INTER-COUNTRY EVALUATION OF SMALL FARMER ORGANIZATIONS: HONDURAS

V - What Happens in an Agrarian Reform

Judith Tendler

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V - What Happens in an Agrarian Reform

The above discussion of the National Development Bank (BNF) focused on what happens to a small farmer program in a large borrower bank. In this section, the discussion moves to the interactions between public sector institutions in agriculture, like the BNF—and the involvement of these agencies in both the AID sector loan and the agrarian reform.

Agrarian reform looks like a decision, an act, an event that is defined in time by the moment the reform decree is issued. But it is really a process that goes on for several years, and not a discrete happening. The issuance of the reform decree is only a milestone. After this, the reform can be slowed down, heightened, stopped altogether, or reversed. This will depend on the changing relative power of pro- and anti-reform forces within the government, as well as without.

The population of the government agencies of a country is a microcosm of the population at large; it contains the same opposing sides on various political issues. It is only natural that some of the government institutions dealing with agriculture, or some individuals within them, will not particularly like an agrarian reform. These individuals or institutions will not necessarily couch their dislike in terms of official opposition. But myriad opportunities will arise in the course of implementing their programs to <u>not</u> help the reform. They can drag their feet on the execution of orders, as in the above story of BNF slowness to help measure lands for forced rental under Decree 8. Or they can enforce the letter of the regulations by which they operate, to the point of going against the spirit of the reform, as in the story of the attached tractor above.

An agrarian reform is never looked at as a <u>fait accompli</u> by those who oppose it and by those who favor it. It is always perceived as being up for grabs. Those who do not like the reform are ever-vigilant of the possibility of undoing it, with the right combination of groups and pressures. The agrarian reform decree, then, does not mark the climactic ending of a long period of turbulence and the beginning of a calmer period of implementation tasks. It marks the beginning of a different kind of struggle— in some ways, a more intense one. Opposition groups, which previously might have felt that "the inevitable" could never happen, now have something concrete to fight against. To them, the decree means not that the battle has been lost, but that it has <u>begun</u>. Thus the government committed to an agrarian reform has two difficult and demanding tasks: (1) carrying out the reform and servicing the post-reform groups, and (2) fending off the forces of opposition.

Polarization in the Public Sector

The implementing of agrarian reform legislation places new demands on government agencies, requires that they do things differently, and jostles the balance of power between them. They get put to work for the reform. Before the reform, indifference or even dislike for the idea may have been irrelevant to the work of these offices or individuals within them. But the demand that they work for the reform after its passage into law brings them much closer to it. In this kind of situation, indifference or armchair dislike can be transformed into anti-reform behavior. The situation is analogous for someone who is sympathetic to the idea of reform and works in an implementing agency. For this person, carrying out one's job suddenly turns into putting oneself on the line for the reform. Some agronomists in the Ministry of Natural Resources, who worked closely with the new post-reform groups, received ultimatums from large farmers: either they "stop working for the reform" or there would be reprisals against them and their families. To carry out one's job during the implementing stage of a reform, then, can become a difficult and ethical choice.

After passage of an agrarian reform law, the turbulence spreads from the countryside, in a sense, into the institutions of the public sector—the state banks, the extension services, the agrarian reform agencies, the ministries of agriculture. In the government office where you work, you are either for the reform or against it. Likewise with your superiors. Or, you are in favor of the reform, but very much against the way it is being done—a common stance in the Honduran public sector. In the hands of a government agency, this kind of disagreement can frequently have the same effect on the course of the reform as opposition to it.

The implementation demands of a reform, then, force a polarization of attitudes and feelings within the public sector itself. Those who do not like the reform will often refer freely to their pro-reform government colleagues as communists and power-mongers. Those who support it will characterize their opposites as reactionaries and sellouts. During these highly politicized times in the public sector, the normal approach to development projects may not work well. I return to this point below.

