Case Study of a World Bank Livestock Program--Honduras

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Preface

The field study for this evaluation was carried out in August and September of 1976. One week was spent in Washington, reviewing project files and talking with persons who had been involved in the Honduran livestock project. Four weeks were spent in Honduras, three of which were taken up visiting project ranches. A week was spent in Tegucigalpa, where the project office is located, interviewing project staff, current and past government officials who had been involved with the project, and participating-bank management and technicians. (Some of the latter were interviewed during the field trips to other parts of the country.)

Ranchers were visited with different project or participating-bank technicians--though interviews were usually not conducted in their presence. Twenty three project ranchers were interviewed. Nineteen of the interviews took place at the ranch and all but three of the ranchers were from the first livestock project. The accompanying map shows the ranches whose owners were interviewed. Six small and medium non-project ranchers were also interviewed in the department of Atlántida.

The project staff provided me with extensive assistance. The project director, Mario Nufio, went far beyond what was required of him in having data gathered for me, in providing logistic support and, most important to me, in spending long hours with me discussing my questions. I was most appreciative of his time and his help.

Though this evaluation covers the first livestock project most comprehensively, it touches considerably on the second project (still disbursing) and the designing of the third (approved in June 1976). There was no hiatus between commitments under the first project and the second, and the project staff looked at sub-borrowing under the second project as a continuum of the first. Thus some of the problems and issues that evolved only partially during the first project were more understood and worked on during the second and the elaboration of the third. The second project, moreover, added 179 sub-borrowers to the 78 of the first project. With this total of 257 cases, it was possible to find patterns that would not be significant in the smaller group of 78, or that would not show up at all.

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Abbreviations and Acronyms

BA - Banco Atlántida

BNF - Banco Nacional de Fomento

INA - Instituto Nacional Agrario

MRN - Ministerio de Recursos Naturales

PBs - Participating banks

PCR - Project Completion Report

PG - Proyecto Ganadero

VII.

Agrarian Reform and the Participating Banks

7.01 The pace of loan commitments under the first and second livestock projects was said to have been adversely affected by peasant land occupations up to 1973, and then agrarian reform legislation--Decree 8 of December 1972 and Decree 170 of January 1975. This situation was said to be a major influence in causing the PBs to be reluctant to lend in the countryside. As a result, it was said, PG loans were larger than contemplated and went to larger ranchers. The banks were willing to accept only those borrowers who were wealthy enough to have other attachable assets, so that expropriation or peasant occupation of a borrower's land would not impair his ability to repay a loan. This was the general representation of the impact of the agrarian situation on the project, as it appeared in PG reports, supervision reports, and other Bank documents.

7.02 Another issue, not raised by the PG or the Bank, was a commonly-heard criticism by peasant groups and government officials and technicians working on the reform. The Bank loan, it was said, was being used by ranchers as a shield against expropriation; the Bank's name was being used by cattlemen in support of their arguments against the agrarian reform. By approving two large loans for those most affectable under the reform, it was said, the World Bank was identifying itself with the most prominent of the anti-reform groups. In this ~~section,~~ chapter, I will briefly describe the main elements of the reform and then discuss the relationship between agrarian uncertainty and PB behavior. In the following ~~sections~~ chapters I will assess the evidence on the criticism of the Bank's support of livestock ranchers.

VII. A. Decrees 8 and 170

7.03 The present Honduran agrarian reform was initiated in December 1972, with the military overthrow of an elected civilian government by General López Arellano. One of the reasons for the takeover was the increasing unrest in the countryside. Considerable peasant organizing had taken place during the 1960s with the assistance of reformist church groups and an AIFLD-sponsored association of peasant unions.[1] Peasant groups conducted occupations of lands that they claimed were not being worked and therefore belonged to them under the agrarian reform law of 1962.[2] Land

[1]AIFLD is the American Institute of Free Labor Development. It was set up in the 1960s as an arm of the AFL-CIO to promote non-communist unions in Third World countries. AIFLD is financed out of AID appropriations.

[2]The agrarian reform law of 1962 was, like many similar laws in Latin America, a response to the Punta del Este initiative of the United States and the Alliance for Progress. Like many others, it was considered a "paper law", accompanied by almost no enforcement activity. The organizers of peasant groups, however, carefully schooled the peasants in the law, and were meticulous about basing their actions on it. Thus it was that one project rancher complained that John F. Kennedy was originally responsible for bringing all the "communist" troubles of agrarian reform to Honduras.

occupations and the clamor for agrarian reform became particularly intense in the 1969-1972 period, partially because of a pro-reform director in the National Agrarian Institute (INA) and an erratically sympathetic though indecisive government. (That ~~The~~ INA director is now again director of INA.)

7.04 As a temporary emergency measure, the López government issued Decree 8 immediately after it took over in December of 1972. Decree 8 made land invasions illegal and allowed the government to take idle lands in "forced rental" for cultivation by landless peasant groups of 12 or more persons. At the end of a two-year period, the decree promised, a permanent agrarian reform law would be issued. Though not explicit in the decree, priority was placed by INA on "affectable" lands in areas with already existing infrastructure. This was meant to facilitate a rapid solution of the problem and to minimize the needs for government services to the new groups. This priority was made explicit in the permanent agrarian reform law issued two years later (Article 49).

7.05 Decree 8 put most of the burden of identifying idle and "rentable" lands on peasant groups, called "asentamientos." A group had to present a claim to INA, which would investigate whether the lands were indeed unused and then adjudicate the rental process. The groups averaged from 20 to 60 families, and the size of the parcels they rented averaged between 30 and 100 hectares. Between early 1973 and December 1974, when Decree 8 expired, 21,500 families were settled on 95,000 hectares of land.

7.06 The permanent agrarian reform law was issued as promised in January of 1975. Decree 170 expropriated all forced-rental parcels and set forth criteria for further expropriation. Mainly, landholding ceilings were specified and minimum stocking rates were set for livestock operations. The lowest ceiling of 250 hectares was set for the Atlantic coastal areas and the lowlands of three fertile and rainfed valleys--the Sula, the Cuyamel and the Quimistán.[1] These areas, where a good deal of PG ranches were located, were considered the most apt for intensive agriculture. Ceilings of 300 to 700 hectares were set for other valleys, and 1,500 hectares were allowed for any land with a gradient of 30% or more (except for the Sula and Quimistán valley highlands, which were allowed 500 hectares).

7.07 Minimum stocking rates were set at two animal units per hectare in the fertile valley and coastal regions, and one or 0.67 animal units in the drier and highland regions. For both decrees,

[1] A ceiling of 100 hectares was set for irrigated land, which in effect applied only to parts of the Comayagua Valley.

priority was given to unproductive land in the areas of already existing infrastructure--as opposed to large tracts of unoccupied public lands in distant regions, or large cultivated landholdings.[1] Both decrees explicitly exempted several important agricultural crops.[2]

7.08 Compared to other countries, the Honduran agrarian reform has been one of the more moderate ones. The landholding ceilings cited above are relatively liberal. Decree 8 was drafted and carried out with close consultation with the AID mission in Honduras and the Land Tenure Center of the University of Wisconsin. An early draft of Decree 170, in fact, was criticized by the Land Tenure Center for being unrealistically moderate, in that it did not specify landholding ceilings. The law was announced, moreover, one month before it went into effect. This allowed landowners to legally "sell" their excess holdings to relatives and friends. In addition, those with uncultivated land were given three years to put their lands into use. Finally, the law had various formulas by which those with only a certain percentage of their land in

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[1] This emphasis may now be changing, as evidenced by the recent expropriation of lands planted in cane, owned by a large mill, and of pasture lands for fattening owned by meat packers.

[2] Namely, cotton, sesame, tobacco, melon, tomato, banana and pineapple under Decree 8; and banana, plantains, sugar cane, African palm, coffee, pineapple, citrus fruits and tobacco under Decree 170.

production were allowed to have an equal percentage undeveloped.

VII.B. How the Participating Banks Coped

7.09 The concern of participating banks about agrarian uncertainties was said to be a major bottleneck to commitment of project funds. Up to the military coup in December of 1972, the banks were said to be reluctant to participate because of the increasing incidence of land invasions and the indecisiveness of the government. Though the December coup brought a decisive government, it also brought Decree 8 and the specter of lands taken in forced rental. Since the law left it up to the peasants to identify the parcels of unutilized land they wanted to cultivate, there was no way of knowing in advance which properties would be affected. With Decree 170 of January 1975, the banks had a clear set of guidelines as to which properties were expropriable and they took care not to finance any properties over the landholding ceilings.

7.10 Decree 170 introduced a threat for the banks that was much greater than Decree 8 and was way beyond the scope of the PG. The law required landowners to live on their properties. This meant that the banks themselves were vulnerable to expropriation as absentee owners, on any lands they took over from defaulting clients. Thus even though they could scrupulously avoid the taking of mortgages on properties that were over the landholding limits, they were still vulnerable to expropriation of foreclosed properties that were under the limit because they would be considered absentee owners. Likewise, they were expropriable if they took possession of two or more mortgaged properties which, though individually under the limits, together exceeded them.

7.11 The banks coped with the vulnerability of rural properties in various ways. They reduced their lending, and thus new loans for livestock in 1973 and 1974 showed absolute decreases for the first time in almost ten years--of 14% and 16% respectively (Table 41).[1] This decrease was striking, given that the annual increase in livestock credit in the 1970-1972 period had averaged 52%. The banks also required urban guarantees on livestock lending in addition to rural property mortgages. After the issuance of Decree 170, they made sure their rural borrowers were below the ceiling, inspecting the properties of credit applicants to make sure they were not vulnerable for one reason or another.

7.12 After Decree 170, the banks proposed to the government that the law be amended so as to allow them to sell any foreclosed

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[1] Total commercial-bank lending for crops actually increased in 1973, and decreased in 1974--after having also decreased in 1971 and 1972 (Table 41). One would think that if agrarian uncertainty had led to reduced livestock lending, it would have reduced <u>all</u> rural lending. It may be that livestock lending was more vulnerable because of its typically longer amortization period.

properties to buyers who were eligible for ownership. They asked for a time period of two years to transact such sales. Some banks also asked that legislation be issued that would facilitate the use of livestock as chattel mortgages. They would be more willing to accept livestock in lieu of rural property, they said, if they could use their own brand on the mortgaged animals and if there was a legal mechanism to support this system. PG staff have also suggested this idea from time to time; such a system would be particularly helpful in the states of Atlántida and Colón, where the PG opened its last office and is expanding. Much of the land held by individuals in this region is national land; or the legal title is held by several individuals, harking back to an earlier period of individual ownership of a large holding--the so-called "pro-indiviso" lands. Guarantee problems will become greater and greater for the PG as it tries to lend to smaller ranchers in this area of expanding operations.

7.13 One bank virtually stopped lending in agriculture after Decree 170, except for agroindustry, where it takes the plant as guarantee. Another bank, with a history of agricultural lending, has reduced its lending considerably since Decree 170. Banks say they are favoring dairy- over beef-cattle credit, because of the greater likelihood that dairy ranchers can achieve the minimum stocking rates stipulated in the law. Some ranchers themselves are preferring dairy as opposed to beef, as mentioned above, for the same reason. This may partially explain the falling off of PG beef cattle applications in 1975 and 1976, though a good part of this decrease must be attributed to the decline in beef prices during that period (Figures 1 and 2).

VII. C. Why the Banks Participated

7.14 What is puzzling about the PBs is not that they were reluctant to participate, but that they participated as much as they did--given the uncertainty in the countryside. It turns out that there were some good reasons for their participation. From the start of the PG, the banks asked for some kind of guarantee on PG loans. As soon as the PBs' reluctance was noted, the World Bank asked the Central Bank to work out an arrangement whereby it would guarantee PG loans against default resulting from land occupation or expropriation. The Central Bank issued a resolution in July 1972, declaring its intent to set up a guarantee fund for PG loans; it issued another resolution defining the fund's operation three months later.

7.15 As a result of the guarantee resolutions, the PG reported, loan commitments increased considerably. Commitments in the second half of 1972 doubled their first-half level (Table 44 and Figure 1).

The last quarter of 1972 reached a high in the value of commitments, which was never repeated up to the present day. By the end of 1972, the level of PG commitments was back on the schedule expected at appraisal. By June 1973, first-project funds were totally committed, one year ahead of schedule. Second-project funds started to be immediately committed.[1] As noted above, the PCR reported that this rapid recuperation was possible because of the financing of fewer and larger projects than had been expected at appraisal.

7.16 After Decree 8 was issued in December 1972, the banks started to complain that the Central Bank guarantee was not explicit enough. The Central Bank issued another more definitive resolution in August 1973, and the PG reported that the problem was again solved. Nevertheless, PB reluctance due to agrarian uncertainty has surfaced regularly in PG reports until the present day.[9] The value of commitments in the second half of 1972 was never reached again for any succeeding semester. The annual value of 1972 commitments was also never reached again.[2] As discussed further below, there is evidence that it was not the guarantee fund ~~which~~ that made

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[1] As explained in footnote 1 ~~to~~ on p.109 above, Bank documents gave April 1973 as the final commitment date on the first project and January 1974 as the effective date of the second.

[2] In 1974, the <u>number</u> of new PG loans did exceed the 1972 level.

PG loan commitments do so well in 1972. (Sections VII. D. and VII. E.)

7.17 No claims were ever made by the PBs against the Central Bank guarantee fund. Some banks say that the Central Bank never issued the implementing regulations necessary to make the fund operable. Some complained that the guarantee was not reliable because it left the Central Bank as the ultimate arbiter of whether payment out of the fund was justifiable, with no recourse to outside appeal. Some felt that the fund could never operate because a government could not agree to guarantee against its own actions.[1] Some said that fund or no fund, they believed in the word of the Central Bank.

7.18 Parallel to the guarantee was an amendment to Decree 8, discussed in the following chapter, ~~section,~~ whereby those landowners who were engaged in investment projects financed with credit would be exempt from forced rental. The amendment had no counterpart in Decree 170, though the law gave owners of uncultivated lands three years to bring their land into production. This exemption, of course, did not apply to that part of the land which exceeded the landholding ceiling. At least until Decree 170, then, the PBs could feel some protection from the combination of the Central Bank guarantee and the amendment to Decree 8.

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[1]Interestingly, this last interpretation was given to one of the PBs by its legal adviser, who had been president of the Central Bank when the first two guarantee-fund resolutions were issued.

7.19 To deal with post-Decree-170 apprehension by PBs, the World Bank asked in late 1975 that another guarantee arrangement be put into operation by the Central Bank for the third livestock project. This request became a condition precedent to the signing of the third loan. The Bank asked that the Central Bank devise a system whereby any PG borrower who is expropriated could repay his debt with the agrarian reform bonds he received in compensation.[1] The PB receiving the bonds, in turn, would be able to redeem them immediately for cash at the Central Bank. At this writing, the Central Bank has agreed to this arrangement and is said to be at the point of formalizing the guarantee. The Central Bank says it intends to implement the guarantee for all credits, not just those of the PG. A separate arrangement is being made first for PG loans, it says, in order to satisfy the condition precedent and get the third livestock project started as soon as possible.

VII. C. i. 7.20 <u>A discriminatory guarantee</u>. The guarantee arrangement required by the World Bank would confer a particularly strong special status on PG borrowers. If they are expropriated, they will be reimbursed

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[1] The law says that 10% of the value of improvements and of cultivated lands will be paid in cash, with some exceptions. The rest of the payments are to be made in various classes of agrarian reform bonds, redeemable in 15-25 years.

in cash, in effect, to the extent that they are in debt to the PG.[1] All other expropriated parties will have to receive their compensation in non-tradeable long-term agrarian reform bonds. The more the expropriated landowner is in debt to the PG, then, the greater is the share of cash-vs.-bonds that he will receive from any expropriation. This kind of arrangement obviously carries an incentive to ranchers to protect themselves by going into debt with the PG--an incentive that also existed under the previous legislation and guarantee arrangements. Given the uncertainty of landowners and banks about how the law will be applied and who will be expropriated, the guarantee required by the Bank offers a unique kind of protection: the more one is in debt, the greater the chance of getting compensated in cash for expropriation. At the same time, it should be noted that this protection may be important to a government anxious to prevent a halt to investment in the countryside during an agrarian reform.

7.21 At the governmental level, the proposed guarantee seems to conflict with the intent and the financial constraints of an agrarian reform. The reason for deferred compensation for expropriated properties is that the government does not have the resources to effect the desired land transfers and to compensate expropriated owners in cash. To institute the kind of arrangement required by

[1]The landowner, of course, does not redeem the bonds directly for cash. He cancels his PG debt with the bond, and the PB redeems the bonds for cash at the Central Bank.

the Bank is to assume that the government is willing and able to come up with cash for a certain select number of its expropriated landowners. More relevant, it is likely that the Central Bank would exert pressures on the agrarian reform authorities not to expropriate those parties with PG credit--in order, among other reasons, to save it the cash outlays.

7.22 Whichever way the proposed guarantee operates--paying cash to PBs with expropriated clients or making sure they don't get expropriated in the first place--the arrangement has the same effect. It protects PG borrowers, ties the hands of the agrarian authorities, and discriminates against expropriable landowners without PG credit or with no credit at all. Finally, the existence of this kind of protection attracts borrowers to the PG with motivations that are inconsistent with the long-term productivity improvements expected to result from the ranch development program. As suggested above, it was the operation of this kind of motivation under the first livestock project that contributed to the less intensive production methods among project borrowers.

7.23 Guarantees designed to protect World Bank sub-borrowers and sub-lenders may have been basic to the ability to commit funds under the livestock program. At the same time, they placed the Bank in the position of seeking and obtaining special status for its borrowers during a time when they were a target of agrarian reform. Thus the guarantee mechanisms, along with other events discussed below, contributed to an association of the Bank in the minds of many with the forces of opposition to the reform.

VII D. The Foreign Banks

7.24 There are other reasons why the banks participated in the PG as much as they did. When the first livestock project was appraised, the World Bank had been counting on the two large foreign-owned banks to commit the majority of PG resources--principally the Banco Atlántida, whose major shareholder is Chase Manhattan, and secondarily the Banco de Honduras, owned by First National City. The influence of U.S. management and capital on these banks, the Appraisal Report said, was "stimulating changes in loan policies from traditional short-term lending...to more emphasis on development lending." The Banco Atlántida was said to be so interested in the program that it was expected to account for half of the loan commitments. Its manager represented the commercial banks in loan negotiations (and was also on the board of directors of the Central Bank).

7.25 Banco Atlántida and Banco de Honduras got cold feet with respect to the agrarian situation very quickly. Atlántida's commitments dropped to almost nothing by the first quarter of 1972; no commitments were made from the last quarter of 1972 until the second quarter of 1974. Atlántida ended up accounting for 14% of total commitments under the first loan, and 8% under the second (up to September 1975)--in comparison to the 50% expected (Table 43). Banco de Honduras did better than Atlántida. It did not commit any loans until the third quarter of 1972, when it accounted for 53% of that quarter's commitments. After that, its participation ranged between 20% and 40% of the total, returning to zero after the second quarter of 1975. In total, it accounted for 19% of commitments under the first loan and 20% under the second. Three affiliated local banks, the Ahorro group, turned out to be the major sleeper of the program. Together, they accounted for 62% of total commitments under the first project and 47% under the second.

7.26 The retreat of the two foreign banks was attributed in PG and supervision reports to the insecurity of the guarantee situation. The foreign banks, unlike the local ones, could always fall back on outside sources of funds, it was said, and thus did not need the PG funds that badly. But the continued reluctance to participate, especially in the case of Banco Atlántida, seemed not fully explainable by the agrarian situation. After all, the land occupations that were said to have scared off the foreign banks from the PG in 1971 and 1972 had been going on since the mid-

1960s. Indeed, peasant organizing and land occupations had become more intensive in the 1968-1970 period, when the first loan was being negotiated, because of greater government sympathy than usual to the peasants' land claims. This was manifested in the actions of a reformist and aggressive director of the National Agrarian Institute. In 1971 and 1972, then, agrarian disruption and uncertainty were not very different than that prevailing during loan negotiations, when the foreign banks were said to be enthusiastic.

7.27 Agrarian uncertainty as an explanation of the Banco Atlántida's withdrawal is also difficult to understand in face of what was happening to other commercial bank credit for livestock during the PG startup period. The years 1971 and 1972 saw impressive increases in all commercial bank lending to livestock--27% and 47% respectively (Table 41). Total commercial bank lending increased at less than half that rate during these two years, and lending to crops underwent absolute decreases. If agrarian uncertainty were keeping the PBs away from the PG in 1971 and 1972, one would not have expected to see the commercial banks expanding their overall livestock lending so vigorously.

7.28 A breakdown of commercial bank credit provides a clue to the mystery of Atlántida's retreat, showing that this bank was behaving quite differently than the other commercial banks in all its rural lending. Whereas other commercial-bank lending for livestock increased by 42% in 1971, the year the PG began, Atlántida's livestock lending decreased by 10% (Table 38). While other commercial-bank crop lending increased slightly in 1971, Atlántida's lending for crops decreased by 15%. The data seem to be saying, in short, that the Banco Atlántida was withdrawing from the rural sector in general, let alone from the PG. The withdrawal contrasted sharply with the considerably increased livestock lending by the commercial banks in 1971 and 1972. Given this picture, the slow startup of the PG does not seem attributable solely to agrarian uncertainty.

7.29 Why would Banco Atlántida have withdrawn from the PG after so enthusiastically supporting the idea, if not because of agrarian uncertainty? Negative comments were frequently heard about Atlántida and Banco de Honduras because they were foreign. The comments could be heard from persons at both ends of the spectrum on agrarian reform, including PG and Central Bank staff. As far back as 1966, for example, a Central Bank representative stated in negotiations with the World Bank that he was against giving the same rediscount benefits to the two foreign banks, in order to see if they would bring in their own funds. With the new military government of December 1972, and its agrarian reform bent, these attitudes may have been more openly communicated to the foreign banks. Even if the attitudes existed before the coup, the foreign banks may have been seen as crucial in making the World Bank loan possible. Thus they may have been treated with particular care by the Hondurans during the negotiation phase.

7.30 The Banco Atlántida was extremely dissatisfied with the agrarian reform process, and felt that it created an environment in which it was impossible to do business. It still seemed angry with the government for the agrarian reform, as if believing it could be reversed. Perhaps the bank also felt discriminated against, given the nationalistic attitudes cited above. Its refusal to participate in the PG, then, may have also been a way of penalizing the government for actions that the bank considered reversible.

7.31 It is ironic that the foreign banks--considered by the World Bank to be more "modern" and hence more likely than domestic banks to pioneer in long-term lending--turned out to be the least interested in the PG and the least adaptive.[1] Actually, the Banco Atlántida's previous record in livestock lending raises the question as to why it was expected to play such an important role in the first place. Though it was the largest bank in the country, accounting for 48% of the deposits of all commercial banks, 46% of total loans and 35% of crop loans, its

[1]As a sign of the half-heartedness of the foreign banks' participation, the PB technicians who were repeatedly named by PG staff and borrowers as mediocre and uninterested were those from the two foreign banks.

share of total commercial-bank livestock lending was only 26% in the year before the PG started (Table 38). Thus the more vigorous role ultimately played by the local banks in the PG might have been predicted, given that they were much more involved in livestock lending than Banco Atlántida before the program.

7.32 . Since agrarian disruption and other forms of uncertainty are common in Latin America, it is perhaps better not to count on foreign banks for a major role in innovative agricultural lending programs. Since these banks have foreign sources of capital and other countries in which they can invest, they have the option of retreating from any lending environment as soon as it becomes uncertain.

VII. E. <u>The Domestic Banks</u>

7.33 The domestic banks ultimately participated, PG and supervision reports said, because they had a much smaller capital base and could not afford to turn down such attractive outside resources. They ended up providing 67% of the value and 71% of the number of loans under the first project, and a slightly lesser share under the second. It was more in these banks' interest to find a way around the guarantee problem, in that they could not rely on additional resources from outside the country or expanded lending in other countries. An important additional factor in the domestic banks' interest, pointed out by PG staff, was the fact that these banks suffered declines in their liquidity and in their lending business as a result of the political uncertainty surrounding the agrarian reform. This meant that they were even more interested in obtaining outside funds than they would have been in normal times.[1]

7.34 The PG was also desirable to the domestic banks because it helped them bring in other business from clients. This would have been particularly important if the banks were in fact worried about reduced liquidity and lending. A Bank memo commented in 1973 that the PBs did not like to lend to smaller ranchers precisely because they did not "bring in other business." Thus the PBs may have been implicitly selecting PG borrowers according to the amount of additional deposits and loans they would commit themselves to. This would also have limited borrower selection.

The PG was a less risky way for some banks to continue serving old clients with rural properties. One of the most interested

[1] I do not find much evidence for this decline in the data, except perhaps for the year 1974. Whereas total deposits of commercial banks increased steadily at an annual average of 15% in the 1970-1972 period, they increased by 17% in 1973 and 8% in 1974. Total lending also shows no distinct decline after 1972. (See Table 36.)

PBs, which had been previously active in agriculture and livestock, said it was doing just that. It had completely discontinued anything but short-term loans in agriculture and livestock since the issuance of Decree 170 in January 1975, and had restricted medium-term livestock lending considerably after Decree 8. It had previously lent for periods up to seven years in agriculture and livestock. Another participating bank also said it would lend nothing for livestock outside the PG.

7.35 The data on commercial-bank livestock lending in 1973 and 1974 are consistent with the PB reactions cited above (Table 42). In 1973, that is, when PG livestock credit was L.2.7 million, non-PG livestock credit declined by L.5.8 million. In 1974, PG credit increased to L.3.7 million and non-PG livestock credit declined again by an even greater amount--L.8.2 million. The data suggest, in other words, that PBs did do what they said--substituting the "safer" PG credit for their normal livestock credit ever since the first agrarian reform decree. PG lending after 1972 was thus associated with a net decline in total livestock lending by the commercial banks. The PG seemed to have partially filled a lacuna left by the retraction of commercial bank lending to livestock. To the participating banks, then, the PG and the Central Bank guarantee represented a temporary way out of agrarian reform problems, and not only a risk.[1]

7.36 In conclusion, the all-time annual high of PG lending in 1972, attributed by the PG to the Central Bank guarantee, seems to have been more a result of the unusually large expansion of non-PG livestock lending that year--by 41%. The increase in PG credit accounted for only 16% of the total increase in commercial bank livestock lending that year. Since non-PG lending did not benefit from the Central Bank guarantee, it is difficult to attribute the major part of the PG increase to the guarantee. In 1972, then, PG commitments seem to have been swept along with the overall increase in non-PG livestock lending, which was five times greater. Thus the guarantee seems to have had an important effect after the reform, but not before. It was never able to evoke the levels of PG lending, however, that the buoyancy of non-PG lending did in 1972.

VII. F. Conclusion

7.37 The slow startup of the PG seems to have been related to the abrupt withdrawal of the foreign banks during a period

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[1] Another possible reason for the domestic-PB role was that the Ahorro group, mentioned above as accounting for a major share of PG commitments, owned a 15% share in one of the seven export meat packers.

of otherwise vigorous livestock lending. This caught the PG up short with the necessity of selling the program harder to the domestic banks. Given the fact that commercial bank credit for livestock grew at unprecedented rates in 1971 and 1972, it is difficult to attribute the slow start to the agrarian uncertainty cited in PG and supervision reports. Instead of generalized PB reluctance, in other words, there was first the retreat of the foreign banks--as seen in Table 44--and then the recognition by the domestic banks after Decree 8 that the PG was one of the few safe avenues of escape from uncertain rural guarantees.

7.38 Once Decree 8 was issued, the number of PG loans committed averaged 12 per quarter from that time until the present, ranging between 6 and 18--with the exception of 1974 (Table 44).[1] Interestingly, the most significant change in the commitment rate during the period occurred not as a result of a change in the agrarian situation. The high level of commitments in the last three quarters of 1974, averaging 24 per quarter, cannot be related to the agrarian situation or to any change in the PBs' position with respect to guarantees. As

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[1] A slowdown of PB commitments may occur in the second half of 1976, or until the second livestock project is completely committed, because of the extra percentage point allowed to the PBs in the third livestock project. PG staff reported that some PBs held off on their participation in the PG when they heard of the extra return to be made on third-project loans.

a comparison of applications and approvals suggests, the 1974 increase in commitments seems to be a lagged result of the late 1973-early 1974 price peak for beef, and the increase in the price of milk (Figure 1).

7.39 Once the domestic banks started participating, the real impact of the agrarian reform on the PG seemed to appear less in the rate of commitments than in the type of borrower selected. The heightened concern for choosing borrowers with guarantees other than their rural properties, and for bringing in additional business, caused the average project rancher and ranch plan to be substantially different than expected. Though PG and supervision reports repeatedly noted the adverse impact of the agrarian reform on the <u>pace</u> of PB loan commitments, then, the impact on the type of borrower selected seemed to have been a much more serious problem.

VIII. The Agrarian Reform and the Cattlemen

8.01 One of the distinguishing characteristics of the Honduran agrarian reform, and the pressures for it, was the central role played by livestock. Honduras does not have the landholding elite based in commercial agriculture that other Central American countries have. Though coffee, cotton and tobacco are important commercial crops in Honduras, their producers do not have the political and economic power that the coffee families have, for example, in El Salvador or Guatemala.

8.02 In Honduras, much of the extensive livestock ranching occurs in the more agriculturally developed and densely populated areas of the country--particularly the southern and northern coastal areas, and within the latter, the Sula valley. The states of Cortés and Choluteca are among those with higher rural population densities in Honduras. At the same time, they are the only states where the number of cattle exceeds the number of rural inhabitants (Table 45).[1] The association between rural population densities and extensive livestock ranching in Honduras contrasts with some other countries, where livestock operations take place in areas marginal to agriculture or in frontier regions. In Costa Rica, for example, intensive dairy farming is found on the central plateau, where most of the country's agriculture and population have been located,

[1]The only other state where this occurs is El Paraíso.

at least until recently. Extensive beef operations take place in the arid and low-density Guanacaste region of the Pacific coast.

8.03 Honduran livestock ranching experienced considerable development in the 1960s—along with cotton. This was partially the result of credit facilities made available by the government. Average annual credit for livestock of the banking system increased 18 times between 1961 and 1971, almost tripling the share of livestock in total credit (Table 35). In the south, the opening of the Pan American highway was an additional spur to the growth of livestock and cotton. During this time, livestock development was seen by many as having resulted in the enclosure of lands previously available under various tenancy arrangements for subsistence agriculture.

8.04 The existence of extensive livestock operations in the developed and populated parts of Honduras has made the cattleman the target of agrarian reform pressure. The absence of a powerful landholding elite based on crop agriculture has also concentrated land claims on livestock operations. Peasant groups have specifically pointed to the cattlemen, as opposed to landowners in general, in claiming unjust land distribution and unutilized land. When talking about land tenure struggles, Honduran peasants typically refer to the landowning class as "the cattlemen." This sentiment has been particularly voiced in the south, because of the considerable amount of cropland said to be converted to pasture from the 1960s to the present. Because the south has one of the highest rural population densities in the country, such a transformation would have a considerable impact on rural employment and share tenancy patterns. Not surprisingly, Choluteca was one of the areas where land occupations and peasant organizations were most prevalent. (The other area was the north coast.)

8.05 The specification of minimum stocking rates for livestock operations in the agrarian reform law can be seen as a result of the important place of extensive livestock operations in the more developed sections of the country. Officials of the National Agrarian Institute and the Ministry of Planning have also declared on occasion that livestock should not be located in the rich and flat valley bottoms that are apt for agriculture. Livestock should be on the slopes instead, it is said, which often support a precarious and damaging subsistence agriculture for lack of flat land to cultivate. Switching livestock and crops would correct the past trends, it is said, whereby large ranchers took over the valley bottoms and pushed subsistence farmers up the slopes. This view is not explicit in the law, though it can be interpreted as implicit in the combination of minimum stocking rates and maximum landholdings specified for the three fertile valleys. Drafters of the law say they felt that intensive dairy farming was justifiable in the valley bottoms, and that the two-head stocking rate was set with this in mind. The thinking about livestock on the slopes does not seem to have been used as a rationale for expropriation proceedings in any specific case, and has been less frequently talked about since the fall of the López government in early 1975.

VIII. A. The Cattlemen's Association and the Reform

8.06 Given the livestock orientation of agrarian reform pressures, it is not surprising that the national cattlemen's association, FENAGH, would have been one of the principal opponents of the agrarian reform.[1] Since the military government allowed the press to remain free, strong FENAGH statements against the reform have appeared regularly in the press from the start. The main tack of FENAGH has been that the government should settle landless peasants on national lands, most of which are in the less developed parts of the country. FENAGH was also very active in pressuring the government to issue amendments and implementing

[1] FENAGH is actually the Federación Nacional de Agricultores y Ganaderos de Honduras. It thus speaks for both crop and livestock producers, though the latter interests have been more prominent.

legislation to the agrarian reform decrees that would make its members less vulnerable. FENAGH has declared in the press on various occasions that the reform was communist-inspired and that the past three INA directors were communists.

8.07 FENAGH's pressures to modify Decree 8 turned out to be crucial to the PG. After the issuance of the implementing legislation for Decree 8 in late December 1972, FENAGH constituted a working group to make recommendations to the government for change. The PG project director, who had been executive secretary of FENAGH for some time, was a member of this working group. As a result of the group's recommendations and FENAGH's pressures, the government agreed to amend the implementing legislation in April of 1973.[1] Two of these changes in the implementing legislation were the most significant. The legislation had exempted only those cattlemen with 75% of their property in pasture, which would have left most large cattlemen vulnerable; PG borrowers, for example, had an average of only 39% of their property in pasture (Table 17).

[1]The letter transmitting the amendment to FENAGH was signed by the then sub-secretary of the Ministry of Natural Resources, who is the current Minister. His uncle and his father are PG sub-borrowers. The sister of the president of FENAGH is also a sub-borrower. Another PG sub-borrower, a lawyer, was one of the six FENAGH representatives in discussions at the presidential palace of FENAGH objections to Decree 170 in March of 1975.

The amendment said that the 75% would now apply only to those sections of the property already devoted to livestock, and not to the whole property. This seemed to virtually nullify the 75% stipulation.

8.08 The second FENAGH-inspired change in the implementing legislation added to the list of "unaffectable" cases those landowners who could prove that they had financing to develop their property and had already initiated such development. Though the amendment did not name the Bank loan or the PG, it in effect protected PG borrowers only. The PG was the only credit institution that ever sought exemption for its clients under this provision. No claims for exemption were made by landholders with BNF credit.

VIII. B. Project Ranchers and Expropriation

8.09 To the extent that PG borrowers were the country's largest ranchers, a good part of them were bound to be vulnerable to the agrarian reform. Of the 78 borrowers of the first livestock project, 22 divided their land in two or more parcels after publication of the agrarian reform law in December 1974; 11 borrowers from the second project partitioned their lands. As several borrowers told me, they usually "sold" the land to immediate family—often continuing to operate it as a single unit. (The law allows three years for the owners to shift to separate operation of the parcels so divided.) The project director reported to the Bank in February 1975 that, even taking the divided properties into account, 45 project ranches were affectable, of which 30 were in the north coast area. (There were about 185 project ranches at the time.) Of the 30 affectable ranches on the north coast, only six were within the landholding ceiling but were still affectable because of low stocking rates; the rest were over the landholding ceilings.

8.10 At least 18 of the first-project borrowers had lands taken in forced rental under Decree 8 or had expropriation proceedings initiated under Decree 170--sometimes involving landholdings other than the project ranch. Fourteen of the second project-borrowers experienced such actions.[1] For at least nine first-project borrowers, the PG sent letters to INA declaring that the land was being developed under a World Bank loan. Such letters were sent for at least eight second-project borrowers.[2]

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[1] Data is from PG files, conversations with borrowers, and an INA list of parcels force-rented under Decree 8.

[2] These figures are taken from a list supplied to me by the PG of borrowers for whom letters to INA were written. The actual number of PG interventions is greater since some PG borrowers who told me they had obtained PG letters to INA were not on the PG list. Copies of the PG's letters to INA were filed individually in borrower files, which were quite voluminous. They would have been easy to miss in a quick review of the files. In some cases, moreover, the borrower asked the participating bank rather than the PG to send the letter to INA.

8.11 The desire to avoid expropriation was said by the Bank and the PG to be an important motivation for taking PG loans. An April 1973 supervision report noted that "the threat of invasion is in fact an excellent stimulus for development, and without it, many farms might remain underutilized indefinitely." The statement was repeated in the second Appraisal Report. A January 1974 supervision report commented that "some farmers are assuming that a loan under the project is insurance against invasion by campesinos." A supervision report of January 1975 said that much of the credit demand appeared traceable to ranchers' desires to be under Central Bank protection against INA actions. A letter of the project director in February 1975 explained that Decree 8, in contrast to Decree 170, had protected all those properties being developed with financing. "It was in this way possible to avoid asentamientos on project ranches."

8.12 PG and PB technicians also said that many borrowers were motivated by the desire to avoid forced rental or expropriation. Sowing pasture was the quickest way to show that one's land was being used, and ranchers felt that the PG loan was a kind of seal of good housekeeping for them. "The peasants know it's useless to mess with somebody," said one rancher, "when they know he has a World Bank loan." In the same vein, the president of the cattlemen's association said, "Thank God for the World Bank loan! It was the only thing we had to protect us from Decree 8."

8.13 That some landowners took PG loans to protect their lands from expropriation is probably one of the reasons why project ranchers turned out to be quite different than was contemplated at appraisal--and ranch operations turned out more extensive. As noted above, there were several borrowers who developed their properties from scratch, in contrast to the Bank model of intensification of existing pasture; several borrowers were new to ranching; the relationship between expenditures on new pasture and fencing, as opposed to renovation, was much greater than projected; the purchase of animals was much greater than anticipated. The last discrepancy between actual and expected, one would think, might be even greater under Decree 170, in that it specified minimum stocking rates. This turns out to be the case. Expenditures for purchase of breeding stock under the second project were almost twice the percentage expected--51% vs. 26% (Table 2).

8.14 One borrower told of how he rapidly hired 40 men when a contiguous piece of a neighbor's property was taken in forced rental. He put the men to work from sunrise to sunset, clearing and seeding his undeveloped land. He also obtained an advance on his PG funds to facilitate this work. Another borrower told of how an asentamiento was settled at the periphery of his project ranch immediately after Hurricane Fifí in late 1974. Fearing that part of his land would be claimed in forced rental, he sold the land and his herd, the latter having been completely acquired with PG funds. He then canceled his loan and soon thereafter obtained another PG loan to start from scratch on another "safer" property he owned.

8.15 Another borrower, with several hundred hectares of virgin land and neighboring forced rentals, complained repeatedly in letters to the PG of delays in approval of his loan because of "the threat of agrarian problems." Four months after applying for his loan and ten months before Decree 8, when land occupations were frequent and agrarian reform legislation was threatened, he wrote to the program asking that his ranch plan be altered so that he could use funds specified for buying bulls to open up new pasture instead. "It is of the greatest importance for me to incorporate the largest amount of land possible," he wrote, "in order to avoid agrarian problems." Later in the year and still one month before the credit was legalized, he wrote to the PG about the urgency of repairing old fences and building new ones. "Sometimes when peasants see large extensions of unused land," he wrote in explanation, "they think it's not worth anything to the landowner and they try to take it over."

8.16 To accommodate this borrower, the PG gave him a L.50,000 advance on his credit. A PG inspection memo, written five months after the project was legalized and after the issuance of Decree 8, noted that most of the investment had gone into the high and undeveloped dry part of the ranch, rather than the more developed low humid part. The ranch study, the report went on to say, had reported as "natural pasture" much land that was actually virgin. The borrower wrote another letter a few months later, asking for a loan extension and explaining that 400 hectares of still undeveloped land were "a danger for possible asentamientos." The extension was granted. Finally, the borrower wrote to the PG as soon as the agrarian reform law was issued in 1975, asking for another loan. "I cannot afford to stop developing my land," he said, "because then I would be subject to expropriation."

8.17 This case was the only one of 20 files I examined with such extensive references to agrarian reform motivations, let alone with such a prolix rancher. Nevertheless, it is an excellent illustration of the kinds of concerns that were affecting cattlemen at the time and the way in which they could influence participation in the PG. Given these concerns, it is not surprising that project ranches tended to be located in areas where there were asentamientos formed under Decree 8. There was a strong statistical association, that is, between the number of project ranches in a county and the number of asentamientos.[1]

8.18 The borrower cited above asked for and received an advance on his credit, in order to get his land cleared and fenced as soon as possible. The other borrower cited above also received an advance from his participating bank in order to get to work rapidly. These advances were not uncommon and became somewhat of a problem. Borrowers complained about the delays in legalization of loans, and banks complained about not getting reimbursed by the Central Bank for the advances. There was considerable confusion over the issue. Bank memos said that a fund was set up in the Central Bank to reimburse advances; PG staff say that the PBs did not realize they had to have detailed receipts from borrowers in order to have the advances approved by the PG for Central Bank reimbursement. The problem was ultimately cleared up by a greater rapidity in Central Bank processing of reimbursement requests, and by a change in PG practice whereby "approval in principle" was sought from the PB and given by the PG before the PG embarked

[1]The relationship was significant at the .001 level with a chi-square of 97.48 and four degrees of freedom (Table 46). This evidence does not prove causality. ~~As pointed out in a following section, this~~ The association can also express the previous existence of cattle ranching in areas of rural land pressure.

on a ranch study.[1] The banks and the PG, then, were able to accommodate the urgency of borrowers by approving advance payments.

8.19 Two PB technicians said that the PG also accommodated ranchers' concerns about agrarian reform by allowing them to transfer expenditures meant for other categories to pasture formation. Since PG data on actual expenditures are taken from the ranch plans rather than actual expenditures, it is not possible to document this. Many of these changes probably took place before legalization of the loan--as in the case cited above, where the borrower requested a change from bulls to pasture. Such changes may be reflected, then, in the difference between expenditure breakdowns in loan applications and those in the final approved plan. The increase in amounts approved for pasture was greater than the average increase in amounts approved for all categories--22% vs. 15% (Tables 7 and 6). The amounts approved for fencing and breeding stock were 21% and 24% greater than requested. The increases in these categories would also be compatible with the desire for protection from agrarian reform.

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[1]This practice was initiated mainly to avoid the number of cases where the PG would complete a ranch study, approve the project, and then find that the PB turned down the borrower for other reasons.

VIII. C 8.20 The World Bank's Goals and Fears of Expropriation

It is difficult to assess the extent to which PG borrowers were motivated mainly by agrarian reform concerns. The greater extensivity of the borrowers than was expected can also be seen as the tenacity of extensive grazing methods in Honduras. The desire to avoid agrarian reform, moreover, was not always inconsistent with the productivity objectives of the livestock program--especially after the specification of minimum stocking rates in the agrarian reform law of 1975. The PG reports that many ranchers have become interested in African star grass after Decree 170, because of the significantly larger number of animals it can carry per unit land. The adoption of improved pasture, as noted above, was one of the principal goals of the program. PG staff also say that there has been considerable reinvestment of income increments from ranch development. They attribute this to the borrowers' desire to get as much land as they can into pasture, and to get their stocking rates up to a safe level.[1] Thus the livestock program could be seen

[1] The PG also reported that some ranchers were afraid to sell cattle, even when it was justified, because an unexpected INA inspection might find them below the stocking rate. Some cattlemen, others said, were switching from beef to dairy because it was easier with dairy operations to achieve the minimum stocking rates. Some, still others said, were selling off their herds and lands in desperation.

as a way for ranchers to avoid expropriation and a means by which they could comply with the law.

8.21 Some distinction should be made between the protection against expropriation obtained by ranchers from the PG under Decree 8 and that obtained under Decree 170. The stocking rates of the latter required increases in carrying capacity, at least on paper; the former required only land in pasture. Thus most of the borrowing done for protection by those not likely to intensify would have happened under Decree 8. This would have occurred up to January 1975, about halfway through commitment of the second livestock loan.

8.22 The expropriation motivation of project ranchers would have taken one of two forms. Some borrowers with such motivation would have had little interest in or capacity for the production methods of the Bank model. For these borrowers, short-term intentions and extensive management systems were most likely. This may explain to a certain extent the "extensive" ways in which project ranches differed from the model, as discussed above. Other borrowers with such concerns could have been "modernizing" ranchers, suited to the Bank model, who might normally have waited longer before developing their ranches--or would have developed them more slowly. The latter type of development would not have been inconsistent with the productivity goals of the program.

VIII. D. Lands Apt for Agriculture

8.23 The first and second livestock loans were explicitly directed to areas that were apt for agriculture, as will be seen shortly. This was contrary to the express policy of the agrarian reform and also to the Bank's own statements about its livestock lending in Latin America.

8.24 In the early 1970s, the Bank issued various papers on its livestock lending worldwide, and in Latin America in particular. One of the points repeated in these papers was that livestock projects in Third World countries could be justified only in certain kinds of regions--because of problems of rural unemployment, land tenure, and high rural population densities. Where land was suited to agriculture and where substantial rural population and infrastructure existed, according to this argument, there was no social or economic justification for the Bank to finance livestock projects. As far as Bank financing was concerned, it was said, livestock had its place only in frontier areas, or where ecological conditions were unfavorable to agriculture, or where rural population densities were low.

8.25 The Appraisal Report for the first livestock project justified the choice of Honduras' Atlantic zone for 85% of the project ranches on the grounds that it had "fertile [soils] well suited to intensive cropping" and was "well serviced with infrastructure and commercial facilities." A pre-appraisal memo had suggested that the project be concentrated in this "area of highest potential" because of the difficulty of adequately serving ranchers all over the country. Passing reference was made to the eastern "frontier" zone in the Appraisal Report, but only as having a future potential for livestock. The Appraisal Report referred to the Sula valley in particular as the area of expected concentration of subproject ranches. This valley was in one of the most populated and agriculturally developed sections of the country, in which ~~and was adjacent to~~ the country's principal trade and commercial city was located--San Pedro Sula. It was the valley singled out by the drafters of the agrarian reform law as most ideally suited for intensive crop agriculture.

8.26 Other signs of the aptness of many of the project ranches for agriculture were cited above. Some project ranchers took lands out of crops and put them in pasture under the project; some "diversified" into agriculture during the project, or had plans to; some had considerable land sown to crops on their project ranches before and during the project; and some sold their lands for the development of sugar cane. A senior PG officer commented that, indeed, many of the project ranches in the Atlantic region were on lands suited for crop agriculture. That concern really had not been within the purview of the program, he said, because the money was available for livestock, not crops.

8.27 The regions selected by the Bank for its livestock project were also in the more populous areas of the country. Though Honduras has a lower rural population density than the rest of Central America, the areas indicated by the Bank for livestock development were those in which pressures for land by peasants were greatest during the 1960s and 1970s. Peasant groups were most active and successful in the Atlantic coast area and the southern states of Choluteca and Valle. Many of these groups evolved into the later asentamientos, which received land in forced rental under Decree 8.

8.28 Using the number of asentamientos established in a region as a proxy for rural population pressures on land, one finds that project ranches seemed to be concentrated in areas where pressure was greatest. Of the five states of Honduras that ranked the highest in the number of asentamentos settled under Decree 8, four also ranked the highest in the number of PG livestock projects (Table 45). A more detailed comparison of asentamientos and PG project ranches by county, cited above, also suggests a strong association between the location of asentamientos and project ranches (Table 46). Finally, the four states with the greatest number of PG projects were those in which peasant claims for land were the most successful--as measured by the ratio of asentamientos to rural population (Table 45).

8.29 That project ranchers were located in developed areas apt for agriculture was not the result of an attempt to initiate ranching where it did not before exist. As mentioned above, livestock coexisted with agriculture in the more developed areas of the country. The livestock projects went, to a certain extent, where the cattle population already was (Table 45). Interestingly, the major exception to this rule was the state of Olancho--with a high cattle population and a relatively low number of projects. Olancho fits more nearly the "frontier" description specified by the Bank as the type of the area where livestock development is appropriate.[1]

VIII.D.i. 8.30 Office location and project distribution. The location of the PG offices probably had at least as much to do with the actual distribution of loans as the preferences of the Appraisal Report or the existing distribution of cattle ranching. The central

[1]Olancho was also one of the five states with the highest number of asentamientos, which seems to contradict the "frontier" description. It is the largest state in Honduras, however, and is three times larger than the next largest state, Colón. (Gracias a Dios is larger than Olancho but is almost uninhabited.) Most of the asentamientos, ~~moreover,~~ were located in the state's more developed western parts.

region, for example, accounted for a considerably higher percentage of project ranches than the approximately 8% contemplated at appraisal. The region ended up with 30% of the projects under the first loan, and 18% under the second (Table 5). This was no doubt related to the location of the project office in Tegucigalpa.

8.31 The central-region states with the greatest number of project ranches were Francisco Morazán--where the capital city is located--and El Paráiso, where the ranch of the project director is located. Given that the PG had to drum up rancher interest in order to make loans under the first project, close geographical contact and personal relationships would have been important. This may explain as well why two other cattle regions were underrepresented--Olancho and the southern states of Valle and Choluteca. Olancho is distant from the capital city and of difficult access. The southern states, which were intended at appraisal to play some role, though a minor one, accounted for only one third as many projects as the central region. PG staff say that Choluteca is underrepresented because of the lack of a PG office there to promote the program; it is hoped that an office will be opened there next year.[1]

[1] A senior project officer said that the south was underrepresented also because the southern cattleman is more traditional than his counterpart in the north. A PG Annual Report mentioned, in addition, that many southern ranches were already mortgaged to the banks for

8.32 Given that the majority of project ranches were to be in the north, the first Appraisal Report felt it necessary to justify the location of the PG office in Tegucigalpa rather than San Pedro Sula. There was said to be a need to "maintain liaison with governmental services and banking institutions," and communications were said to be excellent between San Pedro Sula and Tegucigalpa. Though the project was not meant to promote livestock development in the less settled areas, then, it would have had to locate its offices quite differently if it ever meant to do so.

III. D. ii. 8.33 Conclusion. The Bank chose an area for livestock development in Honduras that was disqualified by its own general criteria. It was apt for agriculture; it was in an already settled and populous region of the country with transport and power infrastructure; it was in one of the principal areas of land pressure by organized peasants, pressure that was directed particularly at livestock

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cotton production credit. The PBs would not take second mortgages.

It would seem to be a mistake to promote PG livestock projects in this area, given that it has one of the highest rural population densities in Honduras and has been one of the two principal areas of agrarian reform pressure and peasant organizing in the country.

ranchers. Looked at broadly, livestock production seemed to have a comparative disadvantage in relation to agriculture in the regions selected for the project. The first and second appraisal reports did not discuss the choice of livestock for these regions vis-a-vis agriculture.

8.34 The Bank's criteria for excluding agricultural and developed regions were not enunciated until 1971. It is perhaps unfair, then, to apply these criteria to the first livestock project, whose Appraisal Report was written in 1969. The second Appraisal Report, however, was written in late 1973 and the loan became effective in January of 1974. But the second report showed the same preference for the Atlantic zone--"where the distribution of rainfall and soil conditions enable the establishment of African star grass and thus permit high stocking rates..." The Bank's policy on livestock had been enunciated by this time, McNamara's Nairobi speech had been delivered, and the Honduran agrarian reform was in full swing. The Honduran policy of giving priority to unutilized land in areas of public infrastructure had been clearly enunciated, as well as the viewpoint that livestock should not occupy the fertile valley bottoms. According to the Bank's own statements, at the least, there was good reason in late 1973 not to make a second livestock loan following the same geographical lines as the first.

8.35 The third livestock project, approved in 1976, incorporated agricultural and agrarian reform considerations. The project included financing for crops "to meet some of the needs of the expanding agrarian reform sector for mixed livestock/crop development." Project crop farms were to be concentrated in the Atlantic and Pacific zones, and livestock activities were to be "developed or shifted to the more marginal central (mountainous) zone." The exception would be intensive livestock activities associated with crops in the cropping zones. The frontier zones, however, were explicitly rejected. The project would only operate, the Appraisal Report said, in areas reasonably serviced with roads, housing, and schools.[1] To a certain extent, this excluded the more remote areas of Honduras with potential for further livestock development--areas that were more apt for lending according to criteria of the Bank's papers on livestock lending in Latin America.

VIII. E. <u>Attitudes About the Agrarian Reform and the World Bank</u>

8.36 Whether the Bank was justly criticized as having sided with anti-reform forces is partly a function of the polarization in the public sector with respect to the agrarian reform. As in many agrarian reforms, there has been substantial ambivalence in the

[1] Actually, this limitation might also eliminate many projects in the "marginal central zone."

Honduran public sector over the reform. Those government entities most in favor of the reform in the 1973-1975 period were the National Agrarian Institute and the Ministries of Planning, Finance, and Labor. The more reluctant or neutral entities at one time or another were the National Development Bank, the Ministry of Natural Resources, and the Central Bank. The military itself was divided, the pro-reform forces being spearheaded by the president, General López, and a group of young lieutenant colonels. It was mainly the strongarming of the political situation by López that allowed the pre-reform groups in the public sector to hold sway. With the fall of López in early 1975--and later in the year, of his military legatee in the directorship of INA--ambivalence about the reform became more apparent and had more impact on the reform process.

8.37 Because of the polarization in the public sector, it was difficult for those working in public sector entities not to take sides. The side-taking was to some extent a function of the clientele served by an agency. The BNF and MRN, for example, had served larger farmers, and hence were understandably lukewarm to the reform. The Central Bank, like many such entities, was conservative. Its management tended to come from large landowning families, which were adversely affected by the reform.[1]

8.38 The PG naturally sided with the cattlemen--because of its client loyalties, the fact that most of its senior officers were cattlemen, and its organizational closeness to the Central Bank. The opinions of PG staff were, with some exception, at the opposite end of the spectrum as those of INA. A senior project officer, for example, told of how he had advised ranchers that they were too docile in face of peasant land occupations before Decree 8. "Go out and arm yourselves!" he chided them. "Sure they are going to take your land if you just sit back and don't do anything about it. The way you deal with land invasions is with guns."[2]

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[1]The president of the Central Bank until 1971, with whom the Bank negotiated the first livestock loan, owned 6,000 hectares in the state of El Paraíso. He had to sell 4,000 when Decree 170 was announced, so as to be within the limits of the law. The current president of the Central Bank, who was a principal figure in negotiations with the World Bank from the start, is from a family with large landholdings in the western section of the country.

[2]One PG borrower told of how he had purchased L.5,000 in arms since Decree 8. He armed each of six guards on his ranch with M-1 rifles, giving them orders to shoot anyone who came on the property after dark. He also went armed with a .45 revolver and an M-1 to the president of the peasant association, ANACH, and warned him "in no uncertain terms" of what he would do if any peasant unions set foot on his property. (His guards used their arms only once; but the intruder turned out to be one of the rancher's tractor drivers coming home drunk.)

8.39 Because of the polarization in the public sector around the agrarian reform issue, it is difficult to discuss the question of the Bank's involvement without simply citing the positions taken by both sides. PG officers, with some exceptions, believe that the agrarian reform law and its application have been discriminatory against ranchers. The stocking rate of two animals per hectare for the fertile valleys, they say, is achievable only by the smaller ranchers who work more intensively. The stocking rates are highly unrealistic and were "pulled out of the air," they say, with no serious study. All the lands protected with the PG letter, say the PG staff, were being seriously worked. INA technicians, they say, often made perfunctory inspections and declared lands sown to pasture as not being worked. They do not know, for example, that the first growth of African star grass is mixed in with weeds and brush so that the land does not look cultivated.

8.40 Government officials involved in setting the minimum stocking rates and the maximum landholdings say that the only rigorous rate was that imposed for the three valleys--i.e., two animal units per hectare and 250 hectares maximum. They say that the rates were set mainly with regard to rainfall conditions and soil fertility; the excellent rainfall and soil fertility conditions of these valleys, particularly the Sula, are said to make them eminently apt for agriculture. The landholding ceiling was said to be purposely set low for the three valleys--and the stocking rate high--in order to discourage extensive beef operations and allow intensive dairy operations.

8.41 High officials in the pro-reform entities of the government believe that the World Bank made things more difficult for the Honduran reform by associating itself with the large landowners through the livestock program, and by granting a second large loan in the midst of the reform. They say they personally inspected some of the lands protected with the PG letter and found a good part of them to be virgin. They say that PG protection took out of their grasp lands that were excellent for purposes of the reform--namely, uncultivated lands located in areas of infrastructure.

8.42 These officials feel that the Bank is hypocritical, declaring in Nairobi in 1973 that it was in favor of rural income re-distribution and then, on the heels of that statement, approving a second program of loans to those who are considered the focus of rural inequity in Honduras. "We were so excited about McNamara's Nairobi speech," said a director of the National Agrarian Institute. "We ran off xerox copies, we distributed it to everybody, we circulated it among the military. But everytime I turned around, there was an expropriable cattleman in my office, claiming World Bank protection for his uncultivated land. We were bitterly disappointed."

8.43 Pro-reform officials and technicians also cited the activities of the PG to protect large rancher-borrowers. They referred to the rough and unjust treatment of peasants by some of the ranchers. It bothered them, they said, to see these kinds of landowners protected by the World Bank. Apparently, the PG did spend considerable time protecting its borrowers. A supervision report noted in 1975 that INA actions had "forced the Central Bank staff to expend much time and effort in reversing the actions and keeping other Project farms free of land problems."

8.44 Some critics cited the project director's ~~background and~~ activities as further evidence of the association of the program with anti-reform interests. Until 1973, as mentioned above, the director had been executive secretary of the cattlemen's association, the most vocal opponent of the reform. He had participated in the working group which had resulted in the amending of Decree 8 to exempt holders of investment credit. He was a landowner and rancher himself, and had suffered one of the early "forced rentals" under Decree 8--involving a 110-hectare parcel.

with interests in the meat packing business; they

~~On that occasion, he had arrived at the office of the INA director to dispute the action, "furious."~~ Several of his relatives were of a large landowning family in the state of El Paraíso, ~~who~~ had four loans under the first livestock project amounting to L.560,000. ~~Before Decree 8, they had had the army brought in several times to remove occupying peasant groups from one of their properties.~~ They lost land under Decrees 8 and 170. [go to p.195a]

8.46 The cattlemen's association often referred publicly to the World Bank loan as evidence of the legitimacy of their opposition to the reform. In the eyes of reform proponents, this also tended to demonstrate an alliance of the Bank with the landowners. The Bank's name, in particular, was constantly cited in the press by a large landholder and PG borrower, in defense of a highly disputed case against forced rental and expropriation of his project property. The case became a cause célèbre because the borrower, a lawyer, was a major political figure. He was the leader of the Liberal Party and a strong critic of the López government and the agrarian reform. ~~He is now running for president.~~

8.47 The borrower's 4,000-hectare property had been acquired in the early 1970s and was largely undeveloped before the PG loan; the loan was the largest size granted under the program—L.200,000. The owner claimed in the press that he was developing his property insert on p. 195:

8.45 The PG allied itself not only with the cattlemen in pressuring to modify the agrarian reform legislation. It also intervened officially in favor of the large landholdings held by the meat packing companies, part of which were for fattening. (Part or full owners of five of the seven packers had PG loans.) The permanent agrarian reform law had allowed for special exemptions from the landholing ceilings, in cases where the enterprise had economic and social importance to the country (Article 39). Each case was to be decided individually, and would require the approval of the Ministry of Planning, the National Agrarian Institute, and the Ministry of Natural Resources. By the time the implementing legislation for this particular article was being written, seven applications for exemption under Article 39 had already been presented--five from the meat packing companies. The drafters of the implementing legislation were pressured in opposite directions while they were writing--by INA and the PG. INA wanted the Article 39 exemption to be defined quite strictly, and the PG wanted the legislation to be written in a way that gave more of a chance to the packers. This official side-taking by the PG in favor of the packers was also seen by critics as an alliance of the PG and the Bank with large landholding interests.

with a World Bank loan and therefore was exempt from INA action. INA said in the press that his lands were uncultivated, World Bank credit or no. In August 1975, the INA director announced in the press that he was making buses available to the public so that they could go and see for themselves that the property was almost completely undeveloped. In 1976, FENAGH accused the subsequent INA director in the press of being a communist for continuing with, among other things, the expropriation proceedings against this particular property. Without getting into the details of this complex case, which is still pending, suffice it to say that it became, in the eyes of reform proponents, another example of the Bank being "in league with" anti-reform forces.[1]

III. E. ii 8.48 Bank pressures on the government. For the most part, the PG and the World Bank did not exert any direct pressure on the government with respect to its agrarian reform actions. The Bank frequently reminded the government, however, that it expected the insecurity

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[1]The case was so publicly aired that when the borrower was running for president in 1976, a group of Liberal Party voters in the western zone of the country declared support of another candidate. The above candidate, they said in the press, "had lost considerable prestige among the peasants, due to the permanent dispute that he maintains with the peasants on his southern property. If he were a real politician, he wouldn't have continued this struggle against the Honduran peasantry."

in the countryside to be cleared up as soon as possible. Further lending, the government was given to understand, would be contingent on such a clarification of the situation. In late 1975, a back-to-office report advised that "if the rules of the agrarian reform are fair, clearly stated and implemented in such a way as to reassure the private sector that its interest will receive proper protection, the confidence of the livestock industry and the participating banks should be restored." A few months later, the draft of a Bank letter to the president of the Central Bank referred to the lag in commitments of second-project funds:

> While this has serious implications for the development of the livestock industry and could make the justification of an additional IDA Credit difficult, I am optimistic that the present uncertainties will be removed and that there will be a return of confidence both on the part of farmers and bankers. Any influence that the Central Bank can bring to bear in restoring confidence to the banking system in general would be greatly appreciated.

Finally, the supervision report advised the Honduran government that it was too concerned with cropping and with settlement of people on lands with agricultural potential. It was placing livestock production too low on its scale of priorities:

> In view of the importance of beef for export and of milk production for import substitution, Government would be well advised to consider carefully the position of livestock production as an activity which is complementary to agricultural cropping and not necessarily in conflict with it nor with the policy of Agrarian Reform.

8.49 The Bank's comments could not have been interpreted as being sympathetic to the reform. Any agrarian reform process is by nature one of considerable uncertainty. The only way of restoring confidence to landowners and bankers is to assure them that they will not be expropriated. Furthermore, if the designers of the reform think that one sector is responsible for a good deal of the inequity in the countryside--as was the case with Honduran livestock--then they will want to give low priority to developing that sector in their development plans. At such a historical moment, Bank pressure in favor of private sector confidence and higher priority for livestock could not help but be taken as siding with the anti-reform forces. "I did not like the fact," an INA director said, "that the drafts of Bank reports constantly cited the agrarian reform--a process we were deeply committed to and proud of--as an adverse event that was making problems for the execution of their loan."

VIII. E. ii 8.50 Seeking the second livestock loan. Why did the Honduran government seek the second livestock loan in 1973 if it was so bent on agrarian reform, and if feelings ran so high against extensive livestock ranching in the fertile agricultural regions? Here is where the polarization in the public sector, as discussed above, played an important role. The principal government entity with which the Bank was dealing--the Central Bank--was not an institutional proponent of the reform. It is not that the Central Bank was taking an official position against the reform in seeking a second livestock loan. It was simply that the concerns cited above were not likely to have been concerns of that particular entity, or of the PG.

8.51 The prestige value of a World Bank loan was no doubt an additional factor in keeping any contradiction between a second livestock loan and an agrarian reform from becoming a problem. In carrying out its agrarian reform, the Honduran government had tried hard not to alienate sources of international support. The ongoing assistance of AID, the advisory relationship with the University of Wisconsin Land Tenure Center, and the gentle treatment of United and Standard Fruit--all were testimony to this attempt. International support was crucial to the ability of the government to withstand landholder opposition. At such a time, it would have been counterproductive to jeopardize a World Bank loan, no matter who its beneficiaries.

8.52 The second loan may have been tolerable when viewed as a way of buying off some of the cattlemen's opposition to the reform. One minister of state made exactly this argument when responding to FENAGH's accusation that the government was contradicting itself by, on the one hand, supporting livestock with a World Bank loan and, on the other, expropriating livestock owners. To the contrary, this official told the cattlemen, the Bank loan was complementary to the agrarian reform decrees in that it gave the cattlemen the wherewithal to comply with the law. Though the cattlemen's association may not have been placated, they did say that the Bank loan was the only way they got some protection from Decree 8.

8.53 Some government officials did suggest to the Bank and the PG that the second livestock loan be designed in a way that was more in keeping with the agrarian reform. One minister of state had asked that the second loan be directed toward agriculture and asentamientos. The Bank, he said, did not seem interested. Another high government official said he had expressed an interest in having the program benefit much smaller farmers. But the Bank told him, he said, that the production of such farms was not great enough to generate significant production increases.[1] He

[1] This statement was also made in the first Appraisal Report. It is questionable to the extent that the 46% of the country's cattle population is on farms less than 31 hectares. A distribution of cattle in Honduras by size of farm can be found in IBRD/IDB/AID, "Agricultural/Rural Sector Survey--Honduras: Expansion Possibilities in Livestock," Draft, 11 July 1974, Annex 6, Table 8, p. 54. (This annex seems to have been omitted from the final report of December 1975.)

thought it ironic that now, in the third livestock project, the Bank was "talking up" the small rancher so much.

8.54 Even in the third livestock project, the Bank seemed reluctant to lend to as small ranchers as proposed by the PG itself--or to commit itself as strongly as had been proposed to asentamiento lending. The third Appraisal Report dropped the 10-hectare small dairy model proposed by the PG.[1] Whereas the PG proposal specified that 64% of the livestock-credit portion of the loan should go to agrarian reform beneficiaries and to the small dairy ranches (10 and 30 hectares), the Appraisal Report left the division open. In explanation, the report said that it was difficult to predict the demands and capacity of the agrarian reform beneficiaries. Thus it was considered best not to specify the division of funds in advance. As pointed out by a PG officer, and as noted above, a first-come first-served criterion of allocation was likely to end up with most of the funds going to individual and larger operators. The second livestock loan offered ample evidence of this.

8.55 There were various reasons, then, that the Honduran government would have been party to the second livestock loan, even

[1]It also dropped the larger 150-hectare dual-purpose and 400-hectare breeding models proposed by the PG.

though the loan supported the very groups against which the government was carrying out its reform. It is unfortunate that the Bank could not have offered a more positive form of support to the government at that time, and that it could not go along with those who would have liked the loan to be directed toward smaller ranchers and agrarian reform beneficiaries.

III. E. iii. 8.56 Conclusion. Though the Bank did not directly intervene in favor of the Honduran cattlemen, its decision to invest in the Honduran livestock sector a second time in 1973 could not help but be seen as tantamount to siding with the anti-reform forces--given the institutional environment of the time. The PG, moreover, could not have been expected to have loyalties different than the ones it had. The fact that both PG directors were cattlemen themselves was basic to the respect they commanded among the borrowers, and to the discipline they insisted on in investment expenditures. Their reputation as successful cattlemen also gave considerable weight to their advice to borrowers on new techniques.

8.57 It was perhaps unrealistic of the Bank to think that it could adapt to the post-Nairobi mentality by making its second livestock loan in 1973 a "small-rancher" one. At a time when banks were showing themselves just as skittish as ever about lending in the countryside, and ultimately insisting on urban guarantees, smaller ranchers were not likely to qualify. There was no reason for the banks, who had dictated what kind of client would qualify under the first loan,to do any differently under the second. Decree 8 was still being executed, and a permanent agrarian reform law was coming up. The National Development Bank was to be the conduit for many of the smaller loans, but the BNF had been serving large ranchers for many years. Without specific quotas for small-rancher credit, then, it was doubtful that the BNF would bring in a large group of smaller ranchers.

8.58 At a time when landowners with uncultivated lands were desperate for protection and when the PG was the only protection around, it was unrealistic to expect that the PG staff could turn their backs on these ranchers and be just as adept at lending to smaller ones. Finally, the Bank's constant interest in seeking Central Bank guarantees for default in the case of expropriation of sub-borrowers could not help but be seen as making a privileged class of those expropriable landowners who were lucky enough to be PG borrowers.