process. They, of course, continue longer and, where the reform is massive, shape the country's overall rural development strategy.

<sup>1/</sup> On this seldom emphasized issue, the FAO Special Committee on Agrarian Reform comments: "Without a reform of the structure of complementary services, there is risk that the production increase generated by the reforms of tenure and production structures ... will not result in benefits for the majority of those who work the land." (FAO, 1971, p.7).

There are two broad consolidation options: intensifying use of existing productive capacities, and expanding the agricultural frontier. The "intensive" consolidation approach - as followed for example, by Chile and Perú - gives priority to providing operating credits and elemental economic support services. Marketing facilities are also commonly needed. Insofar as the farm working stock and facilities are retained intact after reform, a simple credit-extension assistance package permits previously under-utilized irrigation, road and other infrastructure to be brought into full use. The contrasting "extensive" strategy concentrates reform-oriented development activities in land settlement and irrigation schemes, which are inherently more expensive and risky, and give only delayed returns.

Special problems are encountered in consolidation planning where the reform agencies have built housing for the beneficiaries. The facilities have almost uniformly proved unacceptable to the families, as well as costly to finance and of low economic yield. On the other hand, properly apportioned short term credits for production have proved enormously productive, especially when combined with minimal extension and marketing assistance.

In the historic competition for central government budgets, examined in Chapter VI, the rural masses have never prospered. Further, agriculture receives the least official support in the poorest rural countries. Agrarian reform programmes, therefore, appear to fiscal managers as totally new claimants on already over-committed fiscal resources.

Since the public sector provides all but a small part of the financing required for reform - directly through Treasury allocations or indirectly through borrowings - there are inevitable financial difficulties, no matter whether the Government is pursuing a "reformist" or a "structuralist" strategy. In the first case, the traditional rural and urban groups seek to maintain their own programmes. Where the traditional clientele lose their political power, agrarian reform agencies find themselves competing with the numerous other priorities of the innovating government.

Under these circumstances, it is surprising that the reform agencies in the study countries have been able to capture larger budgets. Bonds issued to expropriated land-owners predictably constitute a major element of financing for land acquisition, but they do not help the agencies meet their obligations for administration or consolidation activities. Direct Treasury appropriations have been the source of 70-80 percent of agency operating budgets in the study countries. Domestic borrowing from other than landowners provides almost all the rest of the funding in the first years of the programmes. "Self financing", principally recoveries from beneficiaries of their cooperatives, has not so far been significant.

The reshaping of programme priorities of existing agencies (e.g. public works, education, health) and consequent channelling of their efforts and resources to the reformed sector, may prove the most effective way of increasing Treasury funding for reforms. This approach has various political merits and difficulties but, if it works, gives the reform programme access not only to financing but also to the always scarce technical and planning personnel.

Another inadequately exploited source of financing is the banking system. A partial bypass of fiscal limitations is possible by obliging the central bank to discount agrarian bonds for the reform agency. Acceleration of the reform process may be possible with funds from short-term borrowing from the central bank. Financing of working capital for reform units may originate entirely from central bank discounting. Government guaranteed bond issues at market rates and terms can be floated to finance economically profitable investments.

Continuing controversy surrounds the issue of whether payments from reform beneficiaries should be required at all, and if so, how much. The solutions in the study countries range from Venezuela, where there has been no recoveries of programme costs (and only limited recovery of short-term production loans), to Colombia where reform project settlers are charged all costs of the generous landowner reimbursement scheme, plus investments the reform agency has made in the land.

Reasonable arguments in favor of some payments by beneficiaries - especially toward costs of economic infrastructure - can be made on equity grounds, if the payments go toward extension of the reform and not simply to relieve fiscal strains. The level of payments can be related to repayment capacity, allowing for higher consumption levels and farm enterprise capitalization. However, payments which are too high can create more costly problems than the fiscal problems they may solve.

There are other means for obtaining beneficiary contribution to reform costs. Public financial outlays can be reduced by mobilizing underemployed campesino labour with compensation at below-market levels. This approach can replace capital-intensive methods for some investments and farm operations. Active participation of beneficiaries in management can also reduce the need for government-paid personnel. After the initial organizational work, campesino leadership can substitute public officials in most tasks. Relatively low-cost programmes of leadership training, oriented group credit and market guarantees can catalyze beneficiary activities and hasten self-generating growth. Collective or cooperative arrangements facilitate the use of these methods.

In the longer term, the superior fiscal solution is establishment of a progressive and effective land tax system. In Chile and Perú, agrarian reform provided the opportunity to initiate or improve rural land tax systems.

In almost all countries of the region land taxes provide negligible amounts of fiscal revenue. Three countries (Venezuela, Dominican Republic and Haiti) have no rural land taxes at all, and in seven other countries collections under the existing systems provide less than one percent of total tax revenues. While serious improvements in land tax systems may be politically difficult to enact, the necessary ownership and land capability surveys can be secured at moderate costs, and such costs are readily recoverable from higher tax collections. Moreover, such surveys can help to speed and rationalize the land redistribution process itself.

Domestic fiscal constraints have led some governments to seek external financing, particularly that provided on preferential terms. Yet, as shown in Chapter VII, external financial assistance to agrarian reform in the Region has been marginal. From 1962 through 1970, the three major development finance agencies (the World Bank, the Inter-American Development Bank and the United States bilateral AID programme) extended credits for US\$ 150 millions in loans to Venezuela, Chile, Colombia and Ecuador in direct support of agrarian reform. However, in none of the countries have external funds constituted more than ten percent of available reform financing. In the decade of the "Alliance for Progress", less than 10 percent of the official lending for agriculture in Latin America went to support agrarian reform programmes, and all but a small part of these credits went to two countries.

External financial agencies distinguish sharply between assistance to land acquisition activities and to consolidation of agrarian reform programmes. Proposals that international agencies insure the value of bonds issued to ex-landowners have not had a favorable reception by the financial institutions. The constitutions of the agencies do not permit such guarantees. Moreover, the debates surrounding this problem have tended to divert attention from the need for external capital in the development effort.

Even in their attempts to help finance reform oriented development activities, external financing agencies and governments have encountered difficulties which led to unusual delays in loan disbursement. Problems typically arise in the early stages of reform implementation when the concerns and priorities of the governments differ from the criteria of the lending institutions. Governments concerned with accelerating the redistributive aspects of reforms tend to be impatient with any external agencies' attempts to impose and enforce strict technical-economic criteria. Governments undertaking far-reaching reforms may also lose their credit-worthiness in the eyes of external financing institutions.

Some divergence of criteria and procedures of lending agencies from the needs of agrarian reform may be inevitable. But even so, experience indicates that external credits can be useful after the initial political urgency of a reform programme has passed. Governments and reform agencies may then welcome the expertise which external project preparation and appraisal contributes, and the discipline which it imposes. For the earlier stages, international assistance may be best provided through technical assistance in planning, operational research and training, and by commitments in principle of substantial financial assistance for the consolidation phase of the reforms.

## CHAPTER II

### THE NATURE OF AGRARIAN REFORM AND ITS FINANCING REQUIREMENTS

Agrarian reform programmes encompass three distinct, though related, activities: land acquisition, administration and planning of the reform, and "consolidation" of the reform, i.e., economic and social development oriented investments and services. The nature of these activities and the financial requirements are examined here in broad terms, with more detailed evaluation of each aspect of the reform programme in succeeding chapters. Failure to recognize the peculiarities of reforms compared with conventional agricultural programmes prejudices both the effectiveness of the reform and the availability of its financing.

In the first section, the special characteristics of design and financing of reform programmes are reviewed. In the succeeding sections the "costs" of agrarian reform programmes are examined, with attention both to definitions of the terms and the experience with regard to financial requirements. The review covers financing requirements on a "per family" and overall programme level.

#### 2.1 Agrarian Reform in Rural Development

The agrarian problem is recognized as crucial to the development prospects of virtually all Latin American countries. Declarations by individual governments and international bodies abound, announcing the need for fundamental redistribution of land, incomes and political power in the rural sector. 1/ The economic rationale for reform - better land use, greater output and employment, and a more equitable pattern of income distribution - is widely accepted among governments 2/ and economists 3/. As would be expected, there are competing views holding that agricultural modernization can best (if not solely) be achieved by promotion of large-scale privately operated farms. Those governments which have firmly opted for an agrarian reform strategy are abolishing large-scale private landholdings to the benefit of the impoverished, dependent rural labour force. Planners as well as politicians increasingly accept the view that agrarian reform is a requisite for overall development, and that the creation of employment opportunities and the redistribution of income among both the rural and urban poor is a central planning goal (see OAS, May 1971, pp. 27-40).

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1/ See, for instance, references: CIDA, 1965; FAO, 1969; FAO/IICA, 1970; FAO, Oct. 1970; O.A.S., May 1971; U.S. Depart. State, July 1968; CIDA, 1969; Carter, June 1970; FAO, 1971 and U.N., 1966.

2/ The Region's most recent major agrarian reform law (Peru's decree-law No. 17716 of 1969, Article 92 as quoted in FAO/IDB, 1971, I, p.55) lists the following objectives:

"... raise campesino family levels of employment and income as much as possible in order to obtain a substantial improvement in their living conditions.

"Achieve a better campesino organization within a cooperative system, among other aims allowing them to ... participate more actively in the planning of the development of the agricultural areas concerned.

"Convert the campesinos into more effective instruments of their own social, economic and cultural improvement..."

3/ See Dorner and Kanel, June 1970; Dovring, June 1970; Raup 1966; Adams 1969 and Meiers 1964.

In those countries where a political decision is made to carry out agrarian reform, the question still remains as to what kind of reform is to be undertaken and on whose terms. General political and economic strategies are the keys to the answer. The nature of the reform and the political focus of the policymakers govern the basic decisions which must be faced in its implementation.

The priority of agrarian reform, then, varies with the general strategy within which agrarian reforms take place. For countries which follow an agricultural "modernization" approach the agrarian reform activities are at most nominal. On the other hand, agrarian reform is a fundamental element of government strategy in countries where, following Barraclough's taxonomy (Barraclough, June 1971), either a "reformist" or a "structural" approach is followed. In these cases, efforts are made to bring about substantial change in the property, power, and political structure. It is by no means easy to apply this classification to specific countries since action often belies rhetoric. Barraclough suggests that "as yet no Latin American country except Cuba has planned institutional changes tantamount to a profound social and cultural revolution". However, the new 1970 Chilean government has announced its intention to carry out such structural reforms. (Barraclough, June 1971, p. 10)

The strategy framework is the crucial determinant of the depth, extent and speed of the reform, as well as of the types of tenure and production units which emerge from the process. Most important, the place of the agrarian reform in the overall political strategy governs the flow of public resources to the consolidation of the reform sector and to the entrepreneurial sector. How this affects public financial requirements is illustrated in subsequent sections of this chapter and in the remainder of the report.

## 2.2 Special Aspects of Agrarian Reform Financing

Reform-related development programmes have special characteristics which distinguish them from the conventional type of agricultural programmes. The fundamental and obvious difference is that reform programmes aim to benefit the poorest, usually the landless rural resident, and that the justification is not confined to raising output or improving production efficiency. The design of reform-oriented development schemes is consequently conditioned by the fact that the beneficiaries control very little capital and start with virtually no saving capacity; their technical, managerial and organizational capabilities are extremely limited; the land resources are commonly poor, or at least poorly exploited, and there is seldom well developed knowledge of the resource potential of the area; and public agencies engaged in channeling credit, extension, marketing, training and other services to agriculture have little experience with the kind of clientele typified by the reform beneficiaries.

The design of reform projects and investment schemes will also differ from the conventional because a new set of objectives is introduced by reform: more equitable income earning opportunities for large numbers of rural people; adequate social infrastructure and services; and participation of the poor rural population in the political, social and economic life of the nation.

These special characteristics of reforms entail development expenditures which differ from those of non-reform schemes in both quantity and nature. Land reform beneficiaries need substantial publicly assisted financing until their incomes reach a level which allows saving. Net public outlays for social and educational development will also be heavy, perhaps for longer periods.

There are three possible sources of reform programme financing: direct Treasury appropriations, publicly assisted credits (e.g. government guaranteed bonds), and the private sector. Most initial reform programme funding is provided by the public sector from general revenues. But publicly assisted or subsidized funding, primarily through official banks, also plays a role. The third source - private sector funds - includes both that generated "internally" by the beneficiaries and that which is attracted to the sector, e.g., from private banks or farm supply companies. Each source has its peculiar advantages and drawbacks from the viewpoints of the reform beneficiaries, programme administrators, political leaders, and other interested parties. Because of its overwhelming importance, however, most of the emphasis and concern in this study is with direct public sector financing and publicly funded credits (see below, Chapters VI and VII).

The magnitude of the requirements for directly productive investment capital alone in Latin America has been estimated at between two and four thousand million dollars per year (Domike and Tokman, 1971, p. 127). The long-term rate of investment to achieve reasonable growth rates, these authors estimate, would probably be less in cases where reform is carried out than under the traditional land-holding and power structure. In the short term, however, public financing needs are greater when a government follows an agrarian reform strategy than when similar production goals are sought under conventional agricultural development approaches. There are several reasons for this. Under the conventional approach, no funds are needed to compensate landowners; there is less demand for planning and administrative overhead or for social and economic infrastructure; and, in addition, private capital tends to be more easily available for on-farm investment.

The measurement of programme costs and benefits in agrarian reform projects has not received much serious attention (OAS, May 1971). This point is particularly important since enthusiasm engendered by agrarian reform may blind administrators to the development alternatives. All opportunities merit attention concerning means for increasing social and economic benefits, or for reducing the call on public financing without damaging reform effectiveness, particularly in the early stages of the reform process.

The "non-economic" nature of the redistribution of rights in land means that the reform process is less easily adapted to conventional benefit and cost appraisal. However, the consolidation and development programmes associated with reform implementation are amenable to such analysis. In fact, policy-makers need a great deal more research and assistance than is now available regarding administration of the redistribution programme, credits and investments needed to provide an economic footing to the beneficiaries, and what economic-social benefits can be expected.

There is great danger that improvised or hastily conceived public investments and services, tenure systems and operational arrangements for the new farm units will become frozen into patterns which are virtually impossible to alter subsequently.

### 2.3 Financial Requirements per Beneficiary

In forecasting financial requirements for agrarian reform programmes, it is common to begin with an estimate of "average cost per family", and to estimate total financial requirements in these terms. However, this procedure should be used with caution.

One of the problems is adequately projecting the timing of cash flows. A knowledge of financial requirements per family is of undoubted analytical interest but is not as important to programme planning as "net public financial obligations per year" or a similar indicator of public budgetary obligations for programmes of certain rates and comprehensiveness. For careful projections, it is misleading to use simple arithmetic averages of total expenditures for a given number of families settled at some point in time, particularly during the early phases of reform. On the one hand, starting-up expenditures - for creating a reform organization, carrying out surveys and other administrative and legal aspects related to land expropriation - are not justifiably charged only to the families settled in the first months of reform activity. On the other hand, phasing of the reform may require postponing more costly investments until after the redistribution phase is well along.

A better planning technique is to estimate cash flows of the distinct activities, i.e. land acquisition, administration and consolidation. Averages based on current public sector financing requirements may not be meaningful without taking account of obligations incurred against future cash budgets. This is especially the case when projecting cash flows for complex landowner compensation schemes whose full impact may not be known until all the details of implementation are worked out.

Another problem arises from regional and local differences in investments needed for consolidation of the reform. Differences in requirements per beneficiary arise out of different resource and capital endowment, land prices and service needs. These variations are usually discovered only through experience.

An extra hazard in projecting budget requirements from previous reform agency expenditures is the fact that such agencies often provide services not related to land redistribution. In Colombia, for example, the reform agency is also responsible for frontier land settlement and similar activities. In Venezuela, however, the reform agency provides only a part of the services and investments in favor of reform beneficiaries. In either case, averages of agency costs per family must be prorated if they are to serve as planning instruments.

Finally, as indicated earlier, not all reform expenditures are "new" costs. Many may merely reflect the re-direction of general agriculture sector budgets. At the same time many pre-reform public investments - in irrigation infrastructure, for instance, as in Venezuela - may suddenly begin to produce returns as a result of land reform.

In spite of all these cautions and caveats, preliminary estimates of financing needs are still required for budget purposes, even though the estimates may be quickly forgotten when implementation begins.

Comparisons for both reform and non-reform projects, of investment requirements, income effects and employment generation in various types of agricultural development schemes are seen in Table II-1 (Carroll, 1970). This simple comparison makes it appear that as much as eight times as much rural employment is generated for comparable financing in smallholder credit programmes as in promotion of ranch-type cattle development. The selected land reform project, with an investment requirement of US\$8,400 per farm, is relatively expensive by regional standards but is only half as expensive as a comparable irrigation scheme. Interestingly, gross output per unit of new capital was almost the same for all types of projects - US\$ 500 output per US\$ 1,000 invested.

In Venezuela, expenditures of all public agencies for agrarian reform activities from 1959 through 1968 have averaged about US\$5,000 per family for each of the approximately 100,000 families settled. <sup>1/</sup> Projections under the newly inaugurated comprehensive rural development (PRIDA) programme indicate average expenditures per family of over US\$5,300 (see Table II-2). The intention is to make the settlements fully productive and livable, with a family income goal of US\$1,120 to US\$1,720 for the 13,000 families. This would call for a package of on-farm constructions and medium and long-term capital for settlers totaling about US\$3,600 a family. Short-term working capital of US\$1,100 per family is provided. Average expenditure of about US\$600 for extension services, market facilities and studies is also included.

Table II-1

ESTIMATED CAPITAL REQUIREMENTS, OUTPUT AND EMPLOYMENT

EFFECTS IN SELECTED AGRICULTURAL PROJECTS IN LATIN AMERICA

<u>Project Type</u>	<u>Investment per farm unit (US\$)</u>	<u>Av. Family income per farm unit (US\$)</u>	<u>Investment per employed worker (US\$)</u>	<u>Gross output per employed worker (US\$)</u>	<u>Gross output per \$1000 invested (US\$)</u>	<u>Employment generated per \$1000 invested (man/year)</u>
Beef cattle development	20,000	5,590	10,000	5,540	554	0.10
Irrigation development	19,750	3,000	8,370	3,550	514	0.27
Intensive land development	18,490	3,422	8,404	4,620	550	0.12
Extensive land reform	8,420	1,295	3,136	1,580	506	0.32
Medium-intensive land settlement	4,350	2,256	1,740	886	509	0.57
Supervised credit	3,390	780	1,655	900	545	0.60

Source: Thomas F. Carroll, "El Desarrollo Rural", in Una Década de Lucha por América Latina, México, 1970, 327.

<sup>1/</sup> Based on unpublished computations by Gustavo Pinto-Cohen. The number of beneficiaries is the "gross" figure, calculated by the same source for a forthcoming article in Derecho y Reforma Agraria (Mérida, Venezuela). Estimated net abandonment of assigned parcels lowers the "net" number of beneficiaries as of 1968 to about 95,000 (CENDES/CIDA - 1969, II and Pinto, 1966).

Table II-2

VENEZUELA: PUBLIC FINANCING NEEDS FOR CONSOLIDATION  
OF 109 AGRARIAN REFORM SETTLEMENTS 1/

<u>Item</u>	<u>Financing Needs Total (million US\$)</u>	<u>Average finan- cing needs per family 2/ (US\$)</u>
<u>Public Investments</u>		
On-farm improvements	23,570	1.845
Marketing infrastructure	2,210	173
Studies	630	49
<u>Total Public Investment</u>	26,410	2.067
<u>Extension Activities</u>	5,000	391
<u>Credits to Settlers</u>		
Short term	14,830	1.161
Medium term	13,960	1.093
Long term	8,080	632
<u>Total Credits</u>	36,870	2.886
<u>Total Financing Requirements</u>	68,280	5.344

1/ Does not include \$22.8 million in public financing required for irrigation works nor \$70 million in infrastructure in the region not directly associated with the settlements.

2/ 12,777 families are members of the 109 settlements.

Source: Oficina Coordinadora del Programa PRIDA, Programa Integral de Desarrollo Agrícola PRIDA, Caracas, 19 Octubre, 1970.

In contrast, both the expenditure pattern and official plans for Perú indicate financing requirements for the equivalent of only about US\$2,000 for each of the approximately 320,000 families to be benefited under the accelerated distribution programme based on the 1969 law. Half the projected costs per family are for farm operations credits (Table II-3). This projection is consistent with the average investment requirements (excluding farm operating costs and land and asset acquisition) of about US\$1,500 in four projects planned in detail for reform-related regional development by the Peruvian Government in collaboration with the FAO/IDB Programme. Family income goals in the four project areas range from the equivalent of US\$300 to US\$600 (FAO/IDB-1971, I, pp. xx and xxi).

Earlier projections for Perú (Carrasco et al, 1969) contemplate a less massive programme (97,000 to 150,000 families) on the basis of the 1963 law. Average public expenditure needs per family, based on prior experience, were set at more than US\$3,000. Much of the difference between the earlier and subsequent per family costs stems from higher landowner compensation under the 1963 law.

Gross public "costs" per family under the Chilean reform were projected in 1965 - i.e., before final enactment of the 1967 reform law - at the equivalent of almost US\$13,000 (Ribeiro, 1970). This forecast however, failed to distinguish between credits for farm working capital and land payments and has other deficiencies for comparative purposes.

Table II-3

PERU: EXPENDITURES OF GOVERNMENT AGENCIES ON AGRARIAN  
REFORM PROGRAMMES, 1963-1970 AND PROJECTED 1971-75

Expenditures	Reform Expenditures 1963-1970 (Million Soles)	Proportion of 1963-70 Expendi- tures (%)	Estimated Reform Expenditures 1971-1975 (Million Soles)	Proportion of 1971-75 Expenditures (%)
Landowner Compensation 1/	905.0	22.5	8,529.9	39.2
Administration	1,364.6	33.9	1,991.9	9.1
<u>Consolidation</u>	1,752.1	43.6	11,285.8	51.7
Capital investments	519.8	12.9	465.1	2.1
Credits to Producers	1,232.3	30.7	10,820.7	49.6
<u>Total: Million current soles</u>	<u>4,021.7</u>	<u>100.0</u>	<u>21,807.6</u>	<u>100.0</u>
Million US dollars 2/	122.0		576.0	

1/ Includes compensation for machinery and livestock as well as land.

2/ Conversion rate for 1963-70: 33 soles per US dollar; for 1971-75: 37.8 soles per US dollar.

Source: FAO/IDB Cooperative Programme, Plan de Desarrollo Agropecuario y Comercialización en Areas de Reforma Agraria de Perú. Washington, May 1, 1971; Volume I, Tables A-12 and 13.

In Bolivia, about half the rural population were the beneficiaries of redistribution of private estates under the land reform. The other half lived in "free" communities. But per capita and overall public expenditures on both redistribution and development have been negligible. Even such basic implementation measures as land surveys and title confirmation had not been initiated in some areas almost 20 years after the de facto land distribution took place.

In Colombia estimates of average financing requirements for distinct types of projects were prepared in 1970 (Table II-4). Estimates - based largely on experience of the 1960's indicate that costs of infrastructure and credits (without land) range from US\$2,000 in simple land redistribution projects, to US\$7,200 in irrigation districts and US\$11,000 for "colonization" of new lands. Prorated annual average financing required over a 20-year period ranges from less than US\$400 (plus land costs) for beneficiaries of 14 hectare parcels in straightforward land redistribution schemes, to about US\$750 (plus land costs) per family on irrigated and frontier settlement schemes.

A rough projection, partly on these same bases, published by the Colombian reform agency in 1970 for a massive reform programme spread over 30 years for a million families, indicates gross financing requirements of more than US\$19,000 per family (see Table II-5 and INCORA, 1970). This includes gross credit requirements and makes no allowances for discounting over time. Beyond methodological considerations, the projections assume a priority to achieving high agricultural productivity rather than to expanding rural employment and restructuring the income distribution.

Table II-4

COLOMBIA: ESTIMATED PUBLIC FINANCING REQUIRED PER FAMILY FOR  
LAND SUBDIVISION, FRONTIER COLONIZATION AND IRRIGATION PROJECTS  
(000 pesos, 1970)

<u>Item</u>	Land Sub-	Frontier	Irri-
	division:	Colo-	gation:
	<u>14 ha. parcel</u>	<u>50 ha. parcel</u>	<u>7 ha. parcel</u>
Land acquisition <sup>1/</sup>	40.0	0	30.0
Infrastructure	10.0	167.4	99.0
Credits for working capital	30.0	50.0	45.0
<u>Total initial public outlays</u>	<u>80.0</u>	<u>217.4</u>	<u>174.0</u>
Annual service and administrative activities	3.5	3.9	8.7
Annual financing requirements <sup>2/</sup>	7.5	14.7	15.4

<sup>1/</sup> Land acquisition cost projections are based on 1970 legal requirements. Infrastructure financing estimates based on 16 completed projects, or projected costs to completion. Credit estimates based on legal limit on credits available in initial year. Service and administrative expenditures are average annual costs.

<sup>2/</sup> Sum of service and administrative activities plus average of infrastructure and credits. Based on 20-year life for infrastructure, with credit fund maintained at initial level. Land costs not included.

Source: INCORA, La Realidad Rural y la Reforma Agraria como factor de cambio, Bogotá, Nov. 1970, p. 265. Estimates are based on analysis of 16 projects data for which are given on pages 267-269.

Table II-5

COLOMBIA: PROJECTED PUBLIC FINANCING REQUIRED FOR AGRARIAN  
REFORM PROGRAMME BENEFITING 1.136.000 FAMILIES 1/

Expenditure	Financing Required (Million pesos)	Proportion of total (%)
Land Acquisition	58,848	14.1
Administration	34,874	8.4
<u>Consolidation</u>		<u>77.5</u>
Infrastructure	174,850	42.0
Services 2/	105,619	16.3
Credits	42,410	10.2
<u>Total, Million 1970 Pesos</u>	<u>416,601</u>	<u>100.0</u>
Total, Million US\$ equivalent (20 pesos = one dollar)	20,830	

1/ The principal assumptions on which the projections are based are the following: a) Activities through 1980 could include 670,000 families under land redistribution programmes, 271,000 families in colonization schemes and 195,000 in irrigation projects; b) Approximately 70% of the area in properties exceeding 100 ha. would be expropriable; c) Land acquisition costs would be determined by legislation and regulations ruling in 1970.

2/ Includes expanded services to non-beneficiaries valued at 37,775 million pesos, or 9.0 percent of total projected requirements.

Source: Adapted from INCORA, La Realidad Rural y la Reforma Agraria como factor de cambio, Noviembre 1970, p. 303. For details of methodology, see pages 203-305. Also refer to Table II-3 above.

2.4 Overall Reform Programme Expenditures 1/

Estimates of overall financial needs for reform programmes are subject to the same cautions and limitations as given above for per capita expenditures estimates. In particular, projections of financial needs for landowners' compensation must take account of the specific nature of the long-term obligation. "Obligations" must be distinguished from "cash outlays". In this section total public expenditures on reform programmes of four countries - Chile, Colombia, Perú and Venezuela - are reviewed.

1/ Although some analyses attempt to estimate or project "net" reform expenditures, financial requirements except for short-term credit are discussed here on a "gross outlay" basis. Credit expenditure is included as the difference between total loans and recoveries accumulated during the year. The issue of beneficiary payments, and other financing sources, are considered in Chapters VI and VII.

The value of country comparisons varies according to the availability of data and the form in which they were available. The data for the study countries are not entirely consistent with respect to categories or timing. They are offered here in the most comparable form possible, both as indications of overall expenditure levels under given conditions and reform strategies, and to permit some comparisons among countries. 1/

In Chile, following enactment of a rather sweeping agrarian reform law in 1967, reform expenditures rose to the equivalent of nearly US\$80 million in 1970 (Table II-6). This was more than twice the average for the previous five years. The most important item has been outlays for the credit and technical assistance programme. Over all, Chile's reform agency spent over half of its budget in the six years, 1965 to 1970, for "consolidation" of the economic position of the reform beneficiaries as against one-tenth for landowner compensation. These budgets, it must be noted, do not include substantial parallel programmes of credit, technical and marketing assistance to smallholders carried out by INDAP (Instituto de Desarrollo Agropecuario). 2/

With the change in reform strategy in Chile after 1970, public finance requirements in Chile changed greatly, even though there was no change in the basic law. After enactment of the 1967 reform law, expenditures of the agrarian reform agency (CORA) rose in 1967-68 to about four times their 1965 real level. Expenditures rose by half again in 1969, and in 1970 were at double the 1967-68 level in real terms.

In 1970, the government which came into power committed itself to completing land expropriations by early 1972. At the same time, it accelerated preliminary and definitive settlement, as well as production and social infrastructure investment in reform settlements. The expenditures budget for 1971 was double that of the previous year (in real terms) and 16 times more than in 1965. Payments for land in 1971 were slated to be five times greater than in 1970. The budget for infrastructure alone was equivalent to about one-half of total expenditures, but credit for the reform sector was about three times as high as in the previous year. The new government shifted large amounts of both the official and private bank credits to the use of the new reform sector.

Additional comparisons of the financial impact of a massive implementation of agrarian reform, compared to a gradualistic approach, can be drawn from Perú. From 1963 through 1970, cumulative reform expenditures amounted to over four thousand million soles (Table II-3 above) that is, the equivalent of about US\$122 million. 3/ Administrative overhead in Perú absorbed more than one-third of the total budget - nearly twice the proportion it did in Chile. But cash outlays for payment for land in Perú represented a more modest share, estimated for recent years at probably no more than 10 percent of the

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- 1/ The detailed figures underlying the tabular summaries included in this section will be found in the annex tables. Further details on items included in the major categories of expenditures and financing sources are presented in Annex Table 1.
  - 2/ Several autonomous sources of credit were also available to some reform beneficiaries but no data are available concerning amounts of credit extended. These include the Banco del Estado (in credits directly to asentamientos, not through CORA) and IANSA, the sugar beet promotion agency.
  - 3/ Converted at a "weighted average" of 33 soles per dollar.

total compensation for landowners. This amount includes payments for assets other than land. Production credit funds accounted for nearly one-third of the budget, on a gross basis.

Table II-6

CHILE: EXPENDITURES OF AGRARIAN REFORM AGENCY  
(CORA), 1970 AND TOTAL 1965-1970

Item Expenditures	Reform Expenditures 1970 (Million Escudos)	Proportion of 1970 Expenditures (%)	Reform Expenditures 1965-70 (Million E <sup>o</sup> of 1970)	Proportion of 1965-70 Expenditures (%)
Landowner Compensation	74.8	8.7	278.5	10.3
Administration	144.2	16.6	566.4	21.0
<u>Consolidation</u>	451.4	52.2	1,477.3	54.9
Economic infrastructure <sup>1/</sup>	2.2	0.3	32.8	1.2
Farm improvements <sup>2/</sup>	154.3	17.8	581.3	21.7
Social expenditures <sup>3/</sup>	62.5	7.2	254.3	9.4
Production credits and technical assistance <sup>4/</sup>	232.4	26.9	608.9	22.6
Other Financial Obligations <sup>5/</sup>	194.1 <sup>6/</sup>	22.5	371.0	13.8
<u>Total: Million Escudos of 1970</u>	<u>864.5</u>	<u>100.0</u>	<u>2,693.2</u>	<u>100.0</u>
Million US dollars (at E <sup>o</sup> 11 per US\$)	<u>78.6</u>		<u>244.8</u>	

- <sup>1/</sup> Roads, buildings.
- <sup>2/</sup> 1965 includes all credit; only medium term credit included in later years. Also includes machinery, livestock, reforestation and irrigation.
- <sup>3/</sup> Housing, other social infrastructure.
- <sup>4/</sup> Total short term credit issued (except 1965) less recoveries. Credit recoveries include principal and interest.
- <sup>5/</sup> Amortization of public and private loans.
- <sup>6/</sup> Includes E<sup>o</sup> 179,728,000 for amortization of public loans.

Source: Annual financial statements, Corporación de Reforma Agraria, Santiago, 1965-1970. (See Annex Table 2).

From 1971 through 1975, projected public expenditures for the "crash phase" of reform, were expected to be five times the level of outlays during the "gradualist" 1963-70 period. Projected annual average expenditures indicate that the programme could reach seven times the amount it had earlier absorbed. Annual expenditures by 1973 may turn out to be about 7.000 million soles (equivalent to about US\$163 million at the 1972 exchange rate). The substantial cash payments expected for expropriation reflect compensation for livestock, building, equipment and machinery, rather than payment for the land.

In Venezuela, public expenditures for agrarian reform are dispersed among a number of public institutions. Estimates of outlays in favor of reform settlements of agencies other than the Instituto Agrario Nacional (IAN) show that, from the inception of the reform in 1959/60 through 1968, the Central Government had spent a total equivalent to US\$555 million on agrarian reform programmes (Table II-9). Administrative overhead (including technical assistance services) absorbed almost as great a share (over 40 percent) of the budget as did consolidation expenditures other than personal services and operating costs (49 percent). The nature of the landowner payments regulations is reflected in the fact that such compensation accounted for 8 per cent of the total reform expenditures. Public financing of operating and other credits for beneficiaries absorbed only 13 percent of the total. This is the more remarkable since substantial credit losses were incurred in the programmes early years.

In Colombia, the Agrarian Reform Institute (INCORA) has been engaged in a number of agricultural development activities not necessarily related to land redistribution. In the process it spent the equivalent of nearly US\$225 million between 1962 and 1970 (Table II-10). Total expenditures of INCORA in 1970 amounted to more than one-half those of its Chilean counterpart. From 1962 to 1970 administration - including technical personnel and services - took about 35 percent of the total. Supervised credits and technical assistance for on-farm investments totaled about 16 percent (after recoveries), but before 1969 this was largely directed to non-reform family farmers. Even though little private land has been expropriated or purchased, landowner compensation took nearly 12 percent of the reform agency budget, owing to the relatively liberal terms of land pricing and payment.

## VENEZUELA: GOVERNMENT AGENCIES CONTRIBUTING TO AGRARIAN REFORM

Function	Agency
Landowner Compensation	National Agrarian Institute (IAN)
Administration Settlement planning and financial administration	National Agrarian Institute (IAN)
Consolidation Construction of penetration roads, irrigation projects, water and sewage systems	Ministry of Public Works (MOP) National Institute of Sanitation Works (INOS) Venezuelan Development Corporation (CFV) Ministry of Agriculture and Livestock (MAC) National Agrarian Institute (IAN)
Construction of housing and community centers	Worker's Bank Ministry of Health and Social Welfare (MSAS) National Agrarian Institute (IAN)
Farm credit and marketing assistance	Agriculture and Livestock Bank (BAP) Venezuelan Development Corporation (CFV) National Agrarian Institute (IAN)
Extension services and technical research	Ministry of Agriculture and Livestock (MAC) Council of Rural Welfare (CBR) Ministry of Education (ME) Shell Experimental Station (SSPA) College of Agriculture (UCV)

Source: John Duncan Powell, Political Mobilization of the Venezuelan Peasant, 1971

Table II-8

VENEZUELA: EXPENDITURES OF AGRARIAN REFORM AGENCY (IAN)

1968 AND TOTAL, 1959/60 TO 1968

Item Expenditures	Reform Expenditures 1968 (Million Bolivares)	Proportion of 1968 Expenditures (%)	Reform Expenditures 1959-1968 (Million Bo of 1968)	Proportion of 1959-68 Expenditures (%)
Landowner Compensation	13.3	6.7	202.4	12.3
Administration <u>1/</u>	119.2	59.6	854.0	52.1
Consolidation <u>2/</u>	56.8	28.4	525.7	32.0
Economic infrastructure <u>3/</u>	19.6	9.8	142.7	8.7
Farm Improvements <u>4/</u>	31.3	15.6	275.7	16.8
Social Expenditure <u>5/</u>	5.9	3.0	107.3	6.5
Technical Assistance <u>6/</u>	-	-	-	-
Other Financial Obligations <u>7/</u>	10.6	5.3	59.2	3.6
<u>TOTAL:</u> Million Bolivares of 1968	<u>199.9</u>	<u>100.0</u>	<u>1,641.3</u>	<u>100.0</u>
Million US Dollars (at B 4.5 per US\$)	<u>44.4</u>		<u>364.7</u>	

- 1/ Includes cost of technical assistance which cannot be separated from other administrative costs.
- 2/ Excludes bonds, 1966-68 item breakdown estimated.
- 3/ Roads.
- 4/ Land improvement, irrigation.
- 5/ Mostly housing.
- 6/ Included under administration.
- 7/ Bond interest and other financial costs

Source: Annual Financial Statements. Instituto Agrario Nacional, Caracas, 1959-60-1968. (See Annex Table 7).

Table II-9

VENEZUELA: EXPENDITURES OF ALL GOVERNMENT AGENCIES ON AGRARIAN REFORM

1968 AND TOTAL, 1959-60 TO 1968

Item Expenditures	Reform Expenditures 1968 (Million Bolivares)	Proportion of 1968 Expenditures (%)	Reform Expenditures 1959-1968 (Million Bo of 1968)	Proportion of 1959-68 Expenditures (%)
Landowner Compensation	13.3	4.3	202.4	8.1
Administration <sup>1/</sup>	144.1	46.9	1,011.3	40.5
Consolidation <sup>2/</sup>	139.2	45.3	1,223.0	49.0
Economic infrastructure <sup>3/</sup>	19.8	6.4	150.5	6.0
Farm improvements <sup>4/</sup>	53.8	17.5	529.4	21.2
Social expenditures <sup>5/</sup>	20.0	6.5	212.2	8.5
Production credits and <sup>6/</sup> technical assistance	45.6	14.9	330.9	13.3
Other Financial Obligations	10.6	3.5	59.2	2.4
<u>Total: Million Bolivares of 1968</u>	<u>307.2</u>	<u>100.0</u>	<u>2,495.9</u>	<u>100.0</u>
Million US dollars (at B. 4.5 per US\$)	<u>68.3</u>		<u>554.6</u>	

<sup>1/</sup> Includes IAN technical assistance and administrative cost of credit programme.

<sup>2/</sup> Excludes bonds. 1966-1968 item breakdown estimated.

<sup>3/</sup> Roads

<sup>4/</sup> Long term loans, irrigation

<sup>5/</sup> Housing, water supply.

<sup>6/</sup> Includes agriculture extension. Total short term credit issued less recoveries. Credit Recoveries include principal and interest.

Source: Annual Financial Statements, Instituto Agrario Nacional, Caracas, 1959-60 to 1968. (See Annex Table 8 ).

Table II-10

COLOMBIA: EXPENDITURES OF AGRARIAN REFORM AGENCY

(INCORA), 1970 AND TOTAL 1962-1970

Item Expenditures	Reform Expenditures 1970 (Million Pesos)	Proportion of 1970 Expenditures (%)	Reform Expenditures 1962-1970 (Million Pesos)	Proportion of 1962-70 Expenditures (%)
Landowner Compensation	125.6	14.8	529.2	11.8
Administration	261.0	30.6	1,579.8	35.0
<u>Consolidation</u>	362.7	42.7	2,107.2	46.9
Economic infrastructure <sup>1/</sup>	278.5	32.7	1,325.1	29.5
Farm improvements <sup>2/</sup>	1.3	0.2	6.5	.1
Social expenditures <sup>3/</sup>	11.5	1.4	51.8	1.2
Production credits and <sup>4/</sup> technical assistance	71.4	8.4	723.8	16.1
Other Financial Obligations	101.4	11.9	282.7	6.3
<u>Total: Million Pesos of 1970</u>	<u>850.7</u>	<u>100.0</u>	<u>4,498.9</u>	<u>100.0</u>
Million US dollars (a 20 pesos per US\$)	<u>42.5</u>		<u>224.9</u>	

<sup>1/</sup> Irrigation, drainage and leveling, road construction and cooperatives.

<sup>2/</sup> Reforestation only.

<sup>3/</sup> Housing, community action.

<sup>4/</sup> Total credit issued less recoveries. Recoveries include principal, interest and rediscounts. Includes credit for livestock productions, medium sized properties all directed and supervised credit.

<sup>5/</sup> Transfers and debt service.

Source: Unpublished financial statement, Instituto Colombiano de Reforma Agraria, dated April, 1971. (See Annex Table 4)

## CHAPTER III

### FINANCIAL ASPECTS OF LAND ACQUISITION

Public discussion of land reform financing is generally dominated by the issue of landowner compensation. Nonetheless, confusion continues concerning the amounts involved and their importance in the total financial needs of a reform programme. The misunderstandings arise from the eminently political context of the public debates and from the arcane techniques sometimes employed in setting land values or payment schedules.

The substantive issues can best be examined under two broad headings: (1) the way values are set for the land, and (2) the manner in which payments are made to the landowners. The financial implications of these issues, particularly in the four principal countries studied where compensation was paid (Chile, Perú, Colombia and Venezuela) are examined here <sup>1/</sup>.

Not all governments are obliged to attach equal importance to the compensation issue. A government attempting to carry out a land distribution programme without offending landowners may pay them extremely well to acquire the lands. On the other hand, a government bent on changing the power structure in the society will pay large landowners little or nothing, in order to avoid transferring to the landowning sector - whose power it is attempting to break - financial resources it might use to dominate the socio-economic life of the country. In practice, those governments which follow some "intermediate" or "gradualist" agrarian strategy need to be most concerned with the issue of compensation financing. Indeed, the importance of the compensation question is one of the characteristics that usually distinguish this intermediate approach from the "structuralist" approaches to reform. The examples and analysis of this chapter therefore focus on the former option.

Discussion of this issue must begin from a recognition that compensation paid for land is a "transfer payment" from the public sector to the landholding groups, and does not per se create any new productive capabilities in the country. However, the compensation system selected has serious implications for income distribution, consumption and investment. Such considerations are not explored here; they are exhaustively examined in the Fourth United Nations report on Progress in Land Reform (UN-1966).

#### 3.1 Land Valuation and Prices

Governments "legitimize" the levels of landowner compensation by use of land valuation norms. This requires that the government establish at least a semblance of equitable, objective criteria for setting the land values, and create an appeals system for the affected parties who feel unfairly treated.

Four distinct systems of land valuation have been commonly discussed or used - singly or in combination - in the Region: (1) tax assessment value; (2) capitalized value of actual returns; (3) capitalized rent based on potential returns, and (4) "market" or commercial value.

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<sup>1/</sup> There is a general tendency to tie discussions of landowner compensation directly to that of beneficiary repayments as one might do in analyzing commercial real estate or banking transactions. Although there are obvious similarities, the differences are even more important for purposes of this study. Beneficiary repayments are separately discussed in Chapter VI together with other financing measures.

There are very real differences among these criteria in terms of land prices they are likely to yield. The commercial value under pre-reform conditions is usually the upper limit to the land price and the likely bargaining price for landowners. Land prices tend to be substantially higher than capitalized rents where concentrated landownership is combined with strong population pressure and where land is thus treated as a speculative asset. <sup>1/</sup> On the other hand, where expropriation is well under way or seriously expected, market values are well below such levels. Indeed, commercial sales may halt altogether while widespread expropriations are being carried out; such reportedly was the case in Perú in early 1971.

Valuation for land tax assessments based on current or potential returns from farm operations, which presupposes some way of setting values from farm accounts or detailed land capability surveys, are used sporadically in Perú and Colombia. Few countries, however, have used productive possibilities or realities as valuation criteria when attempting massive reforms. (See Table III-1 and UN-1966, Table 5).

Countries seeking agrarian reforms which aim at structural change but stop short of land confiscation - e.g. Chile and Perú - tend to use land valuation criteria based on tax assessed value. As noted in the Fourth U.N. report on Progress in Land Reform: "Where land is notoriously under-assessed for tax purposes, the use of the assessment as at least a partial factor in determining compensation levels amounts in effect to reclaiming for the national treasury some of the unpaid tax accounts. Quite apart from this consideration, it is clear that the government cannot be expected to compensate landowners for the price increment which results from the very fact of under-taxation" (UN-1966, page 102).

However, in many Latin American countries, land tax rolls and ownership cadasters are either non-existent or imperfect. To the extent that there is any land taxation, the valuations are usually based on owners' declarations. Existence of such declared values facilitates the appraisal procedure since the declaration can be used either as single yardstick for valuation or as one of the value setting elements (see also Chapter VI below and Strasma, 1965 b).

The 1967 Chilean land reform law, as well as the 1969 Peruvian decree law, provide that the tax assessed value is the exclusive basis for indemnification. On the other hand, the pertinent provisions of the 1961 Colombian law are not precise. The Minister of Agriculture responsible for the initial implementation of the law issued an administrative decree setting values at the tax-assessed level plus 30 percent. But the following year a new decree permitted landowners to revise the valuations of any property exceeding 100 hectares. At the same time, regulations governing land valuations were modified to provide for *ad hoc* appraisal by official commissions, with the self-declared tax-value as the *maximum* (CIDA, 1966, page 272). Landowners took advantage of the possibility for raising their self-appraisal within a year of the publication of the decree to such an extent that overall land valuations increased about 10 percent, and for properties of 100 hectares or more, about 25 percent. At prevailing tax rates this added perhaps one-half million dollars to total land tax revenues; it would add many times this amount to the reform financial requirements if the estates concerned had been

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<sup>1/</sup> Commercial farm land values in the Sabana of Bogota in Colombia in the early 1960s for instance, were found to be about double the annual rental payments, capitalized at the 10% interest generally used in investment appraisal there at the time (see CIDA / 1966).

BASES FOR LAND VALUATION FOR AGRARIAN REFORM  
EXPROPRIATION IN CHILE, COLOMBIA, PERU AND VENEZUELA<sup>1/</sup>

Country	Bases for establishing land values
Chile	Tax-assessed value plus appraised value of subsequent investments.
Colombia	Maximum value is self-appraisal for tax purposes (1963 decree). Price is set by cadastral appraisal commission using standard appraisal criteria.
Peru	Pending official appraisal, 1968 tax self-appraisal plus or minus subsequent investments or disinvestments. In case land is rented, average of previous 3-year tax-declared net income, capitalized at 6% or 9% depending on size of rented parcels. (Plantations, livestock and equipment are appraised at market or book value.)
Venezuela	Appraisal must consider; (a) average production in preceding six years; (b) any declared or appraised value for tax purposes; (c) sale price of property in preceding ten years and of similar properties in preceding five years (d) any other "factors for fixing a just price and those others which may be covered by the Law for Expropriation for Public or Social Utility".

<sup>1/</sup> The legal instruments in which the valuation is established are the following: Chile, ley 15020 (1967); Colombia, ley 135 (1961); Perú, Decreto ley 15037 (1969); Venezuela, Ley de Reforma Agraria (1960).

expropriated under provisions of the existing law. (CIDA, 1966, p. 360) 1/. The average price paid per hectare of non-irrigated crop land in Colombia through 1969 was approximately US\$100, or about US\$1,000 for a typical family unit of around ten hectares 2/.

The Venezuelan case indicates the considerable differences in valuation between areas of high and low population pressure (for details, see CENDES/CIDA 1969). The average price per hectare paid for private land in Venezuela in 1960-65 was approximately US\$80, of which one-third represents compensation for investments in permanent improvements. However, this average reflects the acquisition costs of a great deal of land on the agricultural frontier unsuitable for immediate settlement. The general influence of location and of the population density on land cost is clearly shown by a comparison of the state-by-state averages which range from four dollars per hectare up to US\$300 (CENDES/CIDA, I, 1969, Table 38). Moreover the average price paid for irrigated or irrigable land in high population density areas was about US\$750 per hectare, declining to about one-half this amount in medium density areas and about one-fifth in low density areas. Dry, flat land in high density areas averaged about US\$250, but in the low density areas it cost less than US\$25. Finally, the average for land not suitable for peasant settlement ranged from four dollars per hectare in low density areas to US\$20 in the high density areas. (CENDES/CIDA, 1969, I, Table 19).

The financial impact of using tax values instead of "commercial" values appears clearly in Perú. The average prices paid for expropriated land between June 1969 and June 1970 ranged from about US\$3.50 per hectare for natural pasture in the mountain areas, to US\$250 for fertile irrigated land in the coastal area (Table III-2). Average prices paid per hectare of mountain pasture under the previous (1965) law in selected project areas were about US\$10 (Carrasco et al. Junio 1969, pp. 70-77). In the irrigated coastal areas, cases are known where the value declared by the owners in 1968 for tax purposes, and then used for compensation under the land reform law promulgated in 1969, was only one-third the price that would have been set under the old law.

Table III-2

PERU: AVERAGE PRICES OF LAND EXPROPRIATED FOR AGRARIAN REFORM

JUNE 1969 TO JUNE 1970

(Soles per hectare)

Item	Coast	Sierra	Total
Arable land	10,235	2,460	6,072
Natural pasture	220	148	158

Source: Convenio para Estudios Económicos Básicos (Iowa State University Mission), Aspectos Sociales y Financieros de un Programa de Reforma Agraria para el período 1968-1975, p. 41.

- 1/ The tax appraisal base was used successfully in the Italian agrarian reform in the 1950s. Italy had an advanced cadastral system in most areas under which land appraisals reasonably well reflected land capability and bore some fixed relation to market values.
- 2/ The Colombian law provides that the land costs be repaid in full by the beneficiaries.

Landlords' appeal procedures with respect to land valuation, if permitted to be complex and slow, have serious financial repercussions and can even frustrate the reform process. The most effective countermeasure has been to empower the reform agency to occupy and redistribute the disputed land pending settlement of level of compensation. This is permitted in Chile and Perú, for instance. In Colombia, successive governments have vainly tried to introduce simplifications of the highly complex and time-consuming expropriation process imposed by the 1961 law <sup>1/</sup>.

For valuation purposes, the distinction between unimproved and improved land appears to have been generally accepted, as does the distinction between fixed land improvements and mobile farm assets. Prices of relatively unimproved land of large estates have been set taking ethical and historical factors into account. Values on properties acquired by usurping the rights of the indigenous occupants were treated in Mexico as "stolen" land (Karst, 1964). To the extent that these lands have been exploited at all by the owners, assignment of a merely nominal value to such estates on the basis of "residual value" might be justified. Yet, the concept of de jure as against de facto rights is strongly imbedded in most legal systems. Compensation is established, at least implicitly, on the basis of the future income of which the owner is being deprived. Of course in the case of unimproved land these criteria lose force.

Peru and Colombia supply examples of very extensive unused properties, called "accounting latifundia" in Colombia. Several million hectares of private land claims were found not to have been utilized at all by their owners in Colombia for 10 years or more and thus reverted to the public domain without compensation under the provisions of the 1961 land reform law. It was discovered that a large portion of these lands was actually occupied by peasants. In Peru a similar law permitted the recuperation of several million hectares held for decades by speculators without productive utilization.

### 3.2 Valuation of Other Farm Assets

Pricing criteria applied to fixed farm improvements and movable assets are distinct from those for lands and from one another. Market prices are readily available for livestock and equipment, and fewer technical valuation problems are entailed than for land or fixed investments. Their original value, age and condition are readily determinable, and their market values tend to be affected less by a massive reform programme than those of land. If the government chooses, the prices can be modified to take account of such factors as subsidized credit in setting the depreciation rate.

Compensation practice varies greatly in the countries studied. In some cases, fixed investments are already considered in setting land values for tax or market purposes. Some reform laws, however, distinguish between land improvements, such as canals, man-made pastures and plantations, and other fixed investments such as buildings and mechanical irrigation facilities.

In Venezuela, improvements (mejoras) are appraised separately, but the form of compensation is identical to that for the land. In Peru, buildings are lumped with other fixed and movable assets such as equipment, machinery, and livestock; they are separately

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<sup>1/</sup> In Italy judicial appeal was virtually excluded because the individual expropriation decrees, after review by a joint congressional committee, had "force of law".

appraised at market or book value and paid for at more favorable terms than the land. In Chile, on the other hand, non-fixed assets are not subject to expropriation. <sup>1/</sup>

An additional consideration is the depreciated value of the fixed investment. A case can be made for non-compensation for investments which can be presumed to have been previously amortized at a reasonable rate of interest. From a historical point of view, as well, many of these improvements were made by the campesinos, whose wages are kept low by virtue of the large landowner's control over the land. Thus, the landowner is claiming the right to compensation for capital formation based on the exploitation of the people whom the reform is supposed to benefit, and perhaps with the help of subsidized public credit. Chile's approach to the problem has been to provide for separate appraisal of investments made after 1964, the year in which the new cadastral survey was completed.

### 3.3 Forms of Compensation

How landowners are compensated, i.e., through what instruments and over what period of time, bears importantly on financial planning and on the rate of reform implementation. Cash outlays for landowner compensation may absorb such a substantial part of the programme's fiscal allocations during the crucial early years of the reform that resources are insufficient for consolidation of the reform sector.

Leaving aside cases where land and other assets are confiscated outright, the theoretical forms of compensation range from prompt cash payment to payment in the form of long-term low-interest bonds.

#### Cash versus bonds

The provisions prevailing in the four countries studied (Table III-3), indicate that the two countries where the legislation was most generous regarding land valuation - Venezuela and Colombia - are also most lenient in regard to forms of payment.

However, some differences will be noted. For instance, Venezuela provides for total cash payment for modest-size properties; the proportion of cash to total compensation declines progressively to a maximum of ten per cent in the case of the largest properties. In practice, this resulted from 1960 to 1965 in cash payments equivalent to 40 percent of the total appraised value of the properties purchased or expropriated.

In Colombia, all land, except that which is found to have been completely unutilized by the owner, must be paid for in cash, but down payments are limited in all cases to 20 percent of total value up to a relatively low maximum. In the case of "insufficiently" cultivated land, the delayed payment over twelve years at four per cent interest can be considered equivalent to a payment in non-negotiable bonds bearing similar interest and maturity. In the case of "all other land", disbursement of the balance above the down payment in five yearly instalments constitutes a substantial effective discount in view of inflation and prevailing interest rates.

<sup>1/</sup> From the point of view of reform effectiveness, Peru's procedure appears more reasonable than that of Chile, where CORA competes with private bidders for the non-fixed assets of expropriated estates. Sometimes, the reform agency is the sole bidder. But frequently the farms have been almost completely despoiled of operating capital even before the land was expropriated.

Table III-3

COMPENSATION BASES FOR EXPROPRIATIONS UNDER  
AGRARIAN REFORM PROGRAMMES, CHILE, COLOMBIA,  
PERU AND VENEZUELA

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Chile

Basis for classification: All land and landowners treated equally

Terms of Compensation: Up to ten percent of land value paid in cash.  
Balance of valuation paid in Class A or C bonds. 70% of bonds are Series I (adjustable for inflation; 30% are Series II (non-adjustable)).

Exceptions and special provisions: Fixed investments made since 1964 are compensated fully in cash.

Colombia

Basis for classification: Compensation varies with intensity of previous land use-uncultivated, insufficiently cultivated and other land-and direct or indirect operation.

Terms of compensation:

1. Uncultivated land - all in Class B bonds.
2. Direct operation, insufficiently cultivated land - 20% of value in cash up to 100,000 pesos. 80% of value in 4% notes with 1/12 of value retired annually.
3. Rented or share cropped, insufficiently cultivated land - 50% in 7% notes with 1/15 retired annually. 50% in Class B bonds.
4. Other land - 20% of value in cash, up to 300,000 pesos. 80% in 6% notes with 1/5 retired annually. Owners may opt for total payment in Class A bonds.

Peru

Basis for classification: Compensation varies with intensity and manner of previous land use, and total valuation of holding.

Terms of compensation:

1. Well managed holding - total valuation in cash up to 100,000 soles, with balance in Class A bonds.
  2. Medium managed holding - total valuation in cash up to 50,000 soles, with balance in Class B bonds.
  3. Poorly managed holding - total valuation in cash up to 25,000 soles, with balance in Class C bonds.
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Table III  
(Cont.)

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Exceptions and special provisions: Livestock purchases in cash. Plantations, equipment, buildings and machinery in cash up to one million soles with balance in Class A or B bonds. Maximum annual cash amortization of bonds allowable for any single owner is equivalent to about US\$6,500 (1972 exchange rate). The balance of the amortization is paid in 7% debentures of the government finance corporation.

Venezuela

Basis for classification: Compensation varies with intensity of previous land use, direct operation and valuation of holding.

Terms of compensation:

1. Valuation less than 100,000 bolivares - total payment in cash.
2. Valuation B/100,001 to B/250,000 - 40% in cash, but at least B/100,000. 60% in bonds.
3. Valuation B/250,001 to B/500,000 - 30% in cash, but at least B/100,000. 70% in bonds.
4. Valuation B/500,001 to B/1,000,000 - 20% in cash but at least B/100,000. 80% in bonds.
5. Valuation greater than B/1,000,000 - 10% in cash but at least B/100,000. 90% in bonds.

Class A bonds issued for unutilized or rented lands. Class B bonds for other.

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Only 4.5 percent of the land expropriated or purchased in Colombia through 1970 by INCORA had been classified as "uncultivated"; thus only 513 million pesos was paid in bonds. Two-thirds was immediately paid for in cash, and nearly 30 per cent with promissory notes for delayed cash payment.

In both Chile and Peru the law establishes limits to compensation in cash. The Chilean law provides that a maximum of 10 percent may be paid in cash, without setting any limits on amounts. In Peru, on the other hand, the maximum cash payment, at the 1971 exchange rate, ranges between the equivalent of US\$600 and US\$2,400, depending on the social use classification assigned to the property. The Peruvian maximum is only 10-15 percent of the maximum down payments allowed in Colombia.

Peru also limits annual cash amortization of bonds per owner to the equivalent of about US\$6,500 (1971), with the balance paid in debentures of the government finance corporation, which currently bear a seven percent interest rate. Moreover, the Peruvian law, while it calls for payments in cash at book value for expropriated livestock

permanent improvements, equipment, buildings and machinery, limits such cash compensation (except for livestock) for each individual owner to the equivalent of about US\$24,000; the balance is paid in bonds.

#### Characteristics of bonds

All four study countries provide for some payment in bonds for certain classes and sizes of property. All have issued two or more distinct classes of bonds bearing different interest rate and maturity periods (Table III-4). The differences are obviously designed to discriminate against the owners of very large properties and those which in variously defined ways do not meet the "social function" established for landholdings <sup>1/</sup>.

Interest rates vary among the countries. Colombia represents the widest spread, from two percent for class B bonds to seven percent for class A bonds. Maturity varies from 15 years for class A bonds in Colombia and class B in Venezuela, to a maximum of 30 years for class C bonds in both Chile and Peru.

In Chile, 70 percent of the face value of bonds received by landowners is subject to annual readjustment in accordance with the consumer price index, and interest is paid on one-half of this adjustment each year. In a departure from usual practice, interest in Chile is paid only on the value of the annual coupons rather than on the total value of outstanding bonds held; this reduces the nominal interest rate during the first year on a 20-year bond, for instance, to 0.15 percent.

#### Transferability and convertibility of bonds

The fiscal consequences of land bonds are determined by their relative transferability, marketability or convertibility. The terms on which bonds are issued are clearly a political decision, since they affect so directly the economic and political status of landowners as a class. The choice also determines the financial consequence of the land transfer for the public sector and/or the land reform beneficiaries. The financial burden is a function of the maturity period of the bonds, the degree of adjustment for inflation, and the interest rate.

Greshman's law can be expected to operate where bonds can be readily converted into cash or other securities with a real claim on the country's resources (see Strasma, 1965 a). Large-scale conversion into cash, even at a discount below face value, can easily create a substantial strain on a country's balance of payments if the bondholders are permitted to transfer their proceeds abroad. Such capital flight is more likely to occur where land reform is combined with other structural reforms as part of the government strategy.

Colombia's legislation is generous in permitting conversion. Bonds are nominally freely transferable, and also can be received by the Agrarian Reform Institute at face value for specified obligations of the holders to the Institute. The equivalent of only about one million dollars in bonds had been transferred to former landowners as payment through 1970. Active bond trading has not taken place, since the market has

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<sup>1/</sup> The concept of the social function of land is becoming universally accepted as a result, inter alia, of the population explosion. It will not be discussed here as such; a forceful statement can be found in the Papal Encyclical "Populorum Progressio".

established a prohibitive discount on the bonds. 1/

In none of the other three countries are the land bonds transferable. 2/ However, both Chile and Venezuela allow the use of coupons which have matured for the payment of taxes and as collateral for certain types of loans. So long as provision has been made in the budget to pay off maturing coupons, this use has no particular financial implications.

One of the most discussed features of agrarian reform compensation bonds has been a conversion provision included in the Peruvian agrarian reform law of 1963. Under this law, landowners had the option of exchanging the bonds at face value for shares in an industrial investment trust fund administered by an official bank, which was to finance new enterprises organized by it or by the former landowners. There was a change in government before this trust fund could be implemented, and the 1969 law modified the provision in question. Former landowners may now redeem their bonds, if accompanied by an equal amount in cash, for investment certificates in industrial enterprises which are to be specified by administrative regulation. 3/ These provisions had not yet become operational in 1971, largely because the government decided administratively to set the redemption value of the bonds for the purpose in question at close to their market value, rather than at nominal or face value as specified by the former law. The 1969 reform law did not specify conversion at nominal value before maturity, and the regulations make it clear that a normal banking discount rate will be applied to such premature redemptions.

The theory behind the various bond conversion mechanisms is not apparent on the surface. If the objective of payment in bonds is primarily to ease the financial burden on the Treasury, there is little rationale for permitting their conversion to other public securities, even at less than face value, if these latter pay a higher interest rate or mature sooner. If the securities represent equity in the private sector, the higher interest rate - while it might encourage investment in place of consumption - would merely cancel part of the general income redistribution purpose which presumably underlies the agrarian reform. If the reform programme is part of a fundamental transformation of the country's power structure, there would seem to be even less justification for giving the former landowners a priority call on the modern sectors of the country's economy, be it through shares in a public investment fund or directly in individual enterprises.

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- 1/ An attempt to place 53 million pesos of class A bonds on the market in 1970 reportedly resulted in a 30 percent discount below their face value. There have been no further attempts at public marketing of either class since. Also, there has not yet been an opportunity to test the ingenious mechanism provided for by the Colombian legislation under which agrarian reform beneficiaries could acquire these bonds at market prices and return them to the so-called Agrarian Fund at face value to amortize a portion of the payments for the land.
  - 2/ An exception in the case of class C bonds in Venezuela. However, these are not issued to compensate for land transfer but to finance land development expenditures; these bonds bear market interest rates and have an active commercial market.
  - 3/ The system for conversion to land bonds into industrial shares was first introduced as part of the agrarian reform in Iran and later in Taiwan, though with different criteria. For a full discussion of the issues behind, and involved in, the original Peruvian provisions, see Strasma 1965 a.

Table III-4

CHARACTERISTICS OF BONDS FOR COMPENSATION OF  
LANDOWNERS UNDER AGRARIAN REFORM IN CHILE,  
COLOMBIA, PERU AND VENEZUELA

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Chile

Redemption period	Class A, 25 years	Class C, 30 years
Interest	3% of face value on annual coupon. (For "Series I" bonds 3% is also paid on 1/2 of inflation adjustment).	
Inflation Adjustment	On Series I only, according to consumer price index.	
Convertibility, other conditions	Can be used for tax payments, collateral, public works bonding.	

Colombia

Redemption period	Class A, 15 years	Class B, 25 years
Interest	Class A, 7% p.a.	Class B, 2% p.a.
Inflation adjustment	None	
Convertibility, other conditions	Freely transferable. Can be received by INCORA for specified debts. Principal and interest are tax-free.	

Perú

Redemption period	Class A, 20 years; Class B, 25 years; Class C, 30 years.	
Interest	Class A, 6% p.a.; Class B, 5%, p.a.; Class C, 4% p.a.	
Inflation adjustment	None	
Convertibility, other conditions	Non-transferable except for approved government development corporation at rate fixed by government. Nominally tax free, although subject to income tax.	

Venezuela

Redemption period	Class A, 20 years;	Class B, 15 years.
Interest	Class A, 3% p.a.;	Class B, 4% p.a.
Inflation adjustment	None	
Convertibility, other conditions	Class A and B bonds are non-transferable except as collateral for official industrial and agricultural credits. Annual coupons may be used to pay taxes.	

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One conclusion to be drawn is that such procedures are designed essentially to "sweeten the pill" of payment with bonds (in combination with low land valuations, and expropriation in general) in order to overcome political opposition. However, to be able to serve this purpose, the bonds must be made financially attractive to the landowners. Even the 1963 Peru law, permitting redemption at nominal value failed to attract any bona fide investment. Peruvian experience suggests that provisions for bond conversions merely create administrative problems without giving any advantages to the general economy, the Treasury, reform beneficiaries, or even the landowners.

#### International value maintenance guarantees

In attempting to overcome landowner opposition to the implementation of their reform laws, the governments of Peru and Chile in the mid-1960's proposed a scheme for value maintenance of land bonds by international guarantees. The proposal called for one or all of the principal external financing institutions (IBRD, IDB and USAID) to establish a fund which would protect the holders of the bonds against depreciation of their domestic currency. 1/

The proposal had support from a few Latin American Governments at the time but was not received well by the international financial institutions. The basic statutes of all three agencies specifically forbid the use of their resources for the purchase of land, because such expenditures are internal transfer payments and do not result in creation of new investment. It was reasoned that the establishment of a guarantee fund would entail the freezing of a certain amount of the agencies' resources for a purpose similar to the acquisition of land and that the resources would not then be available for real investment purposes. The guarantees also would have created greater stability in value for the land bonds than for the currencies of the bond-issuing countries.

Moreover, international guarantees for the maintenance of value of public debt issues of any individual state would involve the international agency or agencies more deeply in the internal affairs of the member country than either party would care to countenance. Such a precedent might also open the door to other attempts to transfer responsibility for fiscal and monetary management from the national to the international level, a prospect which is unlikely to be viable without international economic integration. These and other arguments apparently persuaded the countries not to pursue the issue in subsequent years.

Beyond these operational considerations, internal political factors undoubtedly have restricted efforts to single out former landowners for special protection against inflation and loss of asset value.

#### 3.4 Financial impact of landowner compensation

The satisfaction of the landowners and the financial interest of the government are in all but inevitable conflict. The closer to confiscation the government is able to establish the terms of land acquisition, the fewer fiscal concerns arise, but the greater the political opposition created by the landholders. Depending on the resolution of these conflicts, the public financial burden of these payments has ranged from nil to some 17 percent of reform-oriented expenditures in the countries of the Region which have undertaken reforms.

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1/ A variant of this was a proposal for an international "land bank". The background and main issues involved are discussed more fully in Strasma, 1965 a.

In neither of the massive reforms that occurred in Latin America prior to 1960 - Mexico and Bolivia - was significant compensation given for expropriated land. In both cases the basic agrarian reform legislation provides that compensation be paid. But the implementation of the compensation provisions was long delayed, and the land valuation was set very low. Hence, when it came to applying for compensation, few landowners felt it worthwhile to go through the procedure.

Cuba provided for compensation in bonds to landowners affected by its agrarian reform. However, the largest national creditors, according to a recent government-sponsored study, left the country and thus forfeited their entitlement. <sup>1/</sup> On the other hand, many former owners of smaller farms are receiving their bond amortizations regularly (Cuba 1971, pp. 29-30).

As was brought out in Chapter II, cash expenditures for landowner payments in the four study countries have not been of crucial fiscal importance. In Chile, they accounted for less than 11 percent of reform expenditures from 1965 through 1970 when four million hectares were expropriated. In Colombia, only 12 percent of the reform expenditures have gone for land. However, such payments could become very burdensome if reform were to be implemented on a massive scale without change in the present law.

The bulk of the INCORA expenditures so far have been unrelated to land acquisition and redistribution; only 270,000 hectares of private land subject to compensation had been acquired in the period studied.

The comparatively large proportion represented by payments for expropriation from 1965 through 1970 in Peru - 22.5 percent - was occasioned by the implementation of the old law under which cash compensation was greater than in the 1969 law. Moreover, a substantial portion of these payments went for livestock expropriated in the mountain regions. The cash flow projections for the agrarian reform programme through 1975 indicate that payments for expropriation of land and capital will be 39 percent of overall cash expenditures. However, a number of recent legislative and administrative provisions make nearly all compensation for land as such payable in bonds or other government obligations. It can thus be assumed that the vast majority of forecasted cash expenditures will be for livestock, fixed investments and equipment.

In Venezuela, through 1965, about 40 percent of the value of the private land acquired was paid for in cash (Table III-5). Cumulatively through 1968, the proportion spent for land acquisition was only 7.5 of total reform cash expenditures.

The Venezuelan experience is worth note in several respects. Only 11 percent of the 1.5 million hectares of private land acquired for agrarian reform between 1960 and 1965 were obtained by expropriation. In addition, 19 percent was obtained through confiscation of properties which were declared to represent illegal enrichment of members or followers of the previous regime. Also about one-half of the land acquired by the IAN during this period was public land. In only eight of the 47 cases in which the government had to resort to expropriation, did the owner oppose the process; the remaining instances were due to disagreement over the price, or legal impediments in general. Indeed, a recent study (CENDES/CIDA 1969, I, page 86) speculates quite frankly that during the early years of the reform landowners themselves may have sponsored a substantial number of the so-called peasant invasions of farms close to urban areas where the prices paid were almost three times higher than in the rest of the country.

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<sup>1/</sup> Foreign landowners were to be compensated in dollars. According to Cuban law, this provision was tied to Cuba's continued inclusion in the U.S. sugar import quota.

Table III-5

VENEZUELA: LAND ACQUIRED FOR AGRARIAN REFORM  
BY THE INSTITUTO AGRARIO NACIONAL, 1960-1965

Source of land	No. of properties	Area		
		1,000 has.	Proportion (%)	
<u>Privately owned</u>				
Purchase	411	874.2	55.1	
Donation	14	234.8	14.8	
Expropriation	47	170.5	10.8	
Confiscation	26	306.3	19.3	
<u>Subtotal</u>	501	1,585.8	100.0	58.3
Public lands for reform		1,129.2		41.7

Source: CENDES/CIDA, Reforma Agraria, Caracas, 1969, Vol. I.

## CHAPTER IV

### FINANCIAL ASPECTS OF REFORM PLANNING AND IMPLEMENTATION

Politicians, planners and administrators share responsibilities for the design of agrarian reform. Goals and priorities are set by political decision makers. Economic planners and budget officials have responsibility for programming the necessary activities and finding the means to carry them out. Administrators must execute the programmed activities. In practice, this division of labour is not rigidly observed, so that with continuing exchange among the diverse groups, programmes can be adapted to fit changing circumstances and purposes.

The decisions of the first, political sort have been examined above in Chapter II. In this chapter, attention is given to the planning and the operational decisions affecting the scope, pace and financing needs of the agrarian reform programme. The first five sections focus on the planning issues; in the remaining sections, the concern is with financial implications of administrative decisions.

#### 4.1 Reform Planning and Financing Needs

Differences in financial requirements for reform emerge not only from differences in reform strategy but also from planning decisions to implement the strategies.

The possible financial implications of planning and administrative decisions can be seen by comparing reform expenditures and staff requirements of the study countries. The government "inputs" per family vary enormously. For example, expenditures of INCORA in Colombia during nine years of operation have been almost as great as Chile's reform agency in six years; meanwhile, Chile redistributed land to 2-1/2 times as many families as did Colombia (Table IV-I). Peru's expenditures per family have been even more modest. The same wide disparity exists in comparisons of families attended by professional personnel. The Colombia reform agency has the largest permanent staff, maintaining a ratio of one professional per three beneficiaries; Chile's ratio in 1970 was about one to ten; Perú had about one technician per one hundred families.

The reform planning decisions of most importance can be treated under four headings: (a) how public resources are divided between the reform and non-reform sectors, (b) how resources are distributed among regions, (c) how "comprehensive" the programmes are with respect to land distribution and how "inclusive" with respect to the potential beneficiaries, and (d) the time horizon of the programme.

#### 4.2 Allocations between reform and non-reform sectors

Not all farms and farm-dependent population can be immediately and completely brought within the reform programme, even when thoroughgoing structural changes are sought. Under the Cuban programme, for example, more than 40 percent of the land remained in private small-holdings after a decade of reform. In countries which have followed gradualist reform strategies, the relative size and importance of the non-reformed sector is even greater. In Venezuela, Colombia, Chile (pre-1970) and Perú (pre-1969), reforms affected a minority of the land and farm operators.

A major political rationale for continuing to provide official support to entrepreneurial agriculture even as an agrarian reform takes place, is to limit the political opposition

to the reform itself. From an economic viewpoint, conventional reasoning holds that the commercial sector must continue to receive official support in order to maintain overall farm output. A clear conflict occurs since - under typical government budget restrictions - strengthening the entrepreneurial sector reduces the possibilities of a rural transformation.

The experience of the study countries generally affirms that this conflict is serious.

Venezuela has provided heavy support to entrepreneurial farming as well as reform settlements. There was a 54 percent increase in overall public expenditure for agriculture (in real terms) between 1960/61 and 1968, while reform and reform-related expenditures (including increased production credits) increased less than 30 percent. Total reform expenditures in 1968 represented less than one fourth of the total central government budget for agriculture.

In Chile reform expenditures have been rising considerably faster than the overall agricultural budget. The budget of CORA, the reform agency, increased nearly five times (in current escudos with substantial inflation) from 1966 to 1969, while the total agricultural sector budget rose only about 60 percent. However, the CORA budget in 1969 still represented only 35 percent of the total for the agricultural sector.

In Perú, even prior to the 1969 decision to implement a massive reform, expenditures for agrarian reform rose apace with the increase in the overall agricultural budget; agrarian reform including funds for production credit, accounted for 55 percent of the total both in 1966 and 1969. The enormous increase in the Government's budget for agriculture for 1971-72 includes a similarly great rise in budget specifically earmarked for agrarian reform; without counting an expansion of credit resources, the latter were expected to constitute more than 40 percent of the total. Moreover, attempts were being made to place the entire public agricultural apparatus at the service of agrarian reform. Hence, a substantially greater share of the resources than indicated by the accounting classification is probably becoming available to the reform sector.

Central government budget data usually do not include official agricultural credit resources. In view of the general absence of non-official institutional farm credit, official credits are particularly important for small farmers and reform beneficiaries (IDB, 1971). Availability of credit is still the best measure of the flow of public financial resources to the reform and non-reform sectors, especially where other public services to agriculture are weak. In Chile, the combined outstanding credit of the two campesino-oriented agencies - CORA and INDAP - in 1969 was only one-fourth of the total outstanding farm credit of official institutions (IDB, 1971). Landowners meanwhile had access to both the bulk of public credits and to private banks.

In México, credit is the only public financing whose relative flow to the two sectors can be directly measured. The Banco de Crédito Ejidal is the principal even if not the only source of campesino credit. Between 1956 and 1969 this Bank's relative share of official credits for agriculture declined from more than one-half to less than 15 percent and its relative share of all farm credits from 15 percent to five percent. The portfolio of the Banco Ejidal remained practically stationary from 1956 to 1969, at the same time that outstanding farm credit rose by 150 percent. In 1969, ejidatarios, representing about half of Mexico's agricultural producers and nearly half the crop land area, received less than 13 percent of total farm credit (CIDA, 1970, Vol. III, Tables 113 and XI-14). The nearly one million non-ejidatario owners of minifundia received only a small part of the remaining credit. No general explanation is available for this declining share to the reform sector, but it is clear that public and private bank policies gave preference to private, commercial farming. Moreover, a combination of administrative and political problems reduced the effectiveness of the Banco Ejidal below the level at which it could otherwise be operating (see CIDA, 1970, Chapter XI).

Table IV-1

LAND EXPROPRIATED AND FAMILIES SETTLED IN REFORM PROGRAMMES AND REFORM  
AGENCY PERSONNEL AND EXPENDITURES, CHILE, COLOMBIA, PERU AND VENEZUELA

<u>Countries and Periods</u>	Land Expro- priated or Purchased. (1.000 has.)	Families Settled (No.)	<u>Reform Agency Personnel, 1970</u>		<u>Reform Agency Gross Expenditures through 1970 (US\$ million equiv)</u>
			Professional and sub-prof. (No.)	Administrative and Services (No.)	
<u>CHILE</u>					
1965-67 (Law 15020)	1,205	8,341			
1967-70 (Law 16640)	2,889	12,960	1,239	690	296
1971-72 (Law 16640)	5,300	31,500			
Total 1965-72	8,394	52,801			
<u>COLOMBIA</u>					
1962-70	270	8,602	2,083	1,649	278
<u>PERU</u>					
1964 June 1969 (Law 15037)	1,480	16,554			
June 1969-October 1970 (Law 17716)	1,328	48,324	448	1,311	135
Total projected through 1975	14,170	320,000			
<u>VENEZUELA</u>					
1960-74	3,000 <sup>a/</sup>	215,000 <sup>a/</sup>	-- <sup>b/</sup>	-- <sup>b/</sup>	620 <sup>c/</sup>

a/ Includes targets for 1970-74. b/ not available.

c/ Through 1968. Includes reform related expenditures of all public agencies.

Sources: For Chile, CORA, unpublished data.

For Colombia, Ministerio de Agricultura, Proyecto de Ley por la cual se introducen modificaciones a las leyes 200 de 1936, 135 de 1961 y lra. de 1968, Bogotá, August 1971; and INCORA financial statements.

For Peru, FAO/IDB Cooperative Programme, Plan de Desarrollo Agropecuario y Comercialización en Areas de Reforma Agraria, Perú, Washington, D.C., 1971, Vol.I.

For Venezuela, CENDES/CIDA, Reforma Agraria, Caracas, 1969, vols. I and II, and Instituto Agrario Nacional (IAN), Proyecciones, Analisis e Implicaciones de los Programas Básicos del IAN (Período 1970-74), Caracas, Julio 1970, and Gustavo Pinto-Cohen, unpublished data.

The case of Bolivia - where substantial social change was brought about with little public expenditure - indicates that official commitment to reform does not necessarily bring a redistribution of public funds between the reform and unreformed sectors of agriculture. After the massive and partly spontaneous land redistribution of 1952-53 in the more densely populated valleys and highlands, only negligible public financing was channelled to agriculture or to the economic consolidation of the reform. While the limited services provided for agriculture - extension, community development and rural education - were set up in reformed areas and in campesino colonization projects, the bulk of the official credits were allotted to entrepreneurial farming and ranching in the lowlands (see Clark, 1970).

In sum, official funds and technical expertise available to reform have been seriously limited where large-scale entrepreneurial farming continues to exist besides the reform sector. It is not uncommon where a "gradualist" strategy is followed, that commercial farmers continue to enjoy preferential access to public services, credit and marketing. Under these conditions, therefore, the relative economic position of campesinos often deteriorates, even if their conditions improve in absolute terms, unless reform planners are able to exercise a degree of ingenuity which is not frequently manifest.

#### 4.3 Regional priorities

Whether public investments should go with priority to areas with high, relatively quick potential economic return, or to chronically depressed areas with scarce resources, great population pressure and social problems, is a universal problem for development planners. At the political level, the problem is forced into prominence when social pressures in the depressed areas reach explosive proportions. The most dramatic cases in Latin America have been those of Northeastern Brazil and the Andean and Central American Highlands (Barracough, 1966). If reform programme priority is given to these areas, the general argument runs, large financing will be needed and significant economic returns will be long delayed even if the social-political results are positive.

The issue of regional priorities must be considered in the context of overall consolidation strategies discussed in Chapter V. In established production areas, relatively rapid and low cost consolidation of the reform can be achieved with service packages incorporating credit, extension and marketing assistance. This "deepening" consolidation strategy contrasts with the approach which gives priority to creating new agricultural production capabilities in poorer or frontier areas. There is, then, an apparent contradiction between solving the most pressing rural poverty problems, and following a "deepening" strategy. The basis for the conflict deserves examination.

The problem of the poor rural population in poor regions is assertedly solved only by promoting outmigration. Spontaneous migration to the wealthier areas and cities has been occurring for many years and will surely continue. But this kind of adjustment does not solve the policymaker's dilemma, and, in fact, has exacerbated the problem of urban and rural slums. In most countries the populations involved, and their rapid increase, tax the capacity of the richer regions and cities to absorb them, especially in view of the adoption of increasingly labour extensive technology both in and out of agriculture (Owen, 1966).

Characteristically, the depressed areas are and can be expected to remain rural, in spite of relatively rapid industrialization in neighbouring regions, or even in enclaves in the same region. They also tend to have persistent land tenure problems. Improvement of rural life in such areas requires more imagination and effort than the transfer of ownership and reorganization of production in areas endowed with a better natural resource base. In addition to the problem of resource quality, the rural populations in the backward areas are almost invariably tied to minifundia holdings.

The financial implications of these choices are great, especially if the concentration of efforts in depressed areas is combined with comprehensive regional development. Greater relative investment in social and educational services is required. There also needs to be more emphasis on extra-agricultural employment and income opportunities than in agriculturally better endowed zones.

Public policy emphasis on "productive" rather than "marginal" areas has been very marked in Mexico. Public investments in rural infrastructure and services have been made almost exclusively in the irrigated valleys; the marginal hill and mountain areas, where most of Mexico's rural and indigenous population lives, have received few benefits (CIDA, 1970). In Colombia, agrarian reform projects have been undertaken mostly in the more productive lowlands, often at high cost per family benefited, while there has been little action in the minifundio areas (CIDA, 1966).

In Bolivia, the priority given to the non-reform sector - including colonization - reflected expectations of sharp regional differences in short-term returns between the lowland and highland areas. Although the overwhelming majority of the population lives in the poor resource areas the argument was made that they would be attracted to the new, prospering areas and so relieve the pressures and poverty of the highlands for those who remain (Clar, 1970).

Peru's 1966 agrarian reform put primary stress on the backward highland areas. The programme initiated in 1969 included under the reform the previously excluded sugar plantations in the rich coastal region. However, the programme continues to provide for a heavy concentration of public resources in the Sierra.

This approach appears justified in terms of both the economic and the reform results, according to the feasibility studies for the Lampa-Capachica and Anta zones of the Peruvian Sierra (FAO/IDB, 1971). These reform oriented area development schemes can be self-financing in relatively few years. Estimated internal rates of economic return of 25-35 percent, as well as a doubling of the remunerable employment opportunities, are expected; the results come from more intensive use of resources within the new reform units and modest improvements in technology. In the reform-oriented development schemes of comparable scope for coastal valleys - Ferrañafe and Virú - the overall rates of economic return were 13 percent and 15 percent respectively, and potential for productive employment was increased by 10 percent and 55 percent. The capital requirements per family benefitted are expected to be the equivalent of US\$ 2,000 in the Sierra against US\$ 5,000 on the Coast.

From both the reform and financial points of view, then, emphasis on the more depressed areas has certain advantages: the capacity to absorb large expenditures is limited in the short run and the expectations of the people are modest. Underemployment is endemic in these areas, so that expenditures can be and should be less capital intensive if employment is to be generated. There is scope for substituting volunteer or partially remunerated labour for monetary investments. Total financial requirements are characteristically less than in the more developed areas, but the needs for services such as credit, training and health are often greater.

#### 4.4 Comprehensiveness of reform

In the planning of reform, both financing needs and reform effectiveness are affected by the relative comprehensiveness of the reform in each programme area. The speed with which land is expropriated and new tenure systems are installed is also crucial and may well govern the choice of approach as well as its practical feasibility.

There are generally three alternatives for the expropriation and redistribution process:

- 1) On an estate-by-estate basis. This approach is often chosen since it permits the government to respond readily to local situations. Beneficiaries are typically limited to the permanent labour force of the former estates. This is the most common approach in Latin America, including Bolivia, Venezuela, and, until 1971, Peru and Chile. The application can be on a gradual or massive scale, as illustrated in Chile prior to 1970 compared to the 1971 and subsequent programme.
- ii) On a project basis. The expropriation and redistribution occurs on a number of estates in a defined region which are administered as a single project. Beneficiaries are typically selected from the permanent labour force of former estates. Colombia has followed this approach in most of the limited areas where reform has been applied, particularly in its irrigation-cum-reform areas. In Chile, CORA planned to apply this system in mid-1971, but the pressure of crash expropriation apparently precluded its application.
- iii) Integral reform and development on a regional basis. Restructuring of tenure rights is carried out in close conjunction with provision of complementary services and infrastructure. The beneficiary group is the entire agriculture-dependent labour force of the region. Although no country in the Region has yet implemented its agrarian reform on this basis, the PRIDA programme in Venezuela is an attempt to initiate such a process. <sup>1/</sup> The Peruvian Government began its massive expropriation and distribution programme on this basis in 1971, and Chile may eventually move in this direction.

The comprehensiveness of the reform is likely to be sharply limited by political decisions and legislation. The regional or block approach can be applied only where reform administrators have wide powers of expropriation. Almost all reform laws allow landowners to retain some areas for their own use. But the quality of the land available to the peasants and its contiguity can vary substantially, depending on whether the specific parcels to be retained are selected by the landowners or by the reform agency. The feasibility of the regional approach also depends on the simplicity of the legal process. The solution adopted in some countries, based on eminent domain procedures, permits the reform agency to occupy and redistribute the land indicated for expropriation, while awaiting landowner appeals on compensation. Application of the block expropriation method typically does not require change in basic legislation.

Colombia's reform has permitted the project approach in those few areas where private land redistribution has been implemented, but in these areas, most land has been acquired by "negotiation", rather than by expropriation. In Venezuela, the process has been mixed. As provided in the legislation, the bulk of the "asentamientos" were based on single estates, purchased or expropriated after pressure from local peasant groups. If the process is to be rationalized under the new PRIDA approach, a good deal of additional land - presumably at higher prices - will have to be acquired in the reform areas.

The initial reform process in Mexico was somewhat chaotic. After 1934 a more orderly procedure was applied, under which a number of block-type and even semi-regional reform oriented projects were implemented in irrigated valleys.

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<sup>1/</sup> Italy is the best-known programme outside of Latin America which applied the regional programme approach with area sub-projects. Each region was administered by an autonomous agency, with only loose coordination by the Ministry of Agriculture.

The planners' choices regarding land expropriation methods are closely linked to the "inclusiveness" of the programme with respect to selection of beneficiaries. A distinction must be made between programmes which (a) aim at a specified group of the landless or otherwise marginal peasant population, (b) mean to reach all or most of the low-income dependent farm population of a region, or (c) are directed to the entire rural population.

Schemes which leave a substantial group of the dependent labour force or the bulk of the subsistence farmers without improvement while benefitting another groups are certain to create new social tensions as great as, or even greater than, those already existent. The rural families left without benefits at best become cheap labour for the reform elite; at worst they become candidates for urban migration. The invisible unemployment of rural areas is transformed into the visible poverty around urban centers. 1/

Even in countries where agrarian reform came about as a result of a revolutionary process, as in Bolivia and Mexico, new inequities and new oligarchies arose within the reform sectors. One lesson from these experiences is that when a dual commercial-reform agricultural economy emerges out of a reform-oriented movement, the reform sector carries the burden of demographic increases, and intrasectoral income and social inequities reappear rapidly. This suggests that for the reformer the dual economy is a very unsatisfactory second-best solution and may create even more serious tensions than those which led to the original reform.

Attempts are being made to introduce institutional innovations to avoid the more undesirable concentrations of benefits among beneficiaries. Examples include the broad-based cooperatives in Peru and the Agrarian Reform Centres coupled with community-wide Peasant Councils in Chile.

The differences in cost effectiveness of the various expropriation-distribution approaches cannot be quantified with data at hand. It would appear, however, that technicians and financial resources could be much more efficiently used if programmes are planned and executed on an area or regional base, other things being equal. In addition, favorable experience with community management and other innovations in tenure and economic-social institutions can reduce land redistribution costs, as well as helping to incorporate the rural population in the reform and development process. How this can lead to greater mobilization of campesino labour and managerial capacities, and reduced public expenditures, is discussed below.

#### 4.5 The time horizon of reform

The political nature of agrarian reform forces a recognition of "time horizon" when appraising financial and institutional problems of reform implementation.

The short-and long-term expectations from a political point of view must be distinguished, just as differences between short and long-term planning objectives and targets must be recognized. The two viewpoints are likely not to coincide, and neither may have much relation with the time-span of the campesinos' expectations.

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1/ Available predictions and evidence indicate that a large proportion of the population in most Latin American countries will continue to depend for its living on agriculture in the intermediate run. The absolute size of the agricultural population will continue to rise for the foreseeable future despite increasing industrialization (Bachmura, 1970; Barraclough, 1970; Domike, 1970).

In both Mexico and Bolivia, for example, the social and political emancipation of the peasants was the immediate, clearly political objective of the reform movement. Increases in farm production were not a significant original objective of either political groups or campesinos, even though planners might have desired it.

Where significant agrarian reforms are carried out without deeply disrupting administrative and government continuity - as has occurred in Chile and Perú - the time horizons may more nearly coincide. Nonetheless, a distinction still needs to be made between the short and the long-term expectations.

A conflict is commonly thought to exist between the need to step up production, and the risk of at least a short-run drop in marketings following massive agrarian reform efforts. There is reason for the fears. No new land system can be expected to function efficiently overnight. In the period immediately after reform the nation is still face with grave social tensions and widespread underemployment irrespective of the future strategy the government seeks to follow. The technicians available to public agencies are often unprepared to work with peasants. The peasantry as well as the existing institutional structure may be unprepared to assume full and immediate responsibility for self-management, especially in the case of more complex types of production.

Serious disappointments are common and a kind of vicious political circle can be induced by excessive short-term expectations of agrarian reform results. Where there is a realistic awareness of the risks and difficulties from the very beginning, planners and politicians can seek to balance short and long-term benefits.

The problem, then, must be faced at the policy level as well as by planners and administrators. A firm policy commitment to a reform strategy, in spite of short-term disappointments, permits the planners to design comprehensive reform schemes requiring more than one production season for implementation. Increases in campesino incomes can be brought about even in the short run, by appropriate public investments, credit and market arrangements.

#### 4.6 Financial Issues in Reform Implementation

Public sector outlays and incomes related to reform programmes can be affected materially by (a) the choice of post-reform tenure patterns, which affect the mobilization of the labour and talents of beneficiaries; (b) the structure of the reform administration, and (c) the availability of cadastral and resource information. These issues are treated here in turn.

#### 4.7 Post-reform tenure patterns

The tenure systems set up in consequence of the reform is a prime determinant not only of the results of the entire programme, but also of the costs and effectiveness of public services and of other financing needs. From the viewpoint of financing, however, the tenure system is important for its effect on labour mobilization and use of public services.

The types of post-reform tenure systems in the region include the State Farms, the collective and cooperative enterprises of both the socialist and capitalist orientation, and entirely individual tenure and operation. State farms have been established in Cuba and Puerto Rico. Forms of community or collective tenure exist in Mexico, Cuba, Chile and, more recently, in Peru. These latter forms of settlement have been tried even where individual tenure is also permitted or encouraged, such as in Puerto Rico. Individual tenure has been

the rule in reform programmes in other countries. It is generally asserted that individualism is so deep-rooted among Latin American campesinos that the "family farm" is the most efficient production system (See Owen, 1966).

The experience with both individual and collective management is sufficient to permit study of their adequacy with respect to labour mobilization.

In Mexico, communal tenure of the ejido lands, where few urban employment opportunities existed, made campesinos immobile or led to adoption of extra-legal adjustments such as renting out the land. Except in a few areas, collective operation of the ejidos is not being practiced. The formal collective tenure has not prevented widespread inequities, many of them arising from the extra-legal but not policeable spontaneous adjustments. (See CIDA, 1970, Vol. II, Chapter VI and Eckstein, 1965).

The agrarian reform asentamientos created between 1965 and 1970 in Chile have been collectively managed as cooperatives under public tutelage for a period of three to five years, following which the membership was to choose collective or individual tenure. The government in that period gave priority to title grants for asentamientos opting for the collective organization. Many problems were encountered in the process, in part because the campesinos were not given sufficient initial training or responsibility in the management of the asentamientos. Without change in the law, the post 1970 government began to plan new communal organizations as well as larger production units for newly expropriated land, based on greater self-administration. Individual tenure was provided only for house and garden plot.

In the Venezuelan Empresa Campesina, a limited number of agrarian reform settlements or groups of settlements have combined under public auspices into production and marketing cooperatives for specialized products and for limited periods. 1/

By developing pragmatic employment technology guidelines (and ensuring their implementation at the field level) agrarian reform planners can effect substantial savings in expenditures for capital equipment, at the same time adding to the labour incomes of direct and indirect beneficiaries of the programme.

The technology and degree of mechanization in farm production and constructions is closely affected by the form of tenure and management. This issue has received little attention. Unless restrained by public policy and field guidance, reform settlements tend to behave as private commercial entrepreneurs. They tend to introduce labour-saving machinery, thus reducing employment opportunities for that part of the rural labour force which is not directly benefitted by land redistribution. In the name of reform, incomes of the least privileged population are further depressed.

In Venezuela, for example, credit was made available to individual settlers for the purpose of buying tractors with which they do contract work for the remaining settlers while the latter stand idly by. (Thiesenhausen, et. al., 1968 and Mathiason/Shearer, 1967).

Experiences with cooperatively managed settlements have been similar. In some Chilean asentamientos a good deal of machinery was introduced between 1967 and 1970 either as property of the local cooperatives or rented from service cooperatives or government machine pools. The machinery replaced manual labour and animal power while asentados worked short hours and little outside labour was employed.

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1/ For a fuller discussion of cooperative and collective farming in Latin America and of alternative tenure systems under reform, see especially Barraclough, 1970 and Carroll, 1969.

There are numerous opportunities for using machinery to extend peasant labour. Labour-intensive cropping patterns often entail seasonal work requirements that cannot be met by the resident labour force. But frequently agrarian reform settlements tend to substitute machinery for labour even when there is substantial local underemployment and migrant labour force. Planners may ignore the likelihood that campesinos collectively behave as would an entrepreneur: the temptation is great to displace labour - even their own - with machinery made available on terms which yield operating costs competitive with the money cost of labour. This tendency is even greater when careless administration fails to account to the settlers for the real cost of machinery used, as has happened in Chile.

This same tendency holds in the reformed areas regarding techniques used for construction of irrigation and drainage works, housing and the like. The usual option is between capital-intensive heavy machinery, designed to speed the completion of the works and slower, labour-intensive techniques which may require more supervision but will provide greater opportunities for employment of the peasant population. On the other hand, labour-intensive techniques, even those which require substantial training and employment of qualified personnel in the early years, create trained cadres which become capital for future development.

Campesino participation in the decision making process can also help save public expenditures, especially where the beneficiaries are expected to repay the full costs of government investments. Peasant conservatism has its drawbacks when it comes to the introduction of innovations. But at the same time, such conservatism dampens inopportune enthusiasm of inexperienced public officials for investments that have a low real priority in the eyes of the recipients.

In none of the Latin American countries studied have campesinos participated fully in the reform planning and implementation. Even where peasant organizations are relatively strong - as in Venezuela, Mexico, Bolivia and recently in Chile - there has been little tendency to give them responsibility for managing the settlements. This has meant that larger cadres of government officials are assigned over long periods, increasing public expenditures and concomitantly failing to develop the campesino capabilities for management of farm and community affairs.

With aggressive leadership and appropriate training, motivation and organization, campesinos have shown that they can effectively manage a large portion of their production, marketing and community problems. Public officials and technicians can then provide services to greater numbers of beneficiaries. Despite the numerous local examples (including many which illustrate the problems and pitfalls), Latin American politicians and technocrats have seldom permitted campesinos to be directly responsible for reform implementation.

The institutional approach announced for the "transitional" phase of the settlement process in Chile during 1971 warrants close study from the viewpoint of most of the issues discussed in this section. The institution of asentamientos created from single expropriated estates was to be replaced with "Agrarian Reform Centers" in the newly expropriated lands. These centers were to comprise two or more former adjacent fundos, obtained by block expropriation in each community. All campesino families with some economic ties to the former estates were to have equal rights and obligations in the production cooperative under some form of collective tenure. 1/

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1/ Under the 1965-70 asentamientos system the former sharecroppers or permanent workers were usually the direct reform beneficiaries. The day labourers continued to work for wages. Even the sons of asentamiento members did not have full participatory rights.

Reform agency officials were intended to function principally as advisers rather than as directors of the settlements. Elected campesino committees were to make the major production and investment decisions. The lines of hierarchy were to tie the individual centers to broader-based Campesino Councils at the community level, which in turn would be responsible for supervising investment in, and management of economic and social infrastructure. Campesino-managed "vertical enterprises" for input and output marketing were to be organized at the national level. A proportion of the net profits of the Centers were to be reserved for capital investment and for community development.

If these Centers are fully implemented, these institutional innovations have the potential for mobilizing campesinos and enhancing the efficiency of resource use, both human and physical. If they function as planned, they are also likely to result in substantial savings of public expenditures in reaching the overall reform targets.

Varied combinations among land tenure and farm management systems are both feasible and possible. The experience of the countries in and out of the Region offers instructive lessons in this regard. If legislation is sufficiently flexible, innovative arrangements can be developed. While peasant attitudes sometimes create obstacles to the introduction of cooperative or collective systems, at least in the short run, such systems have permitted improved mobilization of the labour potential and the active participation in reform planning and implementation of the beneficiaries. A substantial overall saving of public expenditures for the reform programme can probably best be achieved by allotting high priority to campesino training during the initial years.

#### 4.8 Administrative organization

Redirection of public resources and the introduction of institutional innovations require profound readjustments in the traditional administrative agencies of agricultural agencies. The issues of most consequence from a financial point of view include: whether parallel or unified agencies service the reform and non-reform sectors, and the degree to which decentralization of planning and execution is compatible with effective execution.

With regard to administrative structure, options exist between carrying out agrarian reform through a specialized new agency or through pre-existing agencies whose activities are reoriented. Another alternative is the creation of a "Ministry of Agrarian Reform and Rural Development".

The final decision is taken at a political level. However viewed as a question of administrative efficiency, the choice depends on several factors. One is the availability of sufficient trained personnel to staff parallel structures. In addition, consideration must be given to the willingness of a government to sacrifice or reduce the old bureaucracy in order to strengthen the new one.

Since financial consequences are not readily predictable among the choices, the experience of the various countries is worth review. Most countries of the region created new administrative structures directed at the new clientele, when their agrarian reform laws were passed. In some countries, such as Mexico and Bolivia, no pre-existing agencies were capable of coping with the task of reform implementation. In countries with relatively experienced agricultural services and ministries, reform-bent governments have felt obliged to create a new agency for other reasons. For example, bureaucracies accustomed and tied to a clientele of middle - and large-size farmers and landowners have often proved unresponsive to the new programme. In these cases, reform agencies often duplicate most or all of the important services otherwise available for the entrepreneurial and traditional farmers.

The other variant has been creation of reform agencies limited to the specific tasks of land acquisition and distribution, leaving to existing agencies the technical and investment services to all sectors of agriculture.

Mexico created an independent government department to handle the land redistribution as well as organization, control and tutelage of the ejidos. But extension and irrigation functions have been carried out by non-reform-oriented agencies. In Bolivia a new Ministry of Campesino Affairs was created which took charge of land redistribution and peasant organization, while various old and new agricultural services and agencies, including one specializing in colonization <sup>1/</sup>, functioned under the Ministry of Agriculture. In later years the importance of the Peasant Ministry declined and in 1970 the two departments were fused.

Venezuela's Instituto Agrario Nacional (IAN) administers the redistribution and coordinates consolidation activities carried out elsewhere in the Government; it also shares costs of extension services for reform settlement. Colombia created an autonomous institute in 1962 - Instituto Colombiano de Reforma Agraria (INCORA) - to implement the agrarian reform. INCORA activities include virtually all public services for agriculture except research and education, community development and major roadbuilding; colonization and squatter titling and also functions of INCORA. In the years since its creation INCORA extended services previously provided to agriculture by other agencies so that in some budgets INCORA received one-half of the central government appropriations for agriculture.

Peru, under the 1966 agrarian reform law, created the Oficina Nacional de Reforma Agraria (ONRA), to administer the various reform programmes, except for credit and public works. Another agency solely charged with the financial aspects of the reform - Corporación de Financiamiento de Reforma Agraria (CORFIRA) - was created at the same time and operated semi-autonomously.

The new government changed the administrative structure in 1969, moving toward an "Agrarian Reform Ministry". A Directorate General for Agrarian Reform was created within the Ministry of Agriculture, and the Ministry Zone Chiefs became top field officers for reform implementation. This new structure is intended to place the entire Ministry field organization at the disposal of the reform in an effort to cope with a greatly expanded reform programme.

In 1964, Chile converted its Caja de Colonización into the Corporación de la Reforma Agraria - CORA - with full responsibility for all land redistribution and settlement activities, including credit. At the same time, the Ministry of Agriculture's extension service continued to service the middle - and larger-size farmers, and a separate agency - INDAP - was given responsibility for organization, extension and credit among subsistence farmers not benefitted under the land redistribution programme. A beginning was being made toward unifying services at the field level in 1971, including the transfer of the credit operations of the CORA to the Banco del Estado. A full-fledged reorganization of the sector's administration designed to enhance the efficiency of services to the reform sector was underway in 1972, coincident with the termination of the expropriation phase.

In Cuba, the reform affected the entire agricultural sector, even though some forty percent of the land is still in private holdings. To implement and consolidate the reform,

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<sup>1/</sup> From 1960 to 1966 colonization in Bolivia received four times the budget allocated to the Agrarian Reform Service, which was the under the Campesino Affairs Ministry. The number of reform beneficiaries was at least ten times that of officially assisted or sponsored colonos in public lands. (See Clark, 1970, pp. 42-43).

the Ministry of Agriculture was abolished and virtually all agricultural activities were placed under the control of the new Instituto Nacional de Reforma Agraria (INRA).

Conventional credit institutions particularly resist change in organization or procedures to fit the needs of reform beneficiaries. To correct this situation, Mexico and Chile created new institutions with the exclusive task of attending to the needs of reform beneficiaries and other campesinos. Elsewhere - in Venezuela and Peru, for example - specific resources for reform sector credit, under special rules, were allocated to the existing official farm credit institutions. Failure in Bolivia to have done either is evidently responsible for the low level of its resources channelled to reform beneficiaries.

In a "reformist" political setting, it may be difficult or impossible to persuade the old-line agencies to tailor their programmes and budgets to reform requirements. Administrative efficiency may be maintained by retaining certain development activities - such as irrigation planning and execution - in the traditional agencies, but often fulfillment of reform objectives is seriously impeded. Even in a "structuralist" strategy situation, the conventionally oriented agencies may pursue their traditional procedures; their technical personnel are steeped in the traditional approaches and are loath to change their ways.

Massive agrarian reform programmes are inherently difficult to implement without at least some decentralization of the decision-making process. Perhaps the problem is better understood in terms of the policy-planning-execution decision chain mentioned earlier. Policy determinations and overall resource-financing decisions need to be made in a centralized fashion in order to assure that government objectives will be coordinated and non-competing. The priorities of the diverse agencies in and out of agriculture will thus be adjusted to the central government's goals. The centrally-managed institutions can provide overall policy guidance and directives, plus general studies and surveys required to design and implement plans at the regional and local levels. However, day-to-day administrative decisions in situations as variable and dynamically changeable as those common in reform programmes require thorough acquaintance and continuous contact with local conditions.

The need for policy centralization in order to achieve a coordinated decentralization is seen, for example, in Chile. In 1965, when the first attempts were made to launch a massive reform effort, the official agricultural sector activities were so dispersed among agencies that the Ministry of Agriculture managed only six percent of the sector budget. Few of the semi- and fully autonomous agricultural agencies were required to receive authorization of the Ministry for any of their activities. There existed, in effect, a number of diverse agencies providing services directly to their "clienteles", with coordination provided for practical purposes only by the Treasury through its budget controls. On the other hand, very little opportunity existed for local control or intervention since each agency used its local offices for regulating or implementing its programme. Planning was carried out at the centralized level by each agency in an uncoordinated fashion. This situation persisted through mid-1972 when a new sector administrative structure was created.

A compromise has been adopted in some countries, e.g. Colombia, Venezuela, and Chile, where technical plans are essentially elaborated in the field but most still go through a central review process. Their implementation is also subject to discretionary head office intervention.

Cuba had an admittedly unsatisfactory initial experience with uncoordinated autonomous "Zonas de Desarrollo Agrario" for planning and executing land redistribution. Thus, with the redistribution aspect politically assured, the exigencies of production planning led to the centralization of decision making in 1961 (Cuba, 1971, pp. 10-11).

Implementation problems cannot be resolved by permitting all decision making to be decentralized. However, there is a fundamental need to assure beneficiary participation

in the programme decisions even where it is felt that the campesinos are not prepared to assume the usual bureaucratic responsibility. Where the cultural preparation and attitudes of the campesinos appear to be least conducive to self-management, priority for public efforts and investments may well be in crash training of field personnel and peasant leaders to cope with the tasks. Training and literacy programmes, such as those developed by Paulo Freire <sup>1/</sup> may prove effective in several countries of the region.

#### 4.9 Cadastral and Resource Surveys

The lack or inadequacy of ownership data and registration is a symptom of the rural underdevelopment and landlord privilege which underlie the need for agrarian reform. Lack of data also tends to conceal the skewed distribution of land ownership. Nevertheless, massive agrarian reforms have been undertaken in Latin America - e.g. Bolivia, Mexico, and Venezuela - in the absence of resource and land ownership surveys.

Reform implementation need not await completion of such general surveys since they can be made locally on an ad hoc basis. But resource and cadastral surveys can be of substantial benefit for reform implementation and for the Treasury by facilitating and speeding land use planning, settlement capacity, expropriation and taxation. <sup>2/</sup>

At the same time, expenditures for basic preparatory surveys are usually not considered among agrarian reform financial requirements, because they are the responsibility of geographic or natural resources institutes (or of the military) and their use is not limited to agrarian reform or to agriculture. The relative financial impact of such basic surveys on total agrarian reform costs in any case is very small. Aerial and earth satellite photography and computerized data processing can make land and resource surveys today relatively cheap and rapid.

In Latin America, only Chile had a cadastral and land capability survey (at least for its most important agricultural and reform region) at the inception of the agrarian reform. This survey was carried out with great urgency in the wake of a major 1960 earthquake, with considerable external assistance and unusual mobilization of internal resources (Drewes, 1970). In Colombia, at the beginning of its agrarian reform programme, a technical cadaster of limited value existed only in parts of the country's two richest agricultural and semi-urbanized areas, where the tax collection effect was greatest. In the rest of the country tax rolls were based on the declarations of the owners, with regard to size, boundaries and appraisal of the properties, and there was no land capability survey. (See CIDA, 1966, Appendix F).

Venezuela, too, as of 1971 had neither a cadaster nor land taxation, though the agrarian reform law specifically calls for the former. In Peru a beginning is being made in a cadastral survey. In Bolivia, a reasonable substitute for a cadastre is in the process of completion, at least in the settled areas, in the form of an accelerated programme for legal titling of both expropriated and non-expropriated properties. This is being carried out by multidisciplinary teams on the ground at moderate cost and partial support from USAID.

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<sup>1/</sup> Paulo Freire, Pedagogy of the Oppressed, New York, Herder and Herder, 1971.

<sup>2/</sup> Existence of a thorough and up-to-date cadaster in most of the areas concerned in Italy made it possible for the Legislature to set strict deadlines for the expropriation process, and for the Executive to adhere to them.

The cost of a modern cadastral and land capability survey, according to data provided by Drewes (Drewes, 1970, pages 4-11) is by most measures quite moderate. The total cost of the Chilean cadastral project was about five million dollars. The cost per square kilometer for photographs was about four dollars; the additional cost of mosaics was slightly over one dollar. (Mapping and appraisal were separately financed and no cost data are available.) This is equivalent to only five dollars per 100 hectares. <sup>1/</sup> Similar costs are quoted for Panama. Depending on the size distribution of properties, ease of access, etc., the cost of mapping and appraisal is estimated at between US\$6 and US\$13 per parcel (Drewes, 1970, pp. 10-11). These costs can be written off quickly if the surveys provide the basis for improved land tax collection (see Chapter VI below).

Drewes writes:

"Although this sum may appear to be high at first, it is well to point out that if conventional field methods rather than aerial photography had been used for such an operation it would have been necessary to employ an even larger staff of professional and technical personnel for a period of from 20 to 30 years, which in the end would have resulted in a cost four or five times greater than the actual cost for the project. Moreover, the value of the benefits this investment has already provided, and of those which will be forthcoming in the future, far exceeds the amount in question" (Drewes, 1970, p. 7).

Field studies, including ad hoc socio-economic surveys, project feasibility studies, etc., represent a tangible cost in some countries. In Chile for instance such studies absorbed the equivalent of about one million dollars and more than two percent of total CORA expenditures in 1967, and close to one percent during the following three years. In Colombia they accounted for five to eight percent of annual INCORA expenditures between 1963 and 1970 and were equivalent to about one million dollars in most years.

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<sup>1/</sup> Since land without agricultural value is included in this accounting, the prorated cost per hectare of usable land is somewhat greater.

## CHAPTER V

### CONSOLIDATION AND DEVELOPMENT

During the earliest phases of an agrarian reform process, improvement in the well-being of the rural poor comes largely from redistribution of the incomes of former landlords. Maintenance of these farm incomes, even in the early post-reform period, requires both that production be maintained and that the marketing system be adapted to serve the new clientele. During subsequent "consolidation" phases of the reform process, improvements in campesino incomes must come from increased output and sales. This can be achieved through more intensive use of labour and land, as well as from improved access by the reform beneficiaries to farm inputs, technology and markets.

In addition to generating higher campesino income, reforms in the agricultural sector are expected to provide greater food supplies for the cities and, by substituting food imports and increasing exportable surpluses, to improve the country's balance of payments. Output and employment in the non-agricultural sectors are stimulated by the expanded demand of reform beneficiaries for industrial products, arising from their higher incomes.

If these longer term benefits of reform programmes are to materialize, however, improved public services and investments are required in support of the reform. Reform-oriented development programmes, as seen earlier, are different in many ways from the programmes directed to the traditional agricultural clienteles. The particular character of development programming under reform conditions is apparent from the time reforms are begun. Immediate action is needed to assure that public credits and services are channelled to the beneficiaries even while the non-reform sector continues to receive a share of official support. If the redistributive goals of the reform are to be met, larger scale, long-term investments, such as those needed for new land settlement, would merit low priority at this stage.

After the reform is established as an ongoing programme, priorities among development activities might shift without damage to the reform itself. Improvement of credit and service activities for the reform beneficiaries is a continuing task, while attention can also be given to improvements in productive infrastructure. In parallel fashion, assistance to rural education and health facilities is expanded.

Most of the planning decisions peculiar to reform situations are explored in earlier chapters. In this section, comparisons are drawn among the overall consolidation strategies followed in the study countries. In addition, the special problems of credits for housing and subsistence are examined.

#### 5.1 Post-Reform Consolidation Strategies

The basic option among consolidation strategies is between "deepening" the use of existing productive resources, and "extending" the frontier of agricultural production. Most governments follow some combination of the two approaches in normal times. Production in existing areas is increased by improving extension, marketing and credit services, even while irrigation facilities are constructed and frontier land settlement programmes encouraged. Nonetheless, when a government wants to carry out an agrarian reform, the priority of resource allocation requires close reassessment.

Three of the study countries have pursued a "deepening" strategy during the early years of their reforms. Perú and Chile, and to a lesser extent Venezuela, channelled most of their

public resources available for reform consolidation into production credits, extension and marketing services for reform areas. In following this strategy, underutilized economic infrastructure, was brought into fuller use, especially irrigation facilities.

In Chile, the irrigation works on many large farms were poorly utilized, even while the road network and other infrastructure was relatively satisfactory (CIDA, 1971). In 1970, after the new reform law was approved, infrastructure investments for roads, etc. were limited to less than two percent of overall reform expenditures. Between 1965 and 1970, reform expenditures on economic and social infrastructure, including housing, accounted for less than 10 percent of reform programme spending. Meanwhile, 22 percent of public expenditures for land reform from 1964 through 1970 went to improve existing productive capacity, including on-farm irrigation.

In Peru, where there is ample potential for expansion of irrigation in the coastal valleys, public expenditures on "capital investments" between 1963 and 1970 amounted to only 13 percent of the reform-linked public expenditures.<sup>1/</sup> Projected spending for this item through the end of 1975, that is, during the massive redistribution phase of the programme, represents only two percent of the total. The bulk of public reform expenditures in the coastal irrigated estates were required for the transfer of existing assets to the new cooperatives.

Government expenditures on permanent farm improvements and operating capital, totalled over one third of reform spending in Perú (this is estimated by summing expenditures for capital investments - 13% of the total - and cash payments for expropriation, at 22.5% of the total).

Infrastructure investments in Perú are expected to take on considerably greater importance over the longer run. The FAO/IDB pre-investment plans in Perú indicate that off-farm infrastructure will represent 11 percent of overall financial requirements, while on-farm constructions, including housing, account for another one-third of development oriented investments. In one of the Sierra areas studied, investment in storage and processing facilities would constitute nearly 40 percent of total off-farm infrastructure requirements (FAO/IDB)1971, Vol. 1, Table III-13). In one coastal project (Ferrañafe) more than 40 percent of total expenditures would be represented by on-farm irrigation and drainage works which cost over ten times the amount budgeted for operating capital. In another coastal project (Virú), operating capital requires more than 10 percent of total financing. Of the two Sierra projects, one shows a 15 percent operating capital requirement, the other nearly 50 percent mostly livestock (FAO/IDB, 1971, Annex A, Table III-13).

Even though much of the reform in Venezuela took place through settlement on public land, investments in economic infrastructure (mostly roads) from 1959 through 1968 represented no more than 6 percent of reform expenditures. When social infrastructure, including a large component for rural housing, is added, the total is still less than 15 percent of all expenditures. In contrast expenditures for improving existing productive capacity, including on-farm irrigation, represented more than one fifth of the total through 1968. However, infrastructure investments are expected to absorb a much greater share of the budget in the follow-up consolidation phase being undertaken in the 1970's (See Table V-1).

The exception among the study countries to the pursuit of a "deepening" strategy for consolidation of the reform has been Colombia. Emphasis of reform-oriented development activities there is on settlement of new lands and on irrigation and drainage schemes.

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<sup>1/</sup> Expenditures classed under this heading are primarily infrastructure. The operating capital investment on the reform units is made up essentially of the compensation for livestock and equipment expropriated from the former landowners, and by credit.

About US\$66 million, or over 29 percent of Colombia's reform agency expenditures through 1970, went for items thus classified. This strategy requires heavy public expenditures for basic infrastructure - mainly dams and roads - to establish new settlements. These expenditures, it is argued, could be made for immediately productive economic and social investments in land reform projects where the basic infrastructure already exists (Domike, 1970). In Colombia, the initial capital outlays for frontier settlement per family has been nearly three times that for land reform projects (see above, Table II-3).

In Bolivia, the experience is similar. A programme for settling 5,000 families in three colonization projects in the 1960's, required that more than half of the US\$11 million to be spent on road building and maintenance (IDB, 1970, Table 5). Only minimum provisions were made, meanwhile, for marketing, extension and credit activities.

Expenditures for operating capital are most important where heavy investments are needed for livestock and machinery. Except in Perú (where the peasant economy in the Sierra is based largely on sheep raising) and in Chile (which has a tradition of family-sized dairy, sheep and pig enterprises in the South), expenditures for machinery have received more public attention than those for livestock. This often results in low reform cost effectiveness since campesinos are prevented from entering livestock production, even though demand is high and sustained, and scarce capital is substituted for abundant campesino labour without any beneficial effect on output or farm income (see Chapter IV).

This is perhaps most evident in Venezuela, where most asentamientos are virtually devoid of livestock, while abundant machinery creates idle time among the reform beneficiaries which could be employed in raising animals (Esteves 1967; Thiesenhusen et al., 1968). Cattle ranching, as in Colombia and Bolivia, is reserved for medium and large entrepreneurs and no thought is given to the possibilities for peasant participation in this industry under special tenure or management arrangements.

On-farm investments - i.e., those directly related to output and productivity of the enterprise - can be of two kinds: (a) permanent improvement, and (b) semi-permanent investments and operating capital.

Traditional financing sources for on-farm investments are savings of the farmers (internal capital), from private banking sources, and from the public sector. Investment also results, in the case of peasant farming, from the input of family labour whose value is generally not accounted for. When the government provides the financing for fixed investments, it may also carry out the construction, or it may extend medium or long-term credit to the beneficiaries - sometimes including an "advance payment" for their own labour. In the latter case, the beneficiaries generally carry the full costs of the works if repayments are in fact made. A system combining direct government financing of operating capital with a limited (or at least controllable) subsidy is illustrated by government-owned central machinery pools.

## 5.2 The Special Case of Housing

Family housing can represent a substantial cost to the public sector. In both Venezuela and Chile, about eight percent of their agrarian reform budgets was spent for this purpose. Depending on the reimbursement system, housing expenditures can also become a heavy burden for the settlers (see Adams, 1970, pp. 14-16).

The housing issue has frequently led to friction between settlers and agrarian reform officials. Where housing for tenants or permanent workers already exists on the estates, the need is limited to additional housing for reform settlers in excess of the former labour force, and to improvements in existing housing facilities. Where adequate shelter does not

exist, the government can build housing before the land is turned over to the settlers, or beneficiaries can receive credit, technical assistance and supervision for building their own houses. Campesinos - and small farmers almost everywhere - tend to be conservative in what they would spend from their own incomes for housing. Conflicts with the beneficiaries are usually minimized where they are fully consulted with respect to the design and cost before the decisions are made, and where they are directly involved in the construction. The "target" cost of housing depends not only on how well it protects against the environment, but also on the prevailing quality of other peasant housing.

In tropical climates the essential requirement is protection against sun and rain, so that settlers can build their own housing entirely. Unfortunate errors in improvised housing decisions abound. In Colombia's first reform project, in a hot, tropical area, the reform agency erected prefabricated wooden houses, donated for other purposes by the Government of Finland. Before corrections were made, these houses, designed to protect against cold, were built with the insulation installed to keep the heat from escaping.

Innovations in housing may be introduced, but experience indicates that investment features which are not customary in a given rural environment can result in substantial waste of public and/or beneficiary funds, especially when not accompanied by appropriate education campaigns.

There are other practical, if not immediately evident, issues involved. For instance, while most of Venezuela has not, tropical climate, it has an enormous public rural housing programme, not only for agrarian reform settlers but rural areas generally, as a public health measure. Between 1958 and 1968, about US\$150 million of public funds was provided for this purpose for both reform settlements and other campesinos (Pinto 1970, Table II-68). The houses are built of concrete because such construction is the only protection against the dreaded "chagas" disease - a frequently fatal heart infection carried by beetles which nest in the traditional wooden beam and thatch construction.

In general, however, there are no overriding reasons for sizeable public expenditure for construction of housing. Settlers readily accept basic shelter which simply meets their immediate needs and which can be expanded and modified according to their own tastes, savings and expenditure priorities and perhaps with their own labour. Public funds could perhaps be more usefully employed in providing public utilities, such as water, electricity and waste disposal.

### 5.3 Short-term credit

The provision of adequate short-term credit is one of the crucial elements in the consolidation of agrarian reform programmes. Public resources devoted to short-term credit have been considerable in almost all reform programmes and will continue to be so. The essential rationale is to replace the working capital of the former landlords. The low living levels of the beneficiaries inevitably mean some of the credits will be used for their subsistence.

These credits are a different kind of financial obligation than the other expenditures for agrarian reform programmes. Typically, the Treasury provides support to the capital fund of the credit agency, and whatever subsidies result from uncollectable debts, providing technical assistance and supervision, and/or below-market interest rates.

Public expenditures for short-term credit can be quantified in terms of either the net annual increment of public capital contributions and discount facilities to the intermediary institutions, or of the annual losses on capital account incurred by the credit system.

Where the data are not directly available, annual capital requirements for production credits are estimated as the difference between total credits extended and total recoveries accumulated during the given year.

In Chile, 27 percent of CORA's expenditures in 1970 were for short-term credit, making it the largest single item in the entire budget of the agency. Adding medium term credit, the net credit out flow of the agency in 1970 amounted to about US\$ 27 million, equivalent to nearly one-half of the combined CORA expenditures other than credit. <sup>1/</sup>

In Perú, 31 percent of gross 1963-70 reform programme expenditures was used for short-term credit. <sup>2/</sup> In four Perú development areas, 17 percent of programmed capital requirements are for short-term credit (FAO/IDB 1971, Vol. I, Table III-13).

The reform sheep ranches in the Peruvian Sierra illustrate the need for immediate infusions of working capital in order to prevent a drop in production. Regardless of the quality of management of the estates, landlords had been providing some circulating capital. This cannot be replaced in the short run by campesinos whose annual base income ranges from US\$100 to 200 (FAO/IDB 1971, p. xx). To tide them over, the government has made available "emergency" credit with simplified procedures for the beneficiary cooperatives as part of the redistribution process.

In Venezuela, about 70 percent of total "campesino" credit issued by the Banco Agrícola y Pecuario (BAP) in 1968 (Pinto 1970, Table II-32), was for reform settlements. The cumulative incremental resources available for agrarian reform credits (mostly short-term) in the 1959-68 decade amounted to approximately US\$ 56 million, or nine percent of Venezuelan land reform expenditures during the same period. Total credits of Bs. 516 million (in current money) were extended to campesinos, of which only 280 million had been recovered (Bs. 67 million was for prorated overhead of the BAP).

There is no general answer concerning the volume of short-term credit needed each year per beneficiary. Production capital requirements depend on a large number of variables, e.g. product lines, technical level employed, etc. The credit flow depends on such criteria as individual or group "credit worthiness" or "repayment capacity", and family consumption requirements in the case of subsistence credit, as well as on campesino disposition to use credit. Requirements also vary over time, in accordance with farmer savings capacity, and with government policies regarding self-financing versus public credit.

Recent close study of campesino credit schemes (See IDB, 1971), suggested that an absolute priority be given to short-term credits in any reform programme. If budget limits must be set, they should preferably be on infrastructure and on-farm capital. These investments can be postponed. But growth in output and family incomes will be seriously affected if the availability of "seed" capital is restricted. The limits on these credits should be set by "effective demand" rather than immediate capital availability.

However, a number of recent studies also show that the philosophy and administration of agrarian reform credit also need to be re-examined if public resources are to be used effectively and efficiently (see IDB 1971, Ribeiro 1970, Rojas/Torres 1971, Thiesenhusen et al. 1968 and Mathieson/Shearer 1967). Experience to date in both Venezuela and Chile shows

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<sup>1/</sup> These data for Chile are only approximate, since the Government had not as yet been able to account precisely for the status of the credit accounts of most asentamientos.

<sup>2/</sup> No data for credit recoveries were obtained for Perú.

that confusion exists between use of credits for rural welfare and for production credit. Reform agencies are not adequately aware of the need for putting campesino credit on a commercial basis. This has led to sizeable losses for the credit agencies without necessarily resolving the problem of creating viable campesino farm units.

Where the reform strategy calls for initial public support for beneficiary incomes and where the fiscal situation permits such outlays, the purpose would likely be better served if the payments were not made in the guise of production credit. There is no guarantee that they reach the neediest in this manner, and campesinos who never had access to institutional credit do not necessarily consider their financial obligations seriously.

The losses entailed by credit programmes are not confined to noncollection of debts. As the cases of both Chile and Venezuela demonstrate, the real losses represented by highly concessional and even negative interest rates can also be substantial, especially during periods of rapid inflation as in Chile. If credit programmes are designed for financing farm operating rather than maintenance, the interest on credit represents such a small proportion of total operating costs that campesinos can readily pay the going rate for institutional loans (see IDB, 1971).

The public money saved may be more efficiently used in providing land reform beneficiaries with the supporting services (extension, marketing, training) which will help guarantee a more effective use of the credit and thus, inter alia, greater productive capacity.

Table V-1

VENEZUELA: ON-FARM IMPROVEMENTS AND MARKETING INFRASTRUCTURE  
IN 109 EXISTING AGRARIAN REFORM SETTLEMENTS PLANNED UNDER PRIDA  
PROGRAMME 1/

Investment Category	Costs (US\$ 1,000)	Proportion of total (%)
Land Preparation	7,680	29.1
Drainage	6,550	24.8
Wells and pumps	2,505	9.5
Internal road construction	5,150	19.5
Transit warehouses	610	2.3
Grain-processing plants	1,600	6.1
Housing	850	3.2
Domestic water systems	835	3.1
Studies and projects	630	2.4
Total	26,410	100.0

1/ Does not include \$ 22.8 million investment planned in other irrigation works, nor \$ 70 millions for roads, warehouses, research, etc. in the areas covered by sub-project.

Source: PRIDA estimates (1970).

## CHAPTER VI

### MOBILIZING DOMESTIC RESOURCES FOR AGRARIAN REFORM

For the execution of large scale, integrated, redistributive agrarian reform programmes, the government provides not only the legal framework but also the great bulk of needed financing. The aim of this chapter is to review the experiences of selected countries of the region with financing from public - and other - sources, in search of ways of improving such financing.

In analyzing the past and potential sources of financing for reform programmes, attention is centered both on the public entity charged with carrying out the reform, and the Treasury which is responsible for budget management. The problem of agrarian reform financing, as seen by a reform agency administrator, is direct and immediate. From his point of view, the best of all possibilities would be to receive his requested financing from a single reliable source with ample lead-time, and with wide flexibility in its use and management. Since few of these conditions are usually met, he inevitably faces financial difficulties. Seen by the Treasury, i.e. the fiscal budget manager, the reform programme presents difficult financial problems, even where the agrarian reform has a high official priority. Budget managers have the complex and usually thankless task of reconciling the innumerable competing demands for the always limited official resources. Since agriculture has historically received a relatively small part of the fiscal budget in Latin America, reform programmes, as new claimants on the budget, are forced to compete with the traditional rural and urban clientele.

Recent experiences of agrarian reform managers in capturing resources for their programmes are reviewed here, particularly in the four study countries of Venezuela, Chile, Colombia, and Perú. The attention is centered first on the mobilization of domestic financial (and non-financial) resources from fiscal appropriations, official borrowings, <sup>1/</sup> charges to, or contributions by, reform beneficiaries, and external borrowings. The availability and limitations of these sources - including opportunities for improving the rural tax structure - are explored in this chapter. External financing from official sources is reviewed in the final chapter.

#### 6.1 Fiscal Appropriations and Domestic Borrowings

The agriculture sector has seldom enjoyed priority access to the fiscal resources of Latin America. The rural masses as a group have been even less privileged. Because reform activities require a shift in historic priorities, it is useful to note the position from which they begin their battle for the budget.

In none of the Latin American countries do central government expenditures for agriculture reach 10 percent of national government budgets (See Table VI-1). In comparison, for half the South American countries, as well as in Central America and for Latin America as a whole, defense expenditures exceed 10 percent; in two countries defense represents more than 15 percent of the budgets. According to the best estimates available, countries of the region spend twice as much on defense as on agriculture. <sup>2/</sup>

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<sup>1/</sup> Internal borrowings using land bonds are examined above in Chapter III.

<sup>2/</sup> These data do not reflect all public expenditures, either total or for agriculture, in all the countries. Expenditures and investments of so-called decentralized agencies are often not included in central government budgets; moreover, state or departmental governments in some countries - notably Brazil, but also, for instance, Mexico and Colombia - are responsible for sizeable public expenditures, especially in agricultural services and rural community infrastructure.

Table VI-1

RELATION OF CENTRAL GOVERNMENT EXPENDITURES (CGE) TO GROSS NATIONAL  
PRODUCT (GNP) AND OF DEFENSE AND AGRICULTURE PROGRAMME EXPENDITURES  
TO CENTRAL GOVERNMENT EXPENDITURES, LATIN AMERICA, 1969

	Proportion, Central Government Expenditures (CGE) to Gross National Product (%)	Proportion Defence Budget to CGE (%)	Proportion Agriculture Budget to CGE (%)
Latin America (18 countries)	17.0	10.8	5.5
Chile	15.5	7.3	7.9
Venezuela	26.2	7.6	8.8
Perú	17.3	19.5	6.4
Colombia	12.2	10.5	8.2
Panama	21.3	0.7	5.2
Bolivia	19.8	8.8	1.4
Mexico	12.8	5.4	8.5
Brazil	15.5	16.2	3.0
Argentina	19.2	11.4	1.4
Uruguay	14.8	12.9	4.4
Ecuador a/	22.0	7.8	5.5
Dominican Republic	18.2	13.0	7.4
Central America (5 countries)	13.7	10.7	6.7

a/ 1968.

Source: Compiled from USAID, Summary Economic and Social Indicators 18 Latin American Countries: 1960-1970, April 1971, pp. 34, 42 and 46.

The poorest Latin American countries spend the least on rural development. The countries with the largest rural populations have the smallest per capita government investment in their development. Bolivia is the extreme example. <sup>1/</sup> Venezuela, at the other end of the scale, has a small rural population and high level of expenditures (Table VI-2).

However, those countries in which large-scale, reform based development has been undertaken have begun to shift budget priorities to agriculture. In Colombia, central government expenditures for agriculture more than doubled in real terms between 1962 and 1970 (Table VI-3). In all such countries with serious reform programmes (except Bolivia) about eight percent of their budgets was spent on agriculture in 1969.

In both Chile and Perú, public financing for the agriculture sector, in particular for reform oriented activities, have begun to increase rapidly. Indeed, central government expenditures on agriculture in Chile have been rising both absolutely and relatively in recent years (Table VI-4). In Perú, total central government expenditures (in current money) rose almost 40 percent between 1966 and 1969 (Table VI-5). For 1971-72 expenditures were projected at nearly five times the 1966 level. Even after allowance for inflation, this means a tripling of the agricultural sector budget. The proportion of the total budget going to agriculture doubled between 1966 and 1969, and was programmed to double again in 1970-71 over the 1969 level.

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<sup>1/</sup> Yet, Bolivia is also an example of understatement of public expenditures on agriculture in the Treasury budget. Extra-budgetary allocations in 1971 sum to more than four times the \$8 million government budget for the sector.

VENEZUELA: CENTRAL GOVERNMENT BUDGET AND PUBLIC Table VI-2  
FINANCIAL RESOURCES FOR AGRICULTURAL SECTOR, TOTAL AGRARIAN REFORM  
AND AGRARIAN REFORM INSTITUTE (IAN), 1959/60 TO 1968

<u>Year</u>	<u>Total Availabilities or Expenditures</u>			<u>Total Central Government Budget</u>
	<u>IAN</u>	<u>Agrarian Reform</u>	<u>Agricultural Sector</u>	
(Million current Bolivares)				
1959/60	104	132	732	6,716
1960/61	242	277	914	7,115
1961 a/	82	97	413	3,187
1962	189	258	1,025	6,553
1963	111	189	989	6,633
1964	122	231	1,100	7,202
1965	213	324	1,371	7,587
1966	227	353	1,565	8,019
1967	230	347	1,684	8,754
1968	245	352	1,722	9,278
Proportion of Total Budget (percent)				
1959/60	1.6	2.0	10.9	100.0
1960/61	3.4	3.9	12.8	100.0
1961	2.6	3.0	13.0	100.0
1962	2.9	3.9	15.6	100.0
1963	1.7	2.8	14.9	100.0
1964	1.7	3.2	15.3	100.0
1965	2.8	4.3	18.1	100.0
1966	2.8	4.4	19.5	100.0
1967	2.6	4.0	19.2	100.0
1968	2.6	3.8	18.6	100.0

a/ Second semester.

Source: For expenditures of IAN, Agricultural Sector and Total Central Government Budget G. Pinto-Cohen et. al., "Los Recursos financieros públicos para el sector agrícola-rural de Venezuela 1936/37 a 1968," CENDES, Caracas, September 1970. For Agrarian Reform, Gustavo Pinto-Cohen, "Recursos Financieros utilizados y costos de la Reforma Agraria Venezolana," unpublished study. Provisional data, subject to revision.

COLOMBIA: CENTRAL GOVERNMENT BUDGET FOR AGRARIAN  
REFORM (INCORA), AGRICULTURAL SECTOR AND TOTAL GOVERNMENT,  
1962 to 1970

Table VI-3

Year	Budgeted Expenditures		
	INCORA	Total Agricultural Sector	Total Central Government
(Million US Dollars equivalent)			
1962	4.6	32.7	514.5
1963	8.4	37.4	485.3
1964	15.3	52.0	482.2
1965	19.4	41.2	453.7
1966	19.8	61.7	529.2
1967	21.8	75.2	579.5
1968	26.4	89.4	662.3
1969	25.7	62.0	754.5
1970	22.7	71.6 a/	806.0 a/
Proportion of Total Budget			
1962	0.9	6.4	100
1963	1.7	7.7	100
1964	3.2	10.8	100
1965	4.3	9.1	100
1966	3.7	11.7	100
1967	3.8	13.0	100
1968	4.0	13.5	100
1969	3.4	8.2	100
1970	2.8	8.9	100

a/ Preliminary.

Sources: Central Government and Agricultural Sector budget from USAID, Economic and Social Indicators in 18 Latin American Countries, 1960-1970, pp. 35 and 47. (Constant 1969 prices). INCORA budget from Agency's unpublished financial statements; conversion to US\$ at 20 pesos of 1970 per dollar. Does not include proceeds of bond issues, other borrowing or self-financing.

Table VI-4

CHILE. CENTRAL GOVERNMENT BUDGET ALLOCATIONS TO AGRICULTURAL SECTOR,  
MINISTRY OF AGRICULTURE AND AGRARIAN REFORM CORPORATION (CORA), 1964 TO 69 <sup>1/</sup>

Year	Budgeted Expenditures				Total, Central Government
	CORA	Ministry of Agriculture	Total Agriculture Sector	Other Sectors	
(Million Escudos, Current)					
1964	13.0	63.9	117.6	2,260.7	2,378.3
1965	34.4	127.2	231.1	3,760.6	3,991.7
1966	77.4	226.9	337.9	5,355.4	5,693.3
1967	134.4	323.8	446.6	6,437.7	6,884.3
1968	181.4	439.2	635.8	9,056.6	9,692.4
1969	312.3	666.1	887.2	12,222.5	13,109.7
Proportion of Total Budget					
(Percent)					
1964	0.5	2.7	4.9	95.1	100.0
1965	0.9	3.2	5.8	94.2	100.0
1966	1.4	3.9	5.9	94.1	100.0
1967	2.0	4.7	6.5	93.5	100.0
1968	1.9	4.5	6.6	93.4	100.0
1969	2.4	5.1	6.8	93.2	100.0

<sup>1/</sup> Does not include sources of sector financing, such as borrowing, other than Central Government budget.

Source: CORA, Reforma Agraria Chilena, 1965-1970, p. 75.

Table VI-5

PERU: CENTRAL GOVERNMENT BUDGET FOR AGRARIAN REFORM,

AGRICULTURAL SECTOR AND TOTAL GOVERNMENT: 1966 AND 1969

ACTUAL EXPENDITURE, 1971-72 BUDGETED EXPENDITURE

<u>Year</u>	<u>Agrarian Reform Budget</u>		<u>Agricultural Sector Budget</u>		<u>Total Government Sector Budget</u>	
	<u>Amount (million Soles)</u>	<u>Proportion of Total (%)</u>	<u>Amount (million Soles)</u>	<u>Proportion of Total (%)</u>	<u>Amount (million Soles)</u>	<u>Proportion of Total (%)</u>
1966 Expenditure	197	0.8	360	1.4	25,427	100.0
1969 Expenditure	556	1.6	1.013	2.9	34.732	100.0
1971/72 Biennial Budget	3.170	2.7	7.491	6.5	115.605	100.0

Sources: 1966 and 1969: USAID Economic Data Book, Washington D.C.; CIAP "El Esfuerzo Interno y las Necesidades del Financiamiento Externo para el Desarrollo del Perú", Document 494, 5 April 1971. 1971-72: CIAP, op. cit., and FAO/IDB Cooperative Programme, Plan de Desarrollo Agropecuario y Comercialización en Areas de Reforma Agraria, Washington D.C., 1971 (Annex A, Table 12, Vol. I).

The early years of reform programmes rely fully on Treasury funding for their operations. Subsequently, the proportion of "self-financing" by the reform agencies tends to rise, as it has in Colombia, Peru and Chile. These programmes have all completed about ten years of life. In none, however, has the direct collections, fees or charges paid by beneficiaries been a significant source of programme financing.

The financing experiences in Chile, Colombia and Venezuela all demonstrate the overwhelming importance of Central government appropriations and, to a lesser degree, internal borrowings for reform activity financing in the initial years of reform, when land distribution and administration expenditures are largest. For Chile, 68 percent of the CORA budgets for the 1965-70 period was from annual fiscal appropriations, and another 30 percent came from internal borrowings, exclusive of land bonds (Table VI-6). In Venezuela, some 83 percent of the overall reform budget (including expenditures by all government agencies for reform related activities) was funded by direct Treasury appropriations. Only one-tenth of the financing was from internal borrowings (Table VI-8).

In Colombia, the relative importance of various sources of financing for the reform agency (INCORA) is similar to that of other countries. (Table VI-9). Colombian law requires the legislature to provide specified amounts to agrarian reforms from fiscal budgets. Its 1961 agrarian reform law (Law 135) obliged the Colombian Congress and Executive to earmark for the programme 100 million pesos per year, later increased to 300 million pesos. Since each successive legislature is constitutionally sovereign, actual appropriations did not comply even with the original mandate until 1967, by which time the real value of the peso had declined nearly 50 percent from the 1961 level.

Table VI-6

CHILE: SOURCES OF CASH BUDGET OF AGRARIAN REFORM AGENCY (CORA)

Source of Financing	1970 AND TOTAL 1965-70		1965-1970	
	1970		1965-1970	
	Amount (Million Escudos of 1970)	Proportion (%)	Amount (Million Escudos of 1970)	Proportion (%)
Treasury				
Current Budget	142.2	16.2	-	-
Capital Budget	314.6	36.0	-	-
Sub total	456.8	52.2	1,853.9	68.4
Borrowing				
Internal Sources	357.6	41.0	-	-
External Sources	47.9	5.5	-	-
Sub total	405.5	46.5	801.5	29.6
Agency Self Financing				
Sales of goods, services and assets	6.7	0.8	-	-
Investment income	0.5	0.1	-	-
Other income and fees	3.2	0.4	-	-
Sub total	10.4	1.3	54.1	2.0
<u>Total: Million Escudos of</u>				
1970	<u>872.7</u>	<u>100.0</u>	<u>2,709.5</u>	<u>100.0</u>
Million US dollars (at E <sup>o</sup> 11 per US\$)	<u>79.3</u>		<u>246.3</u>	
Credit Recoveries <sup>1/</sup>	199.0		561.7	

<sup>1/</sup> Million 1970 Escudos. Recoveries include principal and interest.

Source: Annual Financial Statements, Corporación de Reforma Agraria, Santiago, 1965-1970. (See Annex Table 10)

Table VI-7

VENEZUELA: SOURCES OF CASH BUDGET OF AGRARIAN REFORM AGENCY (IAN)

1968 and 1959-60 to 1968

Source of Financing	1968		1959-60 to 1968	
	Amount (Million Bolivares)	Proportion %	Amount (Million Bolivares % 1968)	Proportion %
Treasury	183.9	69.3	1632.2	78.5
Borrowing				
Internal <u>1/</u>	54.4	20.5	313.0	15.0
External	22.8	8.6	45.5	2.2
Sub total	<u>77.2</u>	<u>29.1</u>	358.5	17.2
Agency Self Financing				
Sales of goods, assets and services	3.5	1.3	34.2	1.6
Other Income <u>2/</u>	0.9	0.3	56.2	2.7
<u>Total</u> , Million Bolivares of 1968	<u>265.5</u>	<u>100.0</u>	<u>2081.1</u>	<u>100.0</u>
Million US dollars (at B. 4.5 per US\$)	<u>59.0</u>		<u>462.4</u>	

1/ Proceeds of bond sales.

2/ Mostly transfers.

Source: Gustavo Pinto-Cohen, Recursos Financieros Utilizados y Costos de la Reforma Agraria Venezolana. Unpublished study, subject to revision. (See Annex Table 14 )

Table VI-8

VENEZUELA: SOURCES OF CASH BUDGETS FOR ALL GOVERNMENT AGENCY  
AGRARIAN REFORM PROGRAMMES, 1968 and TOTAL 1959-60 to 1968

Source of Financing	1968		1959-60 to 1968	
	Amount (Million Bolivares)	Proportion (%)	Amount (Million Bolivares of 1968)	Proportion (%)
Treasury	287.4	77.2	2437.6	83.0
Borrowing				
Internal <sup>1/</sup>	54.4	14.6	313.0	10.7
External	<u>26.6</u>	<u>7.1</u>	<u>94.0</u>	<u>3.2</u>
Sub total	81.0	21.7	407.0	13.9
Agency Self Financing				
Sales of goods, assets and services	3.5	0.9	34.3	1.2
Other Income <sup>2/</sup>	0.9	0.2	56.2	1.9
<u>Total, Million Bolivares of 1968</u>	<u>372.8</u>	<u>100.0</u>	<u>2935.1</u>	<u>100.0</u>
Million US dollars (at B. 4.5 per US\$)	<u>82.8</u>		<u>652.2</u>	
Credit Recoveries <sup>3/</sup>	61.3		293.0	

<sup>1/</sup> Proceeds of bond sales.

<sup>2/</sup> Mostly transfers.

<sup>3/</sup> Million 1968 Bolivares. Recoveries include principal and interest.

Source: Gustavo Pinto-Cohen, Recursos Financieros Utilizados y Costos de la Reforma Agraria Venezolana. Unpublished study, subject to revision.  
(See Annex Table 16 ).

Table VI-9

COLOMBIA: SOURCES OF CASH BUDGET OF AGRARIAN REFORM AGENCY (INCORA)

1970 AND TOTAL 1962-70

Source of Financing	1970		1962-70	
	Amount (Million Pesos of 1970)	Proportion (%)	Amount (Million Pesos of 1970)	Proportion (%)
Treasury				
Current Budget	385.5	55.8	-	-
Bond amortization and interest	104.7	15.1	-	-
Sub total	490.2	70.9	2,742.7	75.6
Borrowing				
Internal sources	11.4 <sup>1/</sup>	1.6	-	-
Sales of agrarian bonds	70.0 <sup>1/</sup>	10.1	-	-
External sources	98.7	14.3	-	-
Sub total	180.1	26.0	788.3	21.7
Agency Self Financing				
Sales of goods, assets and services.	21.6	3.1	97.3	2.7
<u>Total: Million Pesos of 1970</u>	<u>691.9</u>	<u>100.0</u>	<u>3,628.3</u>	<u>100.0</u>
Million US dollars (at 20 pesos per US\$)	<u>34.6</u>		<u>181.4</u>	
Credit Recoveries <sup>2/</sup>	219.6		1,069.7	

<sup>1/</sup>No sales in prior years.

<sup>2/</sup>Million 1970 Pesos. Recoveries include principal, interest and rediscounts.

Source: Financial Statement, Intituto Colombiano de Reforma Agraria, Bogotá, April 1971. (unpublished). (See Annex Table 12)

The 1965 agrarian reform law in Peru also requires earmarking of three percent of the government budget for agrarian reform, but sets no minimum amount. However, this proportion was not reached until 1969; it was being exceeded in 1971-72.

In spite of official priorities and legislative obligations, it is apparent that reform agencies have had to compete vigorously for their shares of government appropriations. The effectiveness of their efforts depends not only on the nominal priority assigned by the government but also upon the relative impact of reform financial requirements on the overall government budget, and the extent to which the government is prepared to increase the public debt through the issuance of agrarian debt instruments. <sup>1/</sup>

Specific debt instruments have been issued only for landowner compensation, with the exceptions of Venezuela and Colombia. The reform financing mechanism in Colombia has several noteworthy characteristics. Almost the entire landowner compensation is financed from current budgets during the first five to seven years following land acquisition. In contrast with Peru and Chile, where emphasis is on property redistribution, Colombia has not obliged ex-landowners to receive land bonds in compensation. Initial payments are in cash; the bulk of payments to landowners are in the form of medium term government promissory notes (pagarés) providing for equal annual cash disbursements during five or seven years. To help insulate INCORA's resources from the annual budget process, the agrarian reform law obliges the Treasury and Congress to cover a part of the current budget needs by issuing agrarian reform bonds. Thus, a sizeable portion of the central government contribution to INCORA's revenues each year is represented by agrarian bond amortization and interest. The annual bond issues are deposited in the Banco de la República to the account of INCORA, where they become part of the latter's assets. The debt service on bonds that have not been used to compensate landowners for expropriated land accrues to INCORA as, in effect, a central government cash contribution. These funds were as important as direct budget appropriations in several of the early years of the reform programme, and even in 1970 they constituted over 20 percent total central government contributions to INCORA.

In Venezuela, on the other hand, all cash expenditures of the reform agency, IAN, were until recently funded from the current government budget. In 1970, a small agrarian bond issue (Class C) at a competitive interest rate was successfully marketed. The proceeds were earmarked specifically for reform-related economic development investments with a positive rate of return.

In Chile, where reform expenditures have risen even faster than the persistent inflation, the proportion of funds provided from the current budget declined from over 95 percent in 1965 to about one-half in 1970. The difference was made up by borrowing from various official banks, in part for reinforcing the credit programme and in part against future budget appropriations. <sup>2/</sup> The effect of this borrowing was already evident in 1970, when over 13 percent of CORA's expenditures were earmarked for "loan amortization".

Reform agency financial statements in countries undertaking large-scale agrarian reform typically include funds for operating credit for reform beneficiaries. This is the practice regardless of whether the reform credit activities are entrusted to the reform agency - as in Chile through 1971 - or to specialized credit institutions - as in Peru and Venezuela. In all three countries the funding for such credits has been provided by Treasury appropriations (See Chapter V).

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<sup>1/</sup> No attempt is made to discuss the governments' basic fiscal policies, i.e. whether the budget funds do, in fact, or should originate from current revenues or from deficit financing.

<sup>2/</sup> That political decisiveness can help overcome temporary fiscal structures was also shown in Italy in 1949/50. There, the more dynamic regional reform agencies discounted with the (largely government-owned) banking system sizeable amounts of funds needed to start their operations in advance of budgetary allocations.

In addition to increases in government appropriations for direct operations of reform agencies, opportunities exist for redirecting ongoing government programmes to favour reform activities. Priorities for road building, health, education, electricity and other services can be adjusted to fit the needs of the reforms. Credit financing by semi-public agencies and banks can be rechannelled. These sources of support for infrastructure and credit creation are commonly ignored or meet serious opposition. The possibilities nonetheless deserve careful attention.

Some of the possibilities for redirecting existing agricultural and service programmes to the reform clientele are discussed in earlier chapters. In most cases, it is necessary to improve substantially coordination of public programmes in rural areas if they are to serve the needs of agrarian reform. In the initial stages of the reform consolidation, this problem is probably more crucial than gaining greater budgets for public works in those areas. (See FAO/IDB, 1971, Vol. I).

These objectives are best served in the framework of a regional, integral development approach to agrarian reform (See Chapter IV). Such a strategy not only provides the administrative structure for programme coordination at the field level, it obliges the government departments concerned to make the required budget and personal adjustments.

The diversion of public works funds from urban to rural areas, if sufficiently massive, can also help decelerate the rate of rural-urban migration. By creating employment opportunities in situ for the rural population, at least some of the incentive is reduced for the rural poor to search for work in the cities. To some extent, this also reduces the marginal demand for urban infrastructure.

Large-scale rural reform programmes have obliged some governments to make ad hoc reallocations of public investment priorities. This appears to have taken place particularly in Chile and Venezuela. The newly instituted PRIDA programme in Venezuela is an explicit effort to combine agrarian reform with a massive, planned redirection of public works and services to rural areas.

In some countries, it may be possible to mobilize private financial resources in support of reform-related rural development. However, private capital cannot be counted upon to assure implementation of a programme whose purpose is to change the economic and social power structured of the sector. Investors can only be attracted directly into reform-related activities if they are sufficiently profitable. Furthermore, experience in Mexico and other countries with similar conditions indicates that control of marketing, processing and supply channels by non-campesino interests - whether rural or urban based - can result in a regressive income distribution pattern (Stavenhagen 1970, p. 268-270). Unless the reform-created, campesino-oriented market agencies are strong enough to bargain effectively with established private traders, such results are to be expected. There are indirect ways of mobilizing private capital for publicly assisted, reform-related rural development. Several countries, including Colombia and Brazil, oblige banks to earmark a minimum proportion of their reserves or lending for agricultural credit. If the regulations were so designed, conditions and placement of such funds might be governed by reform agencies. Alternatively, the banks might be obliged to purchase capital stock in the official credit agency. Bonds for reform-related investments could be issued, as has been done in Venezuela, and publicly marketed.

## 6.2 Mobilizing Resources from Reform Beneficiaries

In a number of countries of Latin America, the beneficiaries of reform programmes are expected to pay a high proportion of the costs of land and other government expenditures, particularly of an investment nature. As noted by the United Nations, "In many countries,

government look in the first place to the new owner to finance the compensation payments through his purchase installments for the land" (United Nations, 1966, p. 113). On the other hand, under some reforms, settlers are not obliged to pay for reform-associated public outlays except those advanced in the form of production credits.

To what extent agrarian reform beneficiaries are obliged to finance reform activities is clearly a political as well as an economic decision. Political considerations are perhaps more important with respect to the payments tied to reimbursement for land as such. Questions of economic effect arise regarding the impact of payments on beneficiary output, incomes, investment and consumption.

Land reform settlers can be obliged to finance the reform effort through direct payments for services and benefits received (including credit) and/or through some form of taxation. They can also be induced to help reduce the cost of reform consolidation by voluntary, or at least poorly compensated, labour. The selection of methods depends largely on the nature of the country's rural tax system, the encouragement given peasant participation in the reform programme, and the type of tenure and production organization achieved under the reform.

Since the issue constantly arises of whether beneficiaries should be obliged to carry any of the direct reform related financing needs, a brief summary of the conflict is useful. The argument against beneficiary payments rests on grounds of equity: the former landowners, through long-term land bonds, and the government, deserve the burden of transforming the inequitable rural power structure. Various arguments, however, favour beneficiary financial contributions. Those who oppose the reforms, or at least its redistributive aspects, tend to favour complete reimbursement by beneficiaries of all costs of land and its distribution. However, arguments favouring beneficiary payments can be consistent with the redistributive reform goals. The case is made that, where the repayments can be channelled into an expansion of the reform itself, they reduce the income disparities between early beneficiaries of the reform programmes and those who "wait their turn". This argument holds particularly where there is an undoubted official commitment to the reform, where the payments are utilized for reform programmes in the same regions, and the landowners are carrying their commensurate part of the financial burden.

Even where this last argument is accepted, no simple guidelines are available to help agency administrators set beneficiary payment levels. The conventional banking criteria for setting payments are certainly inappropriate, as are those followed for routine real state transactions. Agricultural credit repayments guidelines, based on projected earnings and producers' cash flows, are also of limited use for establishing beneficiary payments for overall programme costs.

The redistribution objectives of the reform itself can be invoked to set upper and, perhaps, lower limits to the payment levels. Payments would be placed at zero or extremely low levels until beneficiaries' incomes have risen above subsistence. Subsequently, payments could be set higher, with assurance that beneficiary funds would be used to expand and deepen the reform itself - and not simply to pay off bonds or relieve fiscal pressures. Payment schedules need not be rigid either in time or with respect to different areas. Where the income base is better, reform beneficiaries could pay a greater proportion of their farm incomes than beneficiaries in poor resource areas. The abortive attempt to establish a rural land tax in Bolivia in 1967 contained elements of this approach (Gallo Mendoza, 1967).

From a fiscal point of view, it makes a great deal of difference not only whether beneficiaries make payments, but also how these payments are timed with respect to the public expenditures. The importance of timing is seen in two countries undertaking massive reforms, Peru and Chile. In both countries the government enjoys ample legal discretion to determine repayment levels and terms (Table VI-9). In Peru, estimates assuming full

repayment of public expenditures by the settlers indicate that the Government would show a net financial gain over a 35-year period. Even if only one-half of the Government's outlays were recovered, the net financial outlay by the Treasury over this period would be little more than 2,000 million soles of 1970 (about US\$45 million). This is equivalent to no more than ten percent of gross expenditures planned for the 1971-75 crash phase. But the temporary deficit during this initial phase would be heavy.

Table VI-10

LEGAL CONDITIONS GOVERNING  
BENEFICIARY PAYMENTS UNDER AGRARIAN REFORM PROGRAMS  
IN CHILE, COLOMBIA, PERU AND VENEZUELA

CHILE

Debt level: Established administratively  
Amortization period: Up to 30 years from date of definitive land assignment, i.e. 3 to 5 years after initial settlement.  
Interest: 3% p.a. on annual installments, with penalty of 3% in case of delinquency.  
Grace period: 3 years grace on interest only.  
Inflation Adjustment: 70% of annual installment is adjusted according to increase in consumer price index. Interest is charged on half of adjustment.

COLOMBIA

Debt level: Established by law as total landowner compensation plus value of all INCORA investments in land parcel.  
Amortization period: Up to 15 years  
Interest: 4% p.a. on unpaid balance  
Grace period: Principal and half of interest for 2 years.

PERU

Debt level: Established administratively according to repayment capacity estimate of individual unit.  
Amortization period: 20 years.  
Interest: Established administratively  
Grace period: Established administratively up to 5 years.

VENEZUELA

No provisions in law or regulations for charging debts or repayment requirements on land or improvements.

A more recent study for Chile, <sup>1/</sup> projects a cumulative public sector deficit of only 270 million escudos of 1962 <sup>2/</sup> (about US\$170 million) through the year 2000, based on an accelerated reform implementation, and assuming full repayment by beneficiaries of all charges. But the projected annual deficit in 1971-75 would run around 50 million of 1962 escudos (about US\$30 million).

Both projections also point up the income redistribution effect of the forms of payment for the land that the laws establish. In Peru, landowner payments are stretched over 30 years. Even without allowance for inflation, the real value of the bond service will be only one-third of the nominal cost, assuming that the money might have been earning nine percent elsewhere. In Chile, assuming an eight percent discount rate and 20 percent annual inflation, the landowners would receive 55 percent of the nominal land values. If beneficiaries pay the full face value of the land bonds over 30 years they would pay 27 percent of the original land costs, while the public sector would absorb the remaining 28 percent. <sup>3/</sup>

In Bolivia, no payments for either land or other outlays were made by the reform beneficiaries. Of course, no payments were made by the government for the land, and other expenditures in favour of the campesinos have been minimal. Venezuela does not provide for any direct payments by reform beneficiaries. The country's unusual fiscal solvency permitted generosity towards land reform settlers, but peasant unions have also been an important political force with which the government had to deal.

Of the four countries studied in depth, Colombia has the most burdensome settler repayment requirements. (At the same time, Colombia has been among the most generous to expropriated landowners). The law requires that settlers pay the entire price of the land plus the full value of all reform agency investments in the parcel to which they receive title.

In Chile and Peru the government is responsible for setting the levels of payments by reform beneficiaries but the formulas have not yet been fully developed in either country. In Peru, the legislative limit establishes only the maximum amortization and grace periods. The Chilean law prescribes interest and partial inflation adjustment as well. <sup>4/</sup>

From the planning point of view neither fiscal requirement nor political pressure is appropriate as the sole criterion for determining beneficiary payments. Like taxation, payments ideally are governed by the economic capacity of the settlers and the development objectives and strategies of the Government. If a country is at a stage of development where the agricultural sector can be at least self-financing, the government may try to cover all or part of its investments in rural development directly from the beneficiaries. On the

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<sup>1/</sup> A draft study by the Joint ECLA/FAO Agriculture Division.

<sup>2/</sup> The 1962 exchange rate for invisible transactions (1.6 escudos per dollar) was used for convenience in conversion.

<sup>3/</sup> Chilean land bonds have partial (70%) readjustment clauses for inflation, and beneficiary payments are likewise adjustable. The eight percent discount rate, in real terms, is the highest rate available on government bonds with 100% inflation adjustment clauses (Bonos de Reconstrucción).

<sup>4/</sup> For comparative purposes, it may be noted that the formula established by the 1950 legislation in Italy resulted in beneficiary repayments equivalent to about 40 percent of the total cost of land and on-farm investments, including housing. Italy had serious fiscal problems at that time, but the political parties were vying for the peasant vote.

other hand, if resource transfer from agriculture is no longer of real importance to the economy, while raising rural incomes to stimulate demand is, there may be an economic reason for minimizing or eliminating payments.

The anticipated effects of payments on farm output and rural incomes must also be considered. There is no conclusive evidence of the effect of the level of fees or payments on the economic behaviour of peasants nor the secondary impact of distinct payment levels on marketed surplus or tax revenues. Clearly, further examination of these relationships is needed.

Ad hoc grace periods or moratoria might be granted in case of crop failures or other externally caused problems. Selective lowering of payments is also suggested in the United Nations report (1970, p. 113) as an incentive for campesino on-farm investment. Heavy commitments of farm income for payments will result in leaving the campesino little or no margin for investment. However, if there is little tradition of investment, it may be better to charge heavily but give refunds when productive investment takes place.

Repayment schedules have often been based on flat rate amortization of the sum of expenditures for landowner compensation and capital investments. Current expenditures are usually not reimbursable, and external infrastructure is usually not included. Credits for production and subsistence are accounted and reimbursed separately. But thought might be given to the establishing of a single amortization schedule, including all changes for capital and production credits. Repayments could then be sought, after an adequate grace period, on a single schedule. Or, alternatively, amortization of the various components could be set in accordance with the economic life of each.

Beneficiary payments for land are not the only way to reduce public appropriation requirements for agrarian reform. Other, less conventional mechanisms, based on collective settlements and on cooperative supply and marketing organizations may be particularly applicable to a reformed agriculture. In collectively organized production units, where the peasant organization is jointly responsible and accountable for the disposition of its profits, provision can be made for earmarking specified shares of the income for local infrastructure investments and community service. This has been proposed in the case of the new Agrarian Reform Centers being created in Chile. Earmarking of portions of profits at the marketing level can also be done without necessarily manipulating prices.

There are other, as yet untried, approaches. One is suggested by Vanek (1971) for a "participatory" economy; all land and some or all of the capital, including circulating capital, would in effect be borrowed by the production units from the State. The latter would set rents and interest rates in accordance with prevailing social and economic policy requirements, which would at all times be designed to prevent the accumulation of "excess profits" in any particular sector or enterprise.

Capital formation can also take place if rural savings potential and previously unemployed or underemployed campesino labour are effectively mobilized. Greater campesino involvement and participation in the reform process are also served by such measures.

The extent and purposes of such mobilization are principally determined by the prevailing forms of the tenure and the political, social and economic organization of the settlers. Examples are cited of Chinese communes and Cuban State farms where peasant labour can be readily mobilized for creation of new capital, by digging drainage ditches, planting trees, or building terraces, roads or dams. The "cost efficiency" of such labour mobilization is relatively unimportant as long as the opportunity cost of the labour is at or near zero.

The collective employment of low-paid or unpaid labour for both infrastructure and on-farm capital creation requires substantial organizational capability. Experience shows that this is best obtained by identifying and training campesino leaders rather than bringing in outsiders to assume charge.

The willingness of members of the community to contribute their labour at less than "market" wages depends on the type of socio-economic organization created by the reform. If direct reform benefits are limited to a small group in the community, as in Colombia and Venezuela, the remaining campesinos, especially the landless poor, are unlikely to volunteer for unpaid labour which ostensibly benefits a community in which they have no real stake. On the other hand, the direct beneficiaries are said to be more prone to exploit their and their family's unpaid labour for on-farm improvements if they have individual tenure or long-term individual rights to well-defined parcels, than under systems of collective organization where earnings are less directly linked to the output of specific plots of land (Raup, 1967).

The wider sharing of direct reform benefits introduced in Perú in 1969 through the "cooperatives", and in Chile in 1971 under the name of "Agrarian Reform Centers" is, at least in part, designed to mobilize volunteer efforts of a substantial proportion of the rural population. Under the Chilean scheme, the combination of monetary savings with volunteer labour is expected to make possible economies of public expenditures.

Only isolated examples of "organized" unpaid labour mobilization exist in the Region, usually in connection with successful local cooperatives or collectives and some community development programmes. The most generalized instance is the minga of indigenous Andean people, a vestige of their original community organization.

Little reliable estimation is possible of the mix of incentive and motivation, and the minimum package of public inputs in materials and services, required to mobilize fully the potential for "self-exploitive" community capital creation. However, such efforts are probably best concentrated in subsistence farming and colonization areas. Campesino labour in peasant-managed commercial farming areas tends to be fully absorbed by farm operations, although there may be seasonal unemployment among the landless.

### 6.3 Tax Reform and Agrarian Reform

When agrarian reform programmes are being carried out, a special opportunity is created for restructuring the entire rural tax structure. A new tax system in which the tax burden is equitably distributed and which penalizes failure to use production potential, could both complement the social effects of the reform itself and help to finance it. Properly applied, new taxes could transform the incentive and benefit distribution of the rural production system. In addition, of course, collection of the new taxes permits more public funds to be channelled into reform activities.

The fiscal system in some countries is so weak that there is simply not enough revenue generated for existing commitments, let alone for new large-scale reform programmes. Borrowing from the banking system and the marketing of bonds become substitute domestic financial sources. However, the agrarian reform opens the possibility of mobilizing new tax incomes from the agricultural sector itself, which can be earmarked for reform programmes.

The principal "new" tax base would be land. <sup>1/</sup> Obviously, land-based taxes would not be limited to reform settlers, but must include other farmers, both large and small. An effective progressive tax system could obviate the need for specific reimbursements by reform settlers. The cost would be shared by the entire rural sector or, if the tax were heavy enough to raise the same resources as would repayments by beneficiaries, the tax on the rest of the sector could finance other development programmes.

Table VI-11

CHARACTERISTICS AND RELATIVE IMPORTANCE OF LAND TAXES

IN SELECTED LATIN AMERICA COUNTRIES, ABOUT 1968

Item	Characteristics of Land Tax System			Estimated Tax Collections		
				Land Based (% of total taxes)	Other Agriculture	Total Agriculture
	Base	Rate <sup>1/</sup>	Transfer			
Argentina <sup>2/</sup>	Fiscal	Prop/Progr.	Yes	2.3	10.1	12.4
Bolivia	Fiscal	Prop.	None	0.1	0.6	0.7
Brasil	Fiscal	Progr.	None	0.2	8.4	8.6
Chile	Fiscal	Prop.	Yes	2.3	0.8	3.1
Colombia	Fiscal	Prop.	Yes	1.8	6.4	8.2
Costa Rica	Fiscal	Prop.	No	1.0	13.2	14.2
Rep. Dominicana	None	-	None	-	9.0	9.0
Ecuador	Fiscal	Progr.	Yes	0.8	11.4	12.2
El Salvador	Fiscal	Prop.	None	2.5	18.0	20.5
Guatemala	Declared	Prop.	Yes	0.63 <sup>3/</sup>	6.2	6.8
Haiti	None	-	None	-	20.3	20.3
Honduras	Fiscal	Prop.	None	0.3	3.9	4.2
México	Fiscal	Prop.	None	0.7 <sup>3/</sup>	3.9	4.6
Nicaragua	Declared	Prop.	None	4.4 <sup>3/</sup>	2.4	6.8
Panamá	Declared	Prop.	None	0.5	1.8	2.3
Paraguay	Fiscal	Prop.	None	2.4	9.9	12.3
Perú	Income	Prop.	Yes	1.7	7.8	9.5
Uruguay	Fiscal	Prop.	Yes	2.2	11.6	13.8
Venezuela	None	-	None	-	0.03	0.03

Source: Domike and Tokman 1970, pp. 134, 135, 137, 138, 140 and 141.

- <sup>1/</sup> Land tax rates are classed as proportional (prop.) or progressive (prog.) according to the predominant form.
- <sup>2/</sup> Argentina's land taxes are imposed at the provincial level.
- <sup>3/</sup> In Guatemala and Nicaragua estimated land and income tax collections are combined.

<sup>1/</sup> Aside from land taxation, Domike and Tokman (1971, p. 130) list a number of other "instruments ... to extract resources from the agricultural sector ...", such as "fees, marketing boards, export monopolies, price controls, multiple exchange rates and taxes on imports of agricultural inputs". These measures are usually designed to subsidize consumers or to transfer resources to other sectors through market mechanisms, rather than to create public sector revenues; they cannot contribute directly to financing of agrarian reform programmes, and may actually reduce incomes of reform beneficiaries (e.g., food price controls).

As pointed out by various authors (see especially Domike and Tokman 1971, pp. 131-143), none of the Latin American countries except Chile have a rural taxation system that meets the tests of acceptability, including that of efficient administration. Some have none. The rest have extremely low rates or valuations far below the real value of property, or both, as well as land registries in many cases so incomplete that much land goes untaxed (Table VI-9).

There is general agreement that where agricultural exports are not available to be taxed, and where there is little further potential for taxing urbanized areas and industrial plants, government revenue must lean most heavily on rural land taxes (see Hawkins, 1970). Yet, it is precisely in the poorer, least industrialized countries of the Region where land taxes, and rural taxation in general, make the least relative contribution to government revenues. This includes several countries which have undertaken substantial agrarian reforms. Neither Bolivia nor Venezuela have a land tax, and in Mexico such taxes contribute less than one percent to total tax revenues (Domike and Tokman, 1971, Table 8).

Latin American experience indicates that it may be politically easier to enact and implement a semi-confiscatory land redistribution programme than a progressive land tax system effective enough to lead to more intensive land use and/or voluntary subdivision of large estates. One simplistic explanation for this is that no political leader gains support by advocating taxes, but agrarian reform can gain popular backing.

The existing land tax systems have several drawbacks. The cadastral values are often based on unverified owner declarations and represent but a fraction of the market value, especially where land markets are affected by inflation of speculative influences. Furthermore, official valuations are seldom adjusted for changes in price levels. Tax rates are negligible and inflexible, and administration of the tax systems themselves is frequently inefficient (Strasma, 1967, pp. 186-189).

In Colombia, for instance, the general rate is only four mills on a mostly self-declared valuation generally far below prevailing market values. Thus, total presumed <sup>1</sup>/<sub>rural land tax revenues calculated for about 90 percent of the country's municipalities in 1963 were 53 million pesos (about US\$5 million). As a result of the regressiveness of land appraisal, properties with less than 20 hectares were estimated to pay four times the proportion of taxes paid on estates of 500 hectares or more (CIDA, 1966, pp. 358-359). Attempts to reform the system have met with stubborn resistance, both at the executive and legislative levels and after, as well as before, land reform enactment.</sub>

In Peru a rural land tax was enacted for the first time in 1968, in the wake of a fiscal crisis. The system provides for a progressive rate ranging from one-half to one percent of the 1968 self-appraisal. Most owners appear to have based appraisal on semi-official coefficients developed from time to time by associations of local appraisers.

In Bolivia an attempt was made in 1968 in connection with a massive land titling program (see Gallo Mendoza, 1967) to introduce a unified land tax designed above all to benefit the local communities. The effort was defeated by a combination of large landowning interests in the tropical areas and peasant organizations in the traditional areas. The latter groups opposed the tax because they feared that the revenue would not in fact benefit rural local communities as originally contemplated.

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<sup>1</sup>/ As late as 1963, the authorities had no estimates of the amount of rural land tax collection; it was lumped together with urban real estate tax revenues.

The Chilean Congress enacted in 1954 "the most elaborate procedures in all of Latin America" for maintaining an adequate tax valuation base in the face of continuing inflation (Strasma, 1967, p. 190), building on a land taxation system in existence since 1925. But until 1964 the mechanism was frustrated administratively, as described in detail by Strasma (ibid, pp. 190-195). Application of the results of the cadastral survey completed in 1965 tripled the total appraised value of land in the country and led to the discovery of a great deal of previously untaxed land. <sup>1/</sup> Tax collections from the latter alone repaid the cost of the survey in five years (ibid, p. 204). In the reform of the system which followed the survey, the variable tax rates, which had included local surcharges and averaged 3.2 percent of the assessed value, were unified to a flat rate of two percent.

Unless appraisals are indexed or adjusted for inflation, the absolute and relative land values will rapidly lose reality. However, where a massive expropriation programme is contemplated, such as in Chile and Peru, the government may not be interested in adjusting land values until after the expropriation process is largely terminated, in order not to raise the prices at which compensation has to be paid. Basically, for this reason, Chile again allowed tax values to lag behind real values from 1966 to 1972 by permitting administrative discretion in raising tax values by less than the rate of inflation.

Most governments do not seem to contemplate the possibility of direct taxation of reform units, regardless of whether specific land cost repayments are contemplated or required. In Chile, reform-affected land is exempt from taxation as long as it is either state-owned or assigned to cooperatives. This has taken about half of the irrigated land off the tax rolls. In Peru, the exemption of units valued at less than 500,000 soles (equivalent to about US\$10,000 in 1971), effectively exonerated land reform holdings from taxation where the redistributed estates are divided among the beneficiaries. In Colombia, land reform units are theoretically subject to land taxes but the low (four mill) rate produces little revenue with or without the land affected by reform.

Tax policy problems - like other important issues in agrarian reform policy and implementation - are resolved at the political level. The potential for taxing part of the economic surplus produced by reform production units is seldom fully appreciated by policy-makers, nor has the potential positive effect of land taxation on intensity of land use and hence on output been given the consideration it merits (Hawkins, 1970, p. 466).

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<sup>1/</sup> The degree of underdeclaration was found to be positively correlated with the size of the properties.

CHAPTER VII  
EXTERNAL FINANCING

Lack of external financial support is sometimes cited as a reason for the slow pace of reform programmes. However, institutional and practical problems encountered by international financing institutions while grappling with the land reform issue suggest that external financial support may not be appropriate during the early redistribution phase of reforms. This chapter seeks to examine the issue from the viewpoint of both the countries undertaking reform and the international institutions concerned. Agency attitudes towards, and actual support for, agrarian reforms in Latin America are reviewed briefly.

7.1 Agency Policies and Lending Criteria

The "Alliance for Progress" and the first United Nations "Development Decade" gave special emphasis in Latin America to rural development and to its external financial support. If real achievement has fallen far short of the expectations aroused by the framers of the "Alliance", this is due in part to the lack of realism of these expectations. (See Levinson and de Onis 1970).

To date, external financing institutions have played a very limited role in agrarian reform financing. There have been statutory and operational - as well as political - obstacles to their more dynamic participation in the field. Three organizations have been, and apparently will continue to be, the major sources for the transfer of official development capital to Latin America: the Inter-American Development Bank (IDB), the International Bank for Reconstruction and Development (IBRD or "World Bank"), including its "soft-loan" affiliate, the International Development Association (IDA), and the United States bilateral assistance programme (USAID).

Each of these agencies operates under particular political, statutory and institutional conditions. These conditions govern each institution's approach to development financing and the degree to which each is able to respond to changes in priorities for agricultural and rural development by adapting its policies and procedures. These differences are in part reflected in the public statements on agricultural development strategy and the kind of projects which each agency is disposed to help finance, and under what criteria. 1/

The agencies which compose the Inter-American system and the United States-sponsored Alliance for Progress programme have emphasized the need for agrarian reform in virtually all their published policy statements. 2/ The 1970 USAID Spring Review Conference on Land Reform reflects a considerable strengthening over the years of that agency's views on the subject. Key policy implications which USAID drew from the Review were: "Support of land reform need not be withheld for fear of adverse economic results of land

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1/ For a comparison of the attitudes of the three agencies in the mid-1960s, see the statements of their representatives at the IDB-sponsored Symposium on Agricultural Financing held jointly with the FAO Regional Conference in 1965 (Vol. II of the proceedings). For additional examples, see OAS, May 1971, pp. 4-13.

2/ See, for instance, Title 1.6 of the Charter of Punta del Este and the report of the Third Annual Meeting of IA-ECOSOC at the Ministerial Level (Lima, 1964).

redistribution"; that "USAID should take careful cognizance of what probable effects its ... programme may have on either prolonging or ameliorating existing inequities in land ownership and use" where there is no national political desire for land reform; and that "AID should not support a 'land reform' scheme which is basically just window dressing" (Carter, June 1971, p. 3). 1/ Most previous official United States statements on the subject had tended to emphasize the production rationale and the untouchability of the internal politics of land reform.

Despite the constraints which bilateralism is sometimes assumed to impose on donor countries with respect to aid "leverage", it appears to have been easier for USAID to translate concern for the land reform issue into action where the official concern was ostensibly sympathetic than for the multilateral financial institution to do so. 2/ The latter are subject to internationally negotiated statutes and depend for policy guidance on multinational directorates which reflect divergent views on a politically sensitive issue. They also are staffed by technical and administrative personnel whose success is judged not by "development" criteria but by conformity with "sound banking" practices and maximization of loan activity. Complicated project designs and delay in disbursement cause serious concerns to a loan agency bureaucracy; financing of agrarian reform-related projects has tended to entail both.

On the other hand, both the IDB and IBRD policy statements strongly favor large scale and effective agrarian reforms. The most forceful official statements of the Inter-American Development Bank supporting agrarian reform have appeared in the annual reports "Socio-Economic Progress in Latin America". 3/ The World Bank group's newly emerging concern with agrarian reform and its related economic issues - employment and income distribution - is reflected in President McNamara's recent statements. 4/ (See also IBRD, June 1972).

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1/ See also the statements of two officials of the USAID (Pages 21 and 30 of Carter, June 1971).

2/ The importance of U.S. bilateral policy is diminishing along with the decline in the level of its bilateral aid activity in the region. Perhaps owing to differences between the respective national agencies governing bilateral and multilateral development aid policy, U.S. support for agrarian reform-related lending through multilateral institutions has been less vigorous.

3/ See especially the report for 1970, pages 76-77.

4/ In his address to the UNCTAD Conference in Santiago, Chile, in April, 1972, he underlined the "urgent need to relate the goals of national growth to realistic targets of more equitable income distribution". And when he spoke to the Bank's Board of Governors in September 1971, the President emphasized the growing problem of urban and rural unemployment and their interrelation. Referring to rural development needs and priorities, he stated that "... there need be no necessary economic conflict between the goal of helping the mass of the rural population and other goals of economic development. Land reform... will benefit those who can get the highest output from the scarcest factor - land."

The reluctance of external finance institutions to become involved in the financing or underwriting of landowner compensation - and the reasons for this reluctance - have been discussed in Chapter III. Governments have, in fact, seldom sought this kind of financial support for land reform. Most of the issues of external reform financing are associated with the expenditures for consolidation and services to smallholders and reform beneficiaries.

The decisions by international development agencies to support agrarian reform programmes or projects are subject to a series of political, economic and financial checks and criteria. Some of the problems of reform-oriented projects in securing financing are common to all agricultural development projects, particularly those with a wider rural development focus. It is generally recognized that such projects are more difficult to prepare than industrial and public works projects which are site-specific and heavily engineered, or single-purpose social development schemes such as housing and schools. In this sense, even conventional agricultural schemes are more difficult to design and therefore suffer a disadvantage in the competition for national and international credits.

Agricultural development schemes, and particularly those linked to land reform, also are typically labour-intensive and thus draw relatively little upon imported manufactures. Since external financing agencies have had a statutory bias in favor of loans with high import component, a second impediment to international financing is often present.

The cash flows generated by agricultural projects tend to be less immediate than in other economically viable projects. Even though the Government is guarantor of international credits, the financing agency may question the financial viability and technical competence of the executing agency especially if it is a newly created one.

Reform-oriented rural development schemes also entail public investments in training, education, health facilities and sometimes housing, which are not self-liquidating in the short run. Rural social investments and services are often assumed to be justified only if they do not seriously affect the overall project returns when such expenditures are included in one financing package with production and marketing aspects. By contrast, urban infrastructure in streets, schools, etc. incorporated in city-based production projects, are often financed without comparable tests of costs and benefits.

Specific problems in connection with agrarian reform projects are in large part caused by their "unconventional" objectives. Employment creation, income distribution, greater popular access to health and education facilities, and wider peasant participation in the social and political life of the nation are the central objectives of agrarian reform. Measures of these objectives can be incorporated into project analysis, but they are not easily translated into operational criteria for comparisons of project design and appraisal.

The publicly available guidelines for the preparation and appraisal of agricultural projects of both the international finance agencies give emphasis to the relatively short-term payoff from investments in terms of output, balance of payments effects, etc. The less conventional considerations are usually treated as subordinate objectives, i.e. as desirable as long as the "standard" goals are met. (IBRD, June 1972, IDB, April 1967).

Differences between the concepts of what constitutes a "project" that prevail in each institution may be responsible for the greater activity of the IDB in agrarian reform lending as compared to that of the IBRD. As illustrated by the large number of diversified, countrywide rural credit loans it has made, the IDB defines a "project" rather broadly (IDB, 1971). Such credits are more likely to be considered as "programme loans" by the World Bank. The IBRD definition of a "project" has been more circumscribed, either geographically or with respect to lines of production, or both. In this sense, "programme" lending has been used increasingly by USAID. Their programme loans are simply lines of credit extended to the recipient country for agreed commodity imports. The Government uses the local currency "counterpart" proceeds for general or specific budgetary purposes which are also typically specified in the agreement. 1/

The programme loan approach would have certain advantages if applied to agrarian reform programmes. Project assistance usually obliged a government to concentrate its resources to benefit a limited number of settlers, even though its strategy may call for a wider application of the reform. Project-oriented aid also provides limited flexibility with respect to financing local operating costs and on-farm working capital. Both of these latter are important components of projects; in fact, they are typically more important than are imported goods and services and physical investments. But the IDB lending policies have seldom permitted financing local costs, especially in loans to governments with weak public revenue systems.

## 7.2 Agrarian Reform Lending

The institutional constraints, the general scarcity even of conventional agricultural projects that are bankable, and the fact that only a few countries of the Region embarked on serious agrarian reform programmes during the sixties, limited sharply the international financing channelled to such programmes. Net loan authorizations through 1970 for ongoing agrarian reform programmes by the three development finance institutions combined, amounted to no more than US\$150 million, or less than eight per cent of total agricultural lending in the region.

World Bank lending for agriculture in Latin America until the early 1960s was mostly for farm machinery imports and general farm credit. Of the 20 agricultural loans it made in the Region through 1960, the bulk went for these purposes. On the other hand, ten of the 25 loans committed to Latin America and the Caribbean during the 1960s were for livestock development, and seven for irrigation. The only IBRD loan made expressly in support of an ongoing agrarian reform programme in the Region was a US\$9 million credit to Colombia in 1967 for irrigation in one of the INCORA Atlántico Department projects (IBRD, June 1967) 2/. As a reflection of changing bank and country policies, more recent Colombian credit requests have been less capital-intensive, and the IBRD is supporting government-assisted spontaneous colonization in the Caquetá region. In addition, the Bank agreed that land reform cooperatives and pre-cooperative settlements could be beneficiaries of a loan to Chile for livestock development.

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1/ For a significant discussion of project versus programme aid, see Eugene Black, "Development Revisited", in *International Development Review* (1970, No. 4) and Hans Singer's critique as well as Mr. Black's reply in the same journal (1971, No. 4).

2/ The Bank also lent INCORA US\$17 million in 1969 for its supervised credit programme, with borrowers limited to 2,000 established medium-sized farmers (10-50 hectares). It has apparently found tenure-improvement related lending easier in Asia and Africa.

USAID financing for agriculture in the early 1960s concentrated on fertilizer and machinery imports. In recent years, USAID has increasingly used its credits to support institution-building projects. The agency's self-evaluation in 1970 of policies towards agrarian reform listed only Guatemala and Colombia as Latin American countries where reform-related assistance had been "considerable" or "substantial" (French, June 1970) 1/.

A USAID agricultural sector loan to Chile of US\$23 million in 1967 provided for about US\$10 million for the two agencies engaged in agrarian reform and campesino welfare, but procedural problems and difficulty in obtaining counterpart funds in the budget held up disbursement for a considerable period.

The bulk of the lending for ongoing agrarian reform in the Region has come from the Inter-American Development Bank, which authorized nine operations for a total of US\$120 million to three countries through the end of 1970. Three of these loans - for US\$87 million - were made to Venezuela, of which US\$75 million were authorized in 1970; Chile was the recipient of four loans totaling US\$28 million. The only other land reform loan, for \$3 million to Ecuador, was subsequently cancelled.

The variety of IDB loans for agricultural development reflects not only the greater volume of its operations, but also the special terms of reference and consequent greater flexibility afforded by its "soft-loan" windows, the now exhausted Social Progress Trust Fund (SPTF) and the multilateral Fund for Special Operations (FSO).

According to IDB classifications, about one-third of its agricultural loans approved through 1970 were in the "general and diversification" category, with irrigation financing the next most important. "Colonization" and "livestock development" each received about one-tenth of the approved loan funds.

Carroll's analysis of IDB financing from 1961 to 1969 (Carroll 1970, Table 4) shows that of the 114 agricultural loans, 36 percent of the funds authorized went into physical infrastructure, with 28 percent for working capital and 16 percent for fixed capital investment on farms. Only three percent of these loans were to be used for social infrastructure, but more than US\$200 million of IDB credits were extended for general infrastructure, education and research loans in rural areas. Since 1969, several new IDB loans have included substantial proportions for institution building in the fields of extension and research.

Fully one-half the IDB lending activity in agriculture has been directed towards low-income farmers. In addition to the credits specifically related to ongoing agrarian reform programmes and those designed to support colonization projects, the Bank has also lent US\$200 million for rural credit programmes designed especially for small and medium sized operators. Most of the loan agreements limited the use of these credits to farms no larger than family scale. In addition the IDB made a loan of \$20 million to Peru for community development, which included \$3 million to finance activities related to land reform. 2/

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1/ In Guatemala, a general agricultural sector loan was authorized in 1970. In Colombia USAID provided US\$18.5 million for the INCORA supervised credit programme for small and medium farmers, and supported the operating budget of INCORA for a number of years from local currency proceeds of P.L. 480 sales.

2/ However, the limitations of the "community development" approach for producing enduring changes in the rural community has been recognized by the Bank (see IDB, 1971, p. 65 )

### 7.3 Technical Assistance to Agrarian Reform

Several regional and international organizations have been active in providing technical assistance to various aspects of agrarian reform in the Region for more than a decade, especially the FAO and the Organization of American States (OAS) together with the Interamerican Institute of Agricultural Sciences (IIAS). The Interamerican Development Bank also participated importantly in some of these initiatives, allotting about \$500,000 to financing of such programmes through 1970.

In 1961 the five agencies of the United Nations and the Inter-American system (FAO, ECLA, OAS, IIAS, and IDB) most concerned with agricultural development in the Region established the Interamerican Committee for Agricultural Development (CIDA). Under its aegis, studies of land tenure and agrarian reforms were carried out in 15 countries between 1962 and 1969. These studies served not only to identify the problems, but also to compare experiences and heighten national and international awareness of the reform issue. They assisted a number of countries, including Chile, Peru, Ecuador, Bolivia, Venezuela and Mexico, to design specific projects and programmes.

An Institute for Training and Research in Agrarian Reform (ICIRA) was created in 1964 as a joint project of the Government of Chile and FAO, with financing from the UNDP. Through 1970 the Institute had been instrumental in training 10,000 Chilean peasant leaders, officials, professionals and students, as well as more than 200 officials from other countries of the Region. It has also provided important advice in the formulation of the agrarian reform law passed by the Chilean Congress in 1966 and on specific problems of reform implementation. At the insistence of the new Government elected in 1970, the FAO/UNDP project was extended through 1974. The IDB made a loan of US\$680,000 to the Government to help expand the Institute's capabilities in the implementation of the 1966 law. A similar institute has been created in Peru, Centro Nacional de Capacitación e Investigación de Reforma Agraria (CENCIRA), and a UNDP financed project patterned after the Chilean experience became operational in 1971.

"Project 206" of the OAS, executed by the IIAS, has sponsored training courses, seminars and ad hoc assistance for agrarian reform in a number of countries; this project includes the Interamerican Center for Agrarian Reform (CIRA) in Colombia.

### 7.4 Opportunities for External Financing of Agrarian Reform

Even if the impediments to external financing were fewer, there is still reason to question whether external financial aid should be channelled to reform-oriented programmes. This doubt is not related to the fear of "interference" in a domestic political matter of a client country. More concrete and practical considerations seem to dictate caution in the interest of the integrity of both the national reform and the international finance programmes.

Governments bent seriously on carrying out an agrarian reform inevitably face severe political opposition during the initial phase of the programme. If the government wishes to maintain the support of those strata of the population whom the reform is to benefit, and of the political groups which promote reforms, there must be a redistribution of land use rights, sometimes at the sacrifice of output or marketed surpluses, at least over the short run. Insofar as international finance agencies find it difficult to accommodate to these political realities - since they conflict with minimum "economic viability"

standards for the projects or programmes for which money is being lent - they should only be marginally involved in the process. Viewed from the government side, dependence on external financing for a programme requiring political flexibility also entails risks which it may not be willing to run.

The experience of the IDB loans for agrarian reform programmes in Chile, Venezuela and Ecuador in the 1960s typifies the practical problems faced by external banking institutions operating in the highly politicized atmosphere of agrarian reform, or of any type of deep structural reforms.

An official request was made to the IDB by the Government of Chile in July 1967 for a sizeable loan to support CORA's implementation of its new agrarian reform law, enacted the previous year. An IDB appraisal mission visited Chile in October, 1967, its report was completed in March, 1968 and the official loan documentation in May of the same year. But the US\$20 million loan was not approved by the Bank's board until a year later. Meanwhile, a \$15 million loan for credit for entrepreneurial agriculture had been approved even though the request was received later than that for CORA. Subsequently, the agrarian reform loan was slow in disbursement. In the year and a half to the end of 1970, only 10 per cent of the CORA programme had been disbursed. Partly owing to the delay in the IDB loan approval, CORA programme priorities had changed so that the national "counterpart" participation in the specific activities to be co-financed by the IDB, was no longer available.

The experience of Venezuela is similar with respect to the problems encountered in loan disbursement, although the financial implications for that country's reform were less significant than in Chile. Two loans to the Instituto Agrario Nacional (IAN) for a total of US\$12,7 million were approved at the end of 1962. Disbursements were delayed until 1965 owing to disagreements between the Venezuelan authorities and the IDB, mostly with respect to unit costs and project locales. Final disbursement of the larger of the two loans - for \$10 million - occurred only in the second semester of 1969, fully seven years after the date of authorization.

The cancellation of the \$3 million loan which had been authorized for Ecuador's agrarian reform illustrates the virtual impossibility for an official, international agency to mobilize its resources speedily when political contingencies in the member countries are rapidly changing. By the time agreement on the terms and conditions of the loan had been reached, and the respective agreement signed - two years after the first request was made - a change in government led to drastic cuts in the agrarian reform budget. The local funds to accompany the IDB loan were no longer available, and the credits were cancelled.

These problems cannot be overcome by "easing" the terms of the loans or the appraisal criteria. Development oriented lending, it is felt, requires that expertise in project design and execution accompany the credits and that discipline be imposed on the recipient country and institution. This form of "leverage" by the credit agencies may not be appropriate in the initial phases of reform programmes. But it seems unlikely that use of the programme loan approach would improve availability of external credits during the politically "sensitive" phase of reform programmes. Nor can external financing agencies realistically presume to use "leverage" to induce governments to carry out an agrarian reform where there is no political expression of national priority.

External financing of agrarian reform, in sum, is appropriate if its availability for the early phases is not tied to conditions which jeopardize carrying out the reform. 1/

In view of the politically sensitive nature of the reforms, the international development agencies could conceivably withdraw from any reform-related financing. Alternatively, external financing could be given priority for the development or "consolidation" phase of reform programmes. Depending on the rate of land acquisition and redistribution, this phase may be reached in a few years, or a generation, after initiation of reform. Venezuela's experience showed a change in emphasis as early as four years after the reform's inception. In Chile, owing to the virtual completion of expropriation and redistribution in 1972, the development phase is scheduled to be under way by 1973, i.e., seven years from the beginning of the process. If announced plans are adhered to in Peru, redistribution should be completed in 1975.

Under a policy of rapid redistribution, the development finance institutions could in fact make a major contribution to national reform efforts in the early phases by committing in principle substantial loans for reform-based rural development once the consolidation phase gets under way, and by declaring that their agricultural and rural development assistance will be limited exclusively to projects based on the reform. This would help to avoid the heavy flow of official resources to entrepreneurial agriculture at a time when the reform sector is most vulnerable and most in need.

This kind of external support would allow discussion of modified and more flexible lending terms and criteria. At the same time, it would allow external institutions to be helpful in the development effort through the provision of technical expertise and the imposition of greater discipline in project design and implementation, without impeding the reform effort.

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1/ An additional consideration is that governments bent on deep structural reform may lose access to external financing owing to the unorthodoxy of their overall economic policies and measures. (See also Dennis Goulet, 1970, Anne Hayter, 1971).

BASES FOR CLASSIFICATION OF EXPENDITURES AND SOURCES  
OF FINANCING FOR AGRARIAN REFORM

Cash Expenditures on Agrarian Reform

All entries are intended to reflect cash expenditures during the period indicated. Bond compensation is charged in the year in which the bond is redeemed or amortized. The end of year cash balance items were eliminated both on expenditure and sources tables. This reduces the expenditure level to the actual cash disbursed or acquired during the year. Consequently the annual amounts of expenditures and financing do not reconcile.

Though there is slight variation among countries, the expenditures under the various categories are intended to include the following items.

1. Landholder Compensation

Includes all expenditures in cash during the defined period, for land, chattels and improvements. Expenditures incurred in any given period (year) for this item may, of course, be in compensation for acquisitions in a previous period.

2. Administration

Includes all expenditures on administration by agencies engaged in land acquisition, land distribution or consolidation programmes for reform beneficiaries. Personnel services and administration of credit and technical assistance programmes are included under this item, where identifiable. Otherwise, such expenditures are included under the programme cost, e.g. consolidation.

3. Consolidation

a) Economic infrastructure: Includes expenditures for roads, public buildings, and the portion of irrigation systems off farms.

b) Farm improvements: Includes expenditures for medium and long term credit, reforestation and on-farm irrigation and drainage works.

c) Social expenditures: Includes expenditures for beneficiary housing, water supply, and other services to beneficiaries.

d) Production credit: "Capital requirements" for this item are defined as net annual increment of funds for maintaining the production credit portfolio; the item is estimated as the difference between total short term production credit issued and total recoveries accumulated during the given year. The credits included for each country are as follows: in Chile, credit through CORA, which is entirely directed to land reform beneficiaries; in Colombia supervised credit directed through INCORA, which has been oriented to reform beneficiaries only since 1969; in Venezuela, credit directed through the Banco Agrícola y Pecuário (BAP), to reform beneficiaries. (IAN extends no credit).

Sources of Financing for Cash Expenditures

Sources of financing for agencies are classified under three headings: Treasury, Borrowing and Self-financing. In these tables, cash reserves on hand or in the bank are not considered. In principle the three categories of funding include the following items:

1. Treasury

Includes financing of direct budget appropriations, and financing from central government bond issues. In Colombia, the amortization paid by the government on Treasury bonds issued to INCORA is included.

With the exception of Venezuela, whose class C bond issue provides financing for economic infrastructure, other bond placements are to ex-landowners in compensation; the governments' expenditures for redemption or interest on these bonds is counted in the year the obligation occurs.

2. Borrowing

Includes borrowing from internal (national) and external (foreign) individuals and organizations. The gross amount of borrowing is included. Repayments are presented in the expenditure tables, e.g. for Chile repayments on earlier borrowing is reflected in the bond amortization expenditures for 1969 and 1970.

3. Agency Self-Financing

Includes proceeds from rents, water rights, fees, sales of goods and services. Primarily recoveries from reform beneficiaries or their cooperatives for services.

4. Credit Recoveries

Includes recoveries of principal and interest. Since these funds are already included in previous years as capital from one of the three sources of funds listed above, they are excluded from the income sources in subsequent periods. The data are presented solely for information and are not included among financing sources.

CHILE: EXPENDITURES OF AGRARIAN REFORM AGENCY (CORA)BY MAJOR CATEGORIES, 1965 TO 1970

(Thousand Current Escudos)

Item Expenditures	Year					
	1965	1966	1967	1968	1969	1970
Landowner Compensation	4,636	9,462	21,408	30,178	49,255	74,795
Administration	12,824	25,719	45,598	56,191	88,757	144,150
Consolidation	17,302	43,003	93,100	148,040	301,415	451,368
Economic infrastructure <sup>1/</sup>	-	4,488	3,141	4,595	3,166	2,187
Farm improvements <sup>2/</sup>	18,976	18,685	38,109	39,014	126,122	154,282
Social expenditures	-	6,245	18,226	28,152	65,648	62,477
Production credits <sup>3/</sup> and technical assistance	-(1,674)	13,585	33,624	76,279	106,479	232,422
Other Financial Obligations <sup>4/</sup>	2,270	7,040	11,444	34,051	50,887	194,149 <sup>5/</sup>
Total Expenditures	37,032	85,224	171,550	268,460	490,314	864,462

<sup>1/</sup> Roads, buildings.<sup>2/</sup> For 1965, all credit. 1966-1970 only medium term credit. Also includes machinery, livestock, reforestation and other land improvements.<sup>3/</sup> Total short term credit issued (except 1965), less recoveries. Credit recoveries include principal and interest.<sup>4/</sup> Mostly amortization of public and private loans.<sup>5/</sup> Includes E° 179.728.000 for amortization of public loans

Source: Annual Financial Statements, Corporación de Reforma Agraria, Santiago, 1965 - 1970.

CHILE: DISTRIBUTION OF EXPENDITURES OF AGRARIAN REFORM AGENCY (CORA)BY MAJOR CATEGORIES, 1965 TO 1970

(percent)

Item Expenditures	Year					
	1965	1966	1967	1968	1969	1970
Landowner Compensation	12.5	11.1	12.5	11.2	10.0	8.7
Administration	34.7	30.2	26.6	20.9	18.1	16.6
Consolidation	46.7	50.4	54.2	55.1	61.5	52.2
Economic infrastructure	-	5.3	1.8	1.7	0.6	0.3
Farm improvements	51.2	21.9	22.2	14.5	25.7	17.8
Social Expenditures	-	7.3	10.6	10.5	13.4	7.2
Production credits and technical assistance	-(4.5)	15.9	19.6	28.4	21.8	26.9
Other Financial Obligations	6.1	8.3	6.7	12.8	10.4	22.5
Total Expenditures	100.0	100.0	100.0	100.0	100.0	100.0

Source: Annex Table 2

COLOMBIA: EXPENDITURES OF AGRARIAN REFORM AGENCY (INCORA)BY MAJOR CATEGORIES, 1962 TO 1970

(Thousand Current Pesos)

Item Expenditures	Year								
	1962	1963	1964	1965	1966	1967	1968	1969	1970
Landowner Compensation	924	12,188	38,333	38,450	17,982	50,934	68,030	77,642	125,581
Administration	24,340	46,234	76,266	96,749	112,644	155,394	240,263	235,277	260,972
Consolidation	986	18,347	64,219	148,746	182,516	207,010	374,404	384,997	362,764
Economic infrastructure <sup>1/</sup>	960	17,566	41,313	69,659	71,691	109,084	249,236	281,439	278,549
Farm improvements <sup>2/</sup>	-	64	240	-	95	381	1,989	1,550	1,340
Social expenditures <sup>3/</sup>	26	733	2,765	2,979	3,451	5,076	5,792	10,792	11,487
Production credits <sup>4/</sup> and technical assistance	-	-(16)	19,901	76,108	107,279	92,469	117,387	91,216	71,388
Other Financial Obligations <sup>5/</sup>	-	2,098	7,407	10,295	18,636	24,043	34,887	48,616	101,416
Total Expenditures	26,250	78,867	186,225	294,240	331,778	437,381	717,584	746,532	850,733

<sup>1/</sup> Irrigation, drainage and leveling; road construction and cooperatives.<sup>2/</sup> Reforestation only.<sup>3/</sup> Housing, community action.<sup>4/</sup> Total credit issued less recoveries. Recoveries include principal interest and rediscounts. Credit for livestock production, medium sized properties, all directed and supervised credit.<sup>5/</sup> Transfers and debt service.

Source: Financial Statement, Instituto Colombiano de Reforma Agraria, Bogotá, April 1971. (unpublished).

COLOMBIA: DISTRIBUTION OF EXPENDITURES OF AGRARIAN REFORM AGENCY (INCORA)

BY MAJOR CATEGORIES, 1962 TO 1970

(percent)

Item Expenditures	Year								
	1962	1963	1964	1965	1966	1967	1968	1969	1970
Landowner Compensation	3.5	15.5	20.6	13.1	5.4	11.6	9.5	10.4	14.8
Administration	92.8	58.5	40.9	32.8	34.0	35.6	33.4	31.5	30.7
Consolidation	3.7	23.3	34.5	50.6	55.0	47.3	52.2	51.6	42.6
Economic infrastructure	3.7	22.3	22.2	23.7	21.6	24.9	34.7	37.7	32.7
Farm improvements	-	0.1	0.1	-	-	0.1	0.3	0.2	0.2
Social expenditures	-	0.9	1.5	1.0	1.0	1.2	0.8	1.4	1.4
Production credits and technical assistance	-	-	10.7	25.9	32.4	21.1	16.4	12.3	8.3
Other Financial Obligations	-	2.7	4.0	3.5	5.6	5.5	4.9	6.5	11.9
Total Expenditures	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Annex Table 4

VENEZUELA: EXPEDITURES OF AGRARIAN REFORM AGENCY (IAN) BY MAJOR CATEGORIES

1959-60 to 1968. (Million Current Bolivares)

Item <u>2/</u>	Year									
	1959-60	1960-61	1961 <u>1/</u>	1962	1963	1964	1965	1966	1967	1968
Landowner Compensation	2.2	52.6	9.2	23.1	13.3	4.4	32.9	14.9	14.2	13.3
Administration <u>3/</u>	55.2	65.2	33.3	68.7	73.1	80.9	83.6	97.8	106.6	119.2
Consolidation <u>4/</u>	46.5	41.6	20.2	62.7	19.0	18.2	63.3	71.6	80.5	56.8
Economic infrastructure	8.6	9.7	2.4	5.5	2.8	5.6	19.9	26.0	33.9	19.6
Farm improvements <u>6/</u>	17.8	22.7	9.3	49.0	6.7	9.6	33.4	34.4	37.5	31.3
Social expenditures <u>7/</u>	20.2	9.3	8.5	8.1	9.5	2.9	10.1	11.2	9.1	5.9
Technical assistance <u>8/</u>	-	-	-	-	-	-	-	-	-	-
Other Financial Obligations <u>9/</u>	-	1.9	1.9	3.4	4.5	6.0	6.7	10.0	11.0	10.6
Total Expenditures	103.9	161.3	64.6	157.9	109.9	109.5	186.5	194.3	212.3	199.9

1/ Second semester

2/ Columns may not total due to rounding.

3/ Includes cost of technical assistance which cannot be separated from other expenditures.

4/ Excludes bonds. 1966-1968 item breakdown estimated.

5/ Roads.

6/ Land improvement irrigation.

7/ Mostly housing

8/ Included under administration.

9/ Bond interest and other financial costs.

Source: Annual Financial Statements, Instituto Agrario Nacional, Caracas, 1969-60 - 1968.

VENEZUELA: DISTRIBUTION OF EXPENDITURES OF AGRARIAN REFORM AGENCY (IAN)BY MAJOR CATEGORIES, 1959-60 TO 1968

(percent)

<u>Item Expenditures</u>	Y E A R									
	1959/60	1960/61	1961	1962	1963	1964	1965	1966	1967	1968
Landowner Compensation	2.1	32.6	14.3	14.6	12.1	4.0	17.6	7.7	6.7	6.7
Administration	53.1	40.4	51.5	43.5	66.5	73.9	44.9	50.3	50.2	59.6
Consolidation	44.8	25.8	31.3	39.7	17.3	16.6	33.9	36.9	37.9	28.4
Economic Infrastructure	8.3	6.0	3.7	3.6	2.6	5.2	10.7	13.4	16.0	9.8
Farm Improvements	17.1	14.0	14.4	31.0	6.1	8.8	17.8	17.7	17.6	15.6
Social Expenditures	19.4	5.8	13.2	5.1	8.6	2.6	5.4	5.8	4.3	3.0
Production credits and technical assistance	-	-	-	-	-	-	-	-	-	-
Other Financial Obligations	-	1.2	2.9	2.2	4.1	5.5	3.6	5.1	5.2	5.3
Total Expenditures	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Annex Table 6 .

VENEZUELA: EXPENDITURES OF ALL GOVERNMENT AGENCIES ON AGRARIAN REFORM

1959-60 TO 1968

( Million Current Bolivares)

Item Expenditures <sup>2/</sup>	Year									
	1959/60	1960/61	1961 <sup>1/</sup>	1962	1963	1964	1965	1966	1967	1968
Landowner Compensation	2.2	52.6	9.2	23.1	13.3	4.4	32.9	14.9	14.2	13.3
Administration <sup>3/</sup>	56.8	68.5	34.8	75.5	86.8	102.0	109.5	123.0	131.4	144.1
Consolidation <sup>4/</sup>	71.0	72.9	36.6	125.0	83.3	106.0	148.2	172.5	173.0	139.2
Economic infrastructure <sup>5/</sup>	10.5	11.6	2.9	6.4	2.9	6.1	20.1	26.2	34.1	19.8
Farm improvements <sup>6/</sup>	32.5	37.5	16.2	78.9	38.0	42.4	55.4	61.7	66.9	53.8
Social expenditures <sup>7/</sup>	21.0	11.3	9.7	14.0	19.8	17.5	26.6	31.0	22.8	20.0
Production credits and technical assistance <sup>8/</sup>	7.0	12.5	7.8	25.7	22.6	40.0	46.1	53.6	49.2	45.6
Other Financial Obligations <sup>9/</sup>	-	1.9	1.9	3.4	4.5	6.0	6.7	10.0	11.0	10.6
Total Expenditures	130.0	195.9	82.5	227.0	187.9	218.4	97.3	320.4	329.6	307.2

<sup>1/</sup> Second semester.

<sup>2/</sup> Columns may not total due to rounding.

<sup>3/</sup> Includes cost of IAN technical assistance and administrative cost of credit programme.

<sup>4/</sup> Excludes bonds. 1966-1968 item breakdown estimated.

<sup>5/</sup> Roads.

<sup>6/</sup> Long term loans, irrigation.

<sup>7/</sup> Housing, water supply.

<sup>8/</sup> Includes agriculture extension. Total short term credit issued less recoveries. Credit recoveries include principal and interest.

<sup>9/</sup> Bond interest and other financial costs.

Source: Annual Financial Statement, Instituto Agrario Nacional, Caracas 1959-60 to 1968.

VENEZUELA: DISTRIBUTION OF EXPENDITURES OF ALL GOVERNMENT AGENCIES ON AGRARIAN REFORMBY MAJOR CATEGORIES, 1959-60 TO 1968

(percent)

Item Expenditures	Year									
	1959/60	1960/61	1961	1962	1963	1964	1965	1966	1967	1968
Landowner Compensation	1.7	26.8	11.2	10.2	7.1	2.0	11.1	4.7	4.3	4.3
Administration	43.7	35.0	42.1	33.2	46.2	46.8	36.8	38.4	39.9	46.9
Consolidation	54.6	37.2	44.4	55.1	44.3	48.5	49.8	53.8	52.5	45.3
Economic infrastructure	8.1	5.9	3.5	2.8	1.5	2.8	6.8	8.2	10.3	6.4
Farm improvements	25.0	19.1	19.6	34.8	20.3	19.4	18.6	19.3	20.4	17.5
Social expenditures	16.2	5.8	11.8	6.2	10.5	8.0	8.9	9.7	6.9	6.6
Production credits and technical assistance	5.3	6.4	9.5	11.3	12.0	18.3	15.5	16.6	14.9	14.8
Other Financial Obligations	-	1.0	2.3	1.5	2.4	2.7	2.3	3.1	3.3	3.5
Total Expenditures	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Annex Table 8

CHILE: SOURCES OF CASH BUDGET OF AGRARIAN REFORM AGENCY (CORA)

1965 - 1970

(Thousand Current Escudos)

Item	Year					
	1965	1966	1967	1968	1969	1970
Treasury						
Current Budget	13,115	23,336	45,594	64,979	87,202	142,159
Capital Budget	25,230	55,736	92,552	131,942	234,824	314,596
Sub-total	38,345	79,072	138,146	196,921	322,026	456,755
Borrowing						
Internal Sources	-	89	21,427	37,848	136,005	357,630
External Sources	-	4,257	5,067	26,385	26,635	47,929
Sub-total	-	4,346	26,494	64,233	162,640	405,559
Agency Self Financing						
Sales of goods and assets services	1,066	1,158	2,418	7,115	5,477	6,690
Investment income	244	458	377	791	897	491
Other income fees	544	458	1,270 <sup>1/</sup>	483	392	3,219
Sub-total	1,854	2,074	4,065	8,389	6,766	10,400
Total, Cash Income	40,199	85,492	168,705	269,543	491,432	872,714
Credit Recoveries <sup>2/</sup>	1,674	10,233	29,189	63,889	118,037	198,991

<sup>1/</sup> Includes E<sup>o</sup> 1,114,000 of miscellaneous "credits".<sup>2/</sup> Credit recoveries include principal and interest.

Source: Annual financial statements, Corporación de Reforma Agraria, Santiago, 1965 to 1970.

CHILE: DISTRIBUTION OF CASH BUDGET OF AGRARIAN REFORM AGENCY (CORA)FROM VARIOUS SOURCES, 1965-1970.

(percent)

Item	Year					
	1965	1966	1967	1968	1969	1970
Treasury						
Current Budget	32.6	27.3	27.0	24.1	17.7	16.3
Capital Budget	62.8	65.2	54.9	49.0	47.8	36.0
Sub-total	95.4	92.5	81.9	73.1	65.5	52.3
Borrowing						
Internal Sources	-	0.1	12.7	14.0	27.7	41.0
External Sources	-	5.0	3.0	9.8	5.4	5.5
Sub-total	-	5.1	15.7	23.8	33.1	46.5
Agency Self Financing						
Sales of goods and assets services	2.6	1.4	1.4	2.6	1.1	0.8
Investment income	0.6	0.5	0.2	0.3	0.2	0.1
Other incomes, fees	1.4	0.5	0.8	0.2	0.1	0.4
Sub-total	4.6	2.4	2.4	3.1	1.4	1.2
Total, Cash Income	100.0	100.0	100.0	100.0	100.0	100.0

Source: Annex Table 10

COLOMBIA: SOURCES OF CASH BUDGET OF AGRARIAN REFORM AGENCY (INCORA)1962 - 1970

(Thousand Current Pesos)

Item	Year								
	1962	1963	1964	1965	1966	1967	1968	1969	1970
<b>Treasury</b>									
Current budget	30,000	30,000	92,240	109,505	104,167	192,433	229,218	278,715	385,468
Bond amortization and interest	5,411	34,088	49,612	81,894	103,518	91,978	116,176	138,294	104,681
Sub total	35,411	64,088	141,852	191,399	207,685	284,411	345,394	417,009	490,149
<b>Borrowing</b>									
Internal sources	-	-	-	-	-	65,000	62,297	36,546	11,435
Sales of agrarian bonds	-	-	-	-	-	-	-	-	70,000
External sources	-	-	22,500	73,582	105,147	20,970	37,205	43,083	98,686
Sub total	-	-	22,500	73,582	105,147	85,970	99,502	79,629	180,121
<b>Agency Self Financing</b>									
Sales of goods, assets and services	158	353	885	1,741	1,295	2,895	16,941	42,033	21,611
<b>Total, Cash Income</b>	<b>35,569</b>	<b>64,441</b>	<b>165,237</b>	<b>266,722</b>	<b>314,127</b>	<b>373,276</b>	<b>461,837</b>	<b>538,671</b>	<b>691,881</b>
<b>Credit Recoveries<sup>1/</sup></b>	<b>-</b>	<b>16</b>	<b>6,778</b>	<b>16,172</b>	<b>52,246</b>	<b>156,943</b>	<b>234,408</b>	<b>252,131</b>	<b>219,637</b>

<sup>1/</sup> Credit recoveries include principal, interest and rediscounts.

Source: Financial Statements, Instituto Colombiano de Reforma Agraria, Bogotá, April 1971. (unpublished).

COLOMBIA: DISTRIBUTION OF CASH BUDGET OF AGRARIAN REFORM AGENCY (INCORA)FROM VARIOUS SOURCES, 1962-1970

(percent)

Item	Year								
	1962	1963	1964	1965	1966	1967	1968	1969	1970
<b>Treasury</b>									
Current budget	84.3	46.6	55.8	41.1	33.1	51.6	49.6	51.7	55.7
Bond amortization and interest	15.2	52.9	30.0	30.7	33.0	24.6	25.2	25.7	15.1
Sub total	99.5	99.5	85.8	71.8	66.1	76.2	74.8	77.4	70.8
<b>Borrowing</b>									
Internal sources	-	-	-	-	-	17.4	13.4	6.8	1.7
Sales of agrarian bonds	-	-	-	-	-	-	-	-	10.1
External sources	-	-	13.7	27.5	33.5	5.6	8.1	8.0	14.3
Sub total	-	-	13.7	27.5	33.5	23.0	21.5	14.8	26.1
<b>Agency Self Financing</b>									
Sales of goods, assets and services.	0.5	0.5	0.5	0.7	0.4	0.8	3.7	7.8	3.1
<b>Total, Cash Income</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Annex Table 12

VENEZUELA: SOURCES OF CASH BUDGETS OF GOVERNMENT AGRARIAN REFORM AGENCY (IAN)1959-60 TO 1968

(Million Current Bolivares)

Item	Year									
	1959-60	1960-61	1961 1/	1962	1963	1964	1965	1966	1967	1968
Treasury	121.8	199.5	79.1	139.3	107.8	150.5	146.9	164.3	184.6	183.9
Borrowing										
Internal sources <u>2/</u>	-	80.3	17.5	25.1	3.1	14.6	36.8	25.7	25.1	54.4
External sources	-	-	-	-	1.4	-	1.1	8.5	10.9	22.8
Sub total	-	80.3	17.5	25.1	4.5	14.6	37.9	34.2	36.0	77.2
Agency Self Financing										
Sales of goods assets and services	1.9	5.5	1.0	4.6	2.4	2.8	2.1	1.8	5.2	3.5
Other Income <u>3/</u>	14.5	12.8	7.2	-	.6	1.3	.4	2.7	7.4	.9
Total Cash Income	138.2	298.1	104.8	169.0	115.3	169.2	187.3	203.0	233.2	265.5

1/ Second semester.2/ Proceeds of bond sales.3/ Mostly transfers.

Source: Gustavo Pinto-Cohen, Recursos Financieros Utilizados y Costos de la Reforma Agraria Venezolana, Unpublished study, subject to revision.

VENEZUELA: DISTRIBUTION OF CASH BUDGET OF AGRARIAN REFORM AGENCY (IAN)FROM VARIOUS SOURCES, 1959-60 TO 1968

(percent)

Item	Year									
	1959-60	1960-61	1961	1962	1963	1964	1965	1966	1967	1968
Treasury	88.1	66.9	75.5	82.4	93.5	88.9	78.5	80.9	79.2	69.3
Borrowing										
Internal sources	-	26.9	16.7	14.9	2.7	8.6	19.6	12.6	10.7	20.5
External sources	-	-	-	-	1.2	-	0.6	4.3	4.7	8.6
Sub total	-	26.9	16.7	14.9	3.9	8.6	20.2	16.9	15.4	29.1
Agency Self Financing										
Sales of goods, assets and services	1.4	1.8	1.0	2.7	2.1	1.7	1.1	0.9	2.2	1.3
Other Income	<u>10.5</u>	<u>4.4</u>	<u>6.8</u>	<u>-</u>	<u>0.5</u>	<u>0.8</u>	<u>0.2</u>	<u>1.3</u>	<u>3.2</u>	<u>0.3</u>
Total, Cash Income	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Annex Table 14

VENEZUELA: SOURCES OF CASH BUDGETS FOR ALL GOVERNMENT AGENCY AGRARIAN REFORM PROGRAMMES1959-60 to 1968

Item	Year									
	1959-60	1960-61	1961 <u>1/</u>	1962	1963	1964	1965	1966	1967	1968
Treasury	147.7	233.9	97.0	208.4	181.9	252.5	246.0	275.8	296.4	287.4
Borrowing										
Internal <u>2/</u>	-	80.3	17.5	25.1	3.1	14.6	36.8	25.7	25.1	54.4
External	-	-	-		5.3	7.0	12.7	23.1	16.4	26.6
Sub total	-	80.3	17.5	25.1	8.4	21.6	49.5	48.8	41.5	81.0
Agency Self Financing										
Sales of goods, assets and services	1.9	5.5	1.0	4.6	2.4	2.8	2.1	1.8	5.2	3.5
Other Income <u>3/</u>	14.5	12.8	7.2	-	.6	1.3	.4	2.7	7.4	9
Total, Cash Income	164.1	332.5	122.7	238.1	193.3	278.2	298.0	329.1	350.5	372.8
Credit Recoveries <u>4/</u>	2.3	5.5	3.5	15.6	13.2	24.1	39.3	56.0	59.0	61.3

1/ Second semester2/ Includes proceeds of bond sales.3/ Mostly transfers4/ Credit recoveries include principal and interest.

Source: Gustavo Pinto-Cohen, Recursos Financieros Utilizados y Costos de la Reforma Agraria Venezolana, Unpublished study, subject to revision.

VENEZUELA: DISTRIBUTION OF CASH BUDGETS FOR ALL GOVERNMENT AGENCY AGRARIAN REFORM PROGRAMMESFROM VARIOUS SOURCES, 1959-60 to 1968

(percent)

Item	Year									
	1959-60	1960-61	1961	1962	1963	1964	1965	1966	1967	1968
Treasury	90.0	70.3	79.0	87.6	94.2	90.7	82.6	83.8	84.6	77.2
Borrowing										
Internal sources	-	24.2	14.3	10.5	1.6	5.3	12.3	7.8	7.1	14.6
External sources	-	-	-	-	2.7	2.5	4.3	7.0	4.7	7.1
Sub total	-	24.2	14.3	10.5	4.3	7.8	16.6	14.8	11.8	21.7
Agency Self Financing										
Sales of goods, assets and services	1.2	1.7	0.8	1.9	1.2	1.0	0.7	0.5	1.5	0.9
Other Income	8.8	3.8	5.9	-	0.3	0.5	0.1	0.9	2.1	0.2
Total. Cash Income	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Annex Table 16

ANNUAL INDICES OF RELATIVE CHANGE IN VALUE OF CURENCY,  
CHILE, COLOMBIA AND VENEZUELA, 1959-1970<sup>1/</sup>

Country	Year											
	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Chile	-	-	-	-	-	-	31.4	38.6	45.6	57.8	75.5	100.0
Colombia	-	-	-	38.6	50.8	59.9	61.9	74.1	80.2	84.8	93.4	100.0
Venezuela	80.6	81.5	82.2	86.2	88.9	92.7	95.6	96.9	98.4	100.0	-	-

Sources: Chile, Ministerio de Economía.  
Colombia, Banco de la República, Bogotá.  
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<sup>1/</sup> These indices are used in the preparation of text tables in chapters II and VI.

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