<u>Shaking Up the Balance of Power</u>

An agrarian reform usually brings with it a change in the relative power of government agencies. This heightens the polarization discussed above. Compared to the other government agencies in agriculture, for example, the National Agrarian Institute of Honduras (INA) was relatively weak in the 1960s.[1] The agrarian reform decree of December 1972, however, brought INA to the forefront. In 1973, the first year of the reform, the Institute's internal budget resources increased by 85% (Table 1). INA was given substantial power by Decree 8, moreover, to take land in "forced rental" for peasant groups and, later, to expropriate. It was to decide who would get land and who would be eligible for the US$2 million of credit that the government was channeling through the BNF to the reform groups. This sudden stardom for the agrarian reform agency may explain why such institutions are sometimes over-zealous, arrogant and defensive--or, at the least, are commonly criticized for being so. Even the sponsoring government sometimes comes to dislike the signs of strength displayed by its newly empowered agency, and clips its wings. This was one of the reasons for the forced resignation of INA's director in late 1975.

The new power of INA meant a relative decline in the

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[1]There was a short period during 1969 and 1970 when a variety of circumstances, including a vigorous director, gave the agency more power than usual.

power of the National Development Bank and the Ministry of Natural Resources. Whereas the Ministry's budget was three times that of INA's in the 1960s, INA surpassed the Ministry in 1973 (Table 1).[2] This relative decline in power did not mean that there was a decline in the resources available to these two institutions. The reform had brought increases in the domestic and foreign resources to be channeled through these institutions to agriculture. As Table 1 shows, the budget of the Ministry of Natural Resources had been declining slightly from 1969 through 1972. In 1973, however, it jumped by 43% and, in 1974, by another 48%. But these institutions now had to share more of their power over what happened in the agricultural sector with the newly strengthened INA. This situation alone was sufficient for them to experience discomfort over the agrarian reform—regardless of their position on reform itself. The discomfort was often expressed as dislike for INA and its technicians, rather than as a disapproval of agrarian reform. Foot-dragging on an INA program, however, could be tantamount to foot-dragging on the reform.

The process of implementing an agrarian reform, then, can be seen as a race against time. One has to insure the program

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[2]In 1974, the Ministry regained its lead with a budget 41% greater than INA, whose total budget actually underwent a small decline. I do not know the reasons for this change.

against the powerful opposition of groups with land to lose and, just as relevant to AID programming, against the obstreperousness that will arise in the public sector itself. A period of such polarization in the public sector may not be the best time to execute a program that, like the AID sector loan, depends for its success on considerable inter-agency coordination.

Government Protection Against Its Agencies

How does an agrarian reform government protect its reform from the opposition that can well up out of its own agencies? One way to do this is to empower a single institution as the reform-committed one. Its personnel can be replaced or increased, and close attention paid to it, in a way that will guarantee its commitment to the reform. This may be the only way of getting a committed institution into the act on short notice. The other way for a government to insure this kind of commitment and cooperation from its public sector is to replace the personnel of all involved government agencies, or engage in a massive socialization program to change their commitments. INA is attempting some "conscientization" of its own and other government personnel through its PROCCARA program.[1] But this approach takes considerable time and resources. Wholesale replacement of personnel and a massive socialization program would amount to revolution.

The non-revolutionary reform government, then, is often stuck with the second-best solution to its commitment problem--that is, putting all its eggs into a single institutional basket. This may explain why agrarian reforms often confer sudden power on agrarian

[1] Programa de Capacitación Campesina para la Reforma Agraria. As can be seen from this title, the training includes peasants as well as government technicians.

reform agencies that were previously weak and small. The past inactivity and smallness of these latter institutions make for a relatively easy and rapid re-doing, through an overwhelming injection of staff and resources. With the same amount of increased resources, it will be much more difficult to transform an active and powerful development bank or agriculture ministry.[2]

In order to survive, in sum, a reform-implementing government may have to neutralize the anti-reform feelings that pervade many government departments--and perhaps empower a single institution that can act fast and be relied upon. Again, this may not be the moment for a multi-organizational approach to foreign assistance: one does not want to give too much of the public sector action to wavering supporters of the reform. One does not want to demand the kind of coordination that makes supporters or beneficiaries of the reform dependent on the inputs of non-supporters. The fragility of the political balance that allows the reform decree to be issued cannot bear the weight of

[2] I do not know to what extent this transformation was accomplished with INA. As is frequently the case with such agencies, the Institute often took action on the side of the landowners in its pre-reform days--or, at the least, not in the interest of the peasants. Some peasant groups, when telling their histories, refer to the landowners and INA in the same breath. They have not had contact with the Institute's new incarnation; or if they have, they assumed or found it to be a continuation of the old.

an institutionally complex program. In a sense, one has to regress to a simpler organizational approach.

The coordination demands and technical complexity of the AID sector loan resulted to a considerable extent from AID's desire to support the reform as broadly as possible. It is ironic that the more supportive the AID response—more money, more programs, more agencies—the less suited it is for the agrarian reform environment. Not only will the AID program itself have difficult going but, as discussed below, the post-reform struggle to root the reform can actually be hurt by this kind of comprehensive approach.

AID's Sector Loan: Many Agencies and Diverse Beneficiaries

For various reasons unrelated to the considerations above, AID's approach to the Honduran agrarian reform was multi-institutional. Five government departments, not one, play important roles in AID's sector program--the National Development Bank, the Ministry of National Resources, the National Agrarian Institute, the National Planning Council and the Cooperative Department. Coordination between the departments was a primary requisite for satisfactory implementation of the program. In recognition of the difficulty of achieving such coordination, the Honduras Mission had "been collaborating with the Government of Honduras in this institution building task through grant assistance" since late 1972.[1] The most important results of AID's coordination assistance were the creation of (1) an Agricultural Sector Analysis group in the National Planning Council and (2) an Agriculture Sector Coordinating Committee. The latter was to make decisions of policy and budgetary allocation for agriculture at the ministerial level.

AID was fully aware of the "severe management constraints" involved in attempting such a coordination-intensive program in Honduras.[2] The Mission addressed considerable

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[1]U.S. Agency for International Development, Latin America Bureau, Office of Development Resources (AID/LA/DR), "Honduras - Agriculture Sector Program," Capital Assistance Paper, AID-DLC/P-2051, 14 June 1974, p. 139.

[2]Ibid.

attention to the problem in the sector program, and in a separate grant-funded project.[3] Despite this care and attention, the coordination demands of the loan program on the Honduran public sector may make it more difficult than necessary for the program to function well. The institutional complexity of the program may also carry the risk of adversely affecting the course of the agrarian reform. This is possible because AID's loan and grant funds are quite significant in relation to the Honduran budget for agriculture.[4] The way they are channeled, therefore, can bestow considerable institutional power. Before taking this point further, I want to explain why AID made the loan way it did.

<u>The spreading of risk</u>. The agriculture sector loan proposal first surfaced in September 1973 as a traditional "production loan" proposal for $9.6 million—including funds for a national cadaster,

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[3] The sector loan included $821,000 in AID funds for coordination, management, planning and evaluation. The complementary $2.9 million "Core Services" grant project also emphasized inter-agency coordination. U.S. Agency for International Development, Honduras Mission (AID/H), "Core Services - Rural Development," Noncapital Project Paper, PROP, 3 February 1975 (second revision).

[4] In 1974, the Honduran government committed $18.3 million to agriculture. This included $14.7 million to the Ministry of Natural Resources (of which $5 million was transferred to the BNF and INA) and $3.7 million to INA. The sector loan was $12 million, to be disbursed over a four-year period. AID/LA/DR, "Honduras: Agriculture Sector Program," Report for the Development Assistance Executive Committee, 21 February 1974, Annex A, pp. 3-5.

production credit and technical assistance for citrus and potatoes, technical assistance for corn and beans, and credit for African palm oil processing equipment.[5] The Intensive Review Request conveyed almost nothing of the radical changes in the government at the end of the preceding year, and the sweeping attempts to carry out an agrarian reform. Soon after, the reform was "discovered" by some enthusiasts in Washington and the Mission; with Washington-TDY assistance, the loan proposal was changed radically to one that would be directed primarily to the asentamientos. These were groups of peasant farmers who were settling on lands that were being "forcibly" rented for them by the National Agrarian Institute, under the authority of Decree 8 of December 1972.

There was considerable hesitancy by some in AID/Washington about making this kind of commitment. It was felt by some that the government of Honduras might be "proceeding too rapidly on an ambitious, untested, and risky undertaking"; that AID would "be vulnerable to criticism if we allocate almost $6 million to the project as currently designed."[6] There was concern that the agrarian reform law, which was then in the making, might not

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[5] AID/H, "Rural Sector Intensive Review Request (IRR)," DAEC/P-74/6, September 1973.

[6] U.S. Agency for International Development, Latin America Bureau, Office of Development Program (AID/LA/DP), "Honduras Agriculture Sector Loan," Memo to the Deputy U.S. Coordinator, 11 June 1974. Further cites in the paragraph are from this memo. The opposite position on this issue was expressed in another pair of memos, cited later in the text.

"encourage or even permit a group to choose its own method of organizing the enterprise." The government was putting most of its emphasis and resources, that is, on communal farming. It was feared by AID that farmers who wanted to work and own land individually would not be allowed to do so, and that cooperatives --which pre-dated the reform and were different in structure from the asentamientos--would be neglected. Washington was hesitant, in short, to go all out for a government and its reform before it had more of a track record.

Washington's uneasiness was dealt with by "diversifying" the loan proposal somewhat out of the communally-farming asentamientos. Cooperatives and other associations were given a larger role. More emphasis was given to agricultural institutions outside the National Agrarian Institute--the Cooperative Department, the Ministry of Natural Resources, the National Development Bank, the National Planning Council. The number of asentamientos eligible for the AID credit was to be limited to a chosen 40 out of 600--a point I return to later. The loan funds, in sum, were extended beyond the agrarian reform to a larger universe of farmer groups and implementing institutions, so as not to invest too hastily and heavily in an unproven political undertaking. By limiting the number of post-reform groups to be serviced, hand-picking the best ones, and providing some of the credit to groups whose existence was not dependent on the reform--the Agency would be somewhat protected in case the whole reform effort collapsed. It was putting its eggs into several baskets.

Sector lending and filling gaps. Another reason for the multi-faceted nature of the 025 program was the popularity of sector lending in AID. Individual projects had to be presented and justified within the framework of a sector analysis or assessment, showing that the project fit compactly into a sector-wide setting. Modest projects with independent justifications did not fit well within this framework.

Analyzing a sector always reveals important gaps to be filled. When put in a sector context, for example, a plain and simple small farmer credit program reveals the absence of an adequate extension service or of the use of "modern methods" by farmers. The plain program becomes hard to justify without a companion program in a separate institution to provide extension service; or without added research in yet another institution to discover the modern inputs that would be most suitable for the new borrowers. As soon as one starts to fill these gaps, one cannot help but end up with more institutions and more things to do.

Sector lending and analysis has sometimes been dismissed by critics as a new literary setting for presentation of the same old projects. The original proposal for the Honduran sector loan, for example, was criticized in Washington for being comprised of "a series of discrete projects independently aimed at the [same] goal." Linkage between the projects, it was said, was "not clear."[7] Sector lending, whatever its faults or merits, also introduced or reinforced a tendency for rural development projects to work on all fronts at once.

Sector lending required considerable time to prepare sector assessments and justify individual projects in that analytic style. The AID Mission Director in Honduras, after pushing hard for AID support on the heels of Decree 8, expressed considerable frustration to Washington over this dilatory process. Honduras, he said, was "being treated like a Colombia or a Chile by the cult of sector analysis now the style-setters in AID/W[ashington]."[8] The sector approach, he said, had resulted in advisory visits from Washington economists, long drawn out econometric analyses of Honduran agriculture, the throwing out of previous work, the starting all over again. Meanwhile, time was being lost. "Honduras," he said, "is barren ground for this sort of effort, but I fear that we are becoming a test case in which the application of the sectoral treatment, and the consequent

[7] AID/LA/DR, "Issues Paper - Rural Sector IRR - Honduras," Memo to Deputy U.S. Coordinator, 23 March 1973, p. 1.

[8] AID/H, Letter of Mission Director to Deputy U.S. Coordinator of AID, 21 May 1973.

reinforcement of the sectoral mystique, have become more important than the realities of the situation." Thirteen more months were still to pass before the sector loan was finally authorized.

Sector loans and their analyses were everything that an agrarian reform was not. They were diffused over a whole sector and its service institutions. They took lots of time to justify and to get going. Agrarian reform, in contrast, was forced to be intensely concentrated in time and institutions.[8a]

<u>AID's past relations</u>. There were other reasons why AID's post-agrarian-reform loan program proceeded on so many institutional fronts. One had to do with the history of its institutional relations in Honduras. Credit to the BNF played such a central role in the sector loan partially because of the pre-reform relations between AID and that institution. It was only natural that AID's first loan to the BNF in 1969 would have given that institution a strong "incumbent" status as candidate for a major role in a second loan.

The Ministry of Natural Resources (MRN) had had an even longer history of relations with U.S. assistance programs, though not of the financial magnitude of those with the BNF. Since the 1950s, the Honduran extension service had been included in the Point Four-USDA program for creating agricultural extension services in Latin

[8a]The sector "assessment" rather than "analysis" was used in the Honduran case. The assessment is a less formal evaluation than the analysis, and is thus somewhat less time-consuming.

America. There was always some program or another of this nature in the Ministry of Natural Resources. First it was the "servicio"; then it was the difficult transition of this service to full-fledged adoption by its ministry; then it was the beefing up of the service after it was absorbed by an accepting but resource-poor ministry; then it was the re-tooling of extension agents from large-farmer activities to small-farmer ones, during the period that the 018 loan attempted to help the BNF make the same kind of change. The Ministry of Natural Resources, then, was also a good candidate for an important institutional role in the sector loan, based on its "incumbency status" with AID. It was only natural that the daily relations of AID program implementation would have led to the discussion of desirable future projects, and their inclusion in the sector loan.

The Mission, like anyone else, viewed the role of these two entities in the sector loan as the natural institutional way to carry out such a program—and not a matter of choice based on past relationships. But such programs are described by AID as instruments for assisting the small farmer—as rural development programs meant to alleviate the unequal distribution of income and resources in the countryside. When one thinks of an institution that will serve this purpose, rather than supply a specified service, one is less likely to come up with a BNF and an MRN as "natural" candidates—

precisely because of their histories, which were not very involved with the kinds of farmers benefited by the agrarian reform.

The BNF and the MRN, then, ended up as the principal actors in AID's program of support for the Honduran agrarian reform, partly because they were the primary institutions with which AID had had relations before the reform. During a reform, however, institutional power in the public sector gets shaken up and, as noted above, a less powerful institutional actor often gets pushed to the forefront. By investing considerable monies and powers in an institution with little past history of power, the reform government leaves the powerful institutions in agriculture somewhat on the side. AID should be able to follow suit. Its support for a reform should reflect this shakeup.

Agrarian reform involves a disruption on several fronts in the way things are done. This is how a reform achieves its objectives. In order to keep up with such a process, AID has to experience the same disruption in its institutional relationships. This is not to say that it must cut off relations with the institutions with which it was involved. Rather, its program should reflect the new balance of power in the public sector, with the most important institution of the reform period as the key actor in the program. The other institutions should have relatively less power in AID's program—or, perhaps, none at all.

Agencies like the Cooperative Department, that are left completely aside by the reform government, should also be left aside for the moment by AID.[9] Decisions about institutional channels of support to an agrarian reform, in sum, should not necessarily be based on the existence of solid pre-reform relations between AID and the institution.

It was easier for AID to continue its predominant relations with the BNF and MRN, instead of starting almost from scratch with an unknown entity, as had to be done with INA. An AID Mission agronomist, upon ending his Honduran tour of duty in 1967, wrote that "ideal working relationships have been established with DESARRURAL [the extension service of the Ministry of Natural Resources] and the National Development Bank."[10] At the same time, he noted the absence of a relationship with the agrarian reform agency, recommending

> that a more than casual interest be directed toward the National Agrarian Institute (INA)...At the moment, it scarcely provides a handle to take hold of but it has such wide authority over public lands that recognition must be taken of its role in development and means to exploit effectively this authority must be searched for. Admittedly, there are built-in pitfalls in the legal framework of

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[9]This example is discussed in a separate section below.

[10]AID/H, "End-of-tour Report," Airgram TOAID A-355, 11 May 1967, p. 4.

> this agency, and it is by no means capable yet of dealing effectively with the myriad problems of land tenure, but some beginning must be made now.[11]

It is difficult for AID to shift gears suddenly, of course, and go institution-hopping. It might seem more efficient to re-direct one's existing relations with institutions toward reform-supporting programs. But there is considerable cost to this inaction about changing the institutions one has relations with. One inadvertently reinforces the pre-reform balance of public sector power, which the reform government is trying to change. AID thus makes it more difficult for the government to accomplish the shift of relative power from the less committed institutions to the committed.

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[11] Ibid., p. 8.

Inter-agency Coordination in Rural Development Projects

The multi-institutional approach of the sector loan, and its corresponding requisites for coordination between institutions, reflects a "coordination bias" in AID projects. Project problems are often diagnosed as resulting from "the lack of coordination" between agencies that service the same client or project. The failure of small farmer credit programs, for example, is often attributed to the inability of the credit institution to get together with the extension service to provide for guidance of the small farmer borrower. This was one of the problematic areas frequently referred to in evaluations of the first BNF loan.[1]

In justifying its technical assistance programs, AID often points to the absence of coordinated action between government agencies as a reason for inadequate performance by the public sector. In the Honduras sector loan program, for example, continued supervision by an AID-funded government coordinating committee was considered "necessary to insure that past institutional jealousies are removed and functional problems of the new programs are treated effectively and early."[2] After the

[1]E.g., AID/H, "Estudio de evaluación del programa de crédito supervisado del Banco Nacional de Fomento," by Reinaldo W. Santos Santiago, USAID/ACDI-BNF, August 1972, p. 19; U.S. Agency for International Development, Office of the Auditor General, Area Auditor General - Latin America (North) (AID/AAG/LA), "USAID/Honduras, Agricultural Development (Credit and Extension)," Audit Report No. 1-522-74-4, Project No. 522-11-190-036.1, 31 July 1973, p. 8.

[2]AID/H, "Honduras: Agriculture Sector Program," Report for the Development Assistance Executive Committee, 21 February 1974, Annex A, p. 7.

completion of AID programs that include coordination aspects; moreover, the coordination problem is again cited frequently as a reason for inadequate project execution.

All this experience should perhaps be taken to mean that the problems of inter-agency coordination are more a constant of AID's project environments than a variable within project control. Coordination, that is, requires institutional behavior that does not come easy in the world of most AID projects or, in many cases, among the agencies of our own government. It may therefore burden a project excessively to require not only that it perform a certain task, but that it overcome inter-agency rivalries as well. To make a project dependent on coordination is, in many cases, to lessen considerably its chances for success.

<u>The machine analogy</u>. Like the sector loan approach, there is a somewhat machine-like conception of institutional development behind the emphasis on coordination. A multi-institutional approach to a problem, that is, is portrayed as being more complete because all the pieces are there. With a single institution, you leave out some of the pieces, some of the institutional potential in the public sector. Similarly with the sector loan concept: an across-the-sector approach is conveyed as more complete than a single project. The existence

of each part helps the other parts to do their work. In both the sector and the coordination approach, it is implicit that you are better off if you include more things. It is not only that the machine will work at a lower capacity with only one part--with only one project or one institution. It is that without all its parts, according to the analogy, the machine cannot work at all. I am saying, in contrast, that there is more chance that certain projects will work if they have fewer parts, or only one. The machine analogy, in short, is not applicable to these situations. It is not applicable because one part can work perfectly well on its own--in contrast to a machine. And the task of making one part work together with another is a gargantuan one--often more difficult and demanding than the project itself.

The inter-agency coordination problem in foreign assistance projects has become particularly apparent as a result of the recent emphasis on rural poverty and agriculture. In the days of transport and power projects, involving the construction of large physical structures, responsibility for successful completion of the project usually rested with one agency. Coordination with other departments may have been required at certain points, but it certainly was not crucial to making the project work. In the agriculture sector, in contrast, loan funds can rarely be tied to a physical structure; clients are served by a variety of government agencies, not one. As distinguished from transport and power, then, the technology of an agriculture program does not dictate that it be concentrated in one organization.

There is also no technological dictum that services to agricultural users are best provided out of various organizations rather than one. It is the concept of organizational specialization by function that has been behind the traditional approach of parcelling out such services to different organizations, according to their specialty. Concerns about "overlapping" also play a role in this concept. One institution, it is said, should not carry out tasks in which another institution is specialized. A bank, according to this view, does not create its own extension service to provide supervision for its loans. An extension service, as another example, does not set up a credit program in its own house.

<u>The single agency</u>. I have been arguing that there are some good reasons for concentrating small farmer programs in one institution-- or for limiting AID assistance in this area to one institution. These reasons can be seen as having the force of the technological dictates that cause power and transport projects to be executed by one organization. First, the institutional coordination required to make a rural development program work often does not materialize in this type of project environment. Second, the political

implications behind small farmer programs may sometimes make them best carried out by one organization. The concept of functional specialization should therefore not always determine the design of this particular type of project. Banks, that is, should not necessarily give credit only; or extension services only extension; or agrarian reform agencies only land adjudication.

Organizational specialization by client group rather than by task may be, in some settings, a more workable principle of project design. That the small farmer and the large farmer are both involved in agriculture, for example, should not necessarily be the determining factor in deciding what institution can serve them best. It is just as important that the small farmer has a socio-economic existence very different from that of the large farmer--which sometimes even puts the two at odds. The logic of what they produce may place them in the same organization. But the logic of where they stand in relation to each other on the socio-economic scale puts them in different ones.

<u>Organizational overlapping</u>. The machine-like world view shows up not only as the assumption that the more parts that are included in a program, the better chance it has to work. The view also results in a concern for stamping out or avoiding overlapping activities by different agencies. If each part in a machine is

designed to do a certain task, according to the analogue, there is no reason for one part to take on a task already being done by another. This is redundancy. But the machine analogy to the institutional setting of a development program is not accurate. Some agencies, for example, will not be able to do their task well precisely <u>because</u> a complementary task has been entrusted to another agency. The second agency may give preference to another program in which it plays a more central role. Or, the second agency may serve another client group with a stronger claim on its time and resources.

In some cases, then, AID should finance the development of complementary services in the same institution simply because it has proven itself to be committed to small farmers. This should be done even though some of these services are already officially housed, according to traditional specialization patterns, in another institution. The peasant union association ANACH, for example, is an organization of proven dedication to the peasant and of proven political power. For some years, it has sought AID assistance for expanding its services into cooperative technical assistance and credit. By function, however, it is a "labor union association," set up to organize peasants and meet their demands for land--not a credit operation or an extension service. Thus AID has not really considered this organization as a serious candidate for its rural development projects. It has responded to ANACH requests with limited funds, out of a political obligation it has to the U.S. labor movement--institutionalized in the AIFLD program and the Embassy Labor Attaché.[3]

The credit union federation FACACH, as another example, was passed over by AID for the BNF in 1973 and 1974 as the organizational focus of a small farmer credit program. In justifying this exclusion of FACACH, AID said that the organization was "a federation of savings and loan cooperatives and as such was not designed to meet the special needs of small farmers." The federation, moreover, had "never attempted to enlarge its agricultural staff," and had not succeeded in negotiating an arrangement with the extension service for use of their agronomists.[4] FACACH, however, had for some time housed a group of young managers who were very interested in social action programs for the peasants. They saw the credit union in a broader context than usual, hoping

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[3]AIFLD is the American Institute for Free Labor Development.

[4]AID/H, "Request for Amended Authorization of Loan No. 522-L-018; Agricultural Credit & Storage," Memo to Office of Development Resources, Latin American Bureau of AID, n.d. [Fall 1973], pp. 8-9. This story is told in greater detail in the FACACH chapter above.

to use it as an instrument for such programs. Indeed, some of these managers have left FACACH because of discontent over its "conservative" orientation, and are now heading up small organizations exclusively involved with organizing peasant farmers. FACACH, in short, had more of a history of concern for peasant farmers than the BNF. It was also a proven financial institution. It was excluded by AID for a small farmer program on considerations related to inappropriate functional specialization. The considerations I raise, however, might have made it more logical to give a larger role to FACACH.

The literature on organizations has suggested that the kind of redundancy that might result from the arrangements suggested here can be a healthy feature of institutional environments.[5] It provides an opportunity for competitive evaluation of performance in the public sector. It is a competitive goad to the "redundant" departments to improve their performance. It also provides a safety factor for getting the job done. If one group fails, the other one is there too. I am not proposing redundance or overlapping on its own account. I am suggesting, rather, a re-definition of organizational tasks that makes small farmer extension, for example, a different task than large farmer

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[5] Martin Landau, "Redundancy, Rationality and the Problem of Duplication and Overlap," Public Administration Review 29 (July-August 1969), pp. 346-358.

extension. Redefining the task this way may require different institutional homes for the two, and a certain amount of redundancy.

<u>Coordination aversion</u>. Inter-agency coordination may be most difficult when the traditional shares of government agencies in the budget become subject to change. This can result from political instability, or from the expectation of large increases in government resources for which budget allocations have not yet been made—e.g., an expected large foreign assistance program, a large projected increase in petroleum revenues. When revenue and expenditure matters are so up in the air, government agencies will consider the hoped-for budgetary increases as up for grabs. They will see themselves in competition with other agencies as to who gets the money first. At a time like this, cooperation by one agency with another may give the other agency a chance to demonstrate its capability. This will be seen by the first agency as prejudicing its own chance for a larger share of the new funds—as helping the other agency to boost its share. Inter-agency rivalries, in other words, will be exacerbated under such conditions. Cooperating with other agencies will be looked at as a foolish giving up of power. This contrasts to more stable times, when agencies are more apt to see themselves as getting the same share of the government pie, no matter how they behave.

The unanticipated availability of US$744,000 of the 018 loan, on the eve of FECOAGROH's demise, is an interesting example of this type of coordination-averse behavior.[6] "During the mid-1973 FECOAGROH rescue activities," it was reported by the AID Mission, "neither the BNF [National Development Bank] nor the Ministry of Natural Resources offered assistance to that Federation."[7] The BNF and FACACH, moreover, wanted those credit funds for their own programs. In trying to convince AID that it deserved to have the funds, the BNF suddenly agreed to an AID proposal that it had been against for some time—establishing a Coop Window. This would give complete power over the new funds to itself. At the same time, the Bank was not in favor of the proposals whereby it, with other institutions, would help save the FECOAGROH coops. FACACH, in turn, made a proposal for its exclusive use of the $744,000 which, it said, would not work without "precisely this amount."[8] With anything less, FACACH was saying, it could do nothing to help save the

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[6] FECOAGROH was the Federación de Cooperativas Agrícolas de Honduras, a cooperative federation created with AID assistance in 1971. It claimed 34 cooperative and pre-cooperative affiliates at its zenith. After its failure in 1973, it was taken over by the Cooperative Department, which focused attention on 13 affiliated coops. The FECOAGROH story is told in a separate section above.

[7] AID/H, "Request for Amended Authorization of Loan No. 522-L-018," [Fall 1973], p. 10.

[8] AID/H, Letter of Mission Director to Office of Development Resources, Latin America Bureau of AID, 19 July 1973, p. 3.

FECOAGROH coops. An unallocated $744,000 windfall, in sum, produced coordination-averse proposals by other organizations. FECOAGROH, in the meantime, collapsed.[9]

The period after passage of an agrarian reform law is also not always conducive to inter-agency coordination. This is especially true if, as in the case of Honduras, the reform brings substantial increments in public sector resources for agriculture and significant shifts in the budget shares of government agencies. In Honduras, agency shares were shaken up on three counts: a less powerful government agency in agriculture, INA, obtained substantial increments in power; the government directed the Central Bank to make unprecedented increases of credit ($2 million) available to post-reform peasant groups; and a large AID loan for agriculture was being negotiated and modified repeatedly for more than a year after issuance of the first agrarian reform decree. All this created an environment ripe for inter-agency rivalry and backbiting. This was heightened, in turn, by the polarizing nature of the issue behind all these increases in revenues—the agrarian reform.

Putting the above considerations together, it can be said (1) that a small farmer program may sometimes be best located in a single institution, or spread between institutions in a way

[9] These events are documented in the FECOAGROH and FACACH chapters above.

that requires little coordination; (2) that the institution should be hand-picked for its commitment to small farmers rather than only for its ability to carry out a certain conventionally-defined task; and (3) that a history of large farmer claims on an institution's services is a crippling handicap, disqualifying many ministries of agriculture and development banks. In a period of agrarian reform implementation, these considerations are even more important because of the tendency toward inter-agency competition and because of the random appearance of reform-averse behavior in the public sector.

Agrarian Reform: Not Giving Everybody a Chance

As pointed out above, AID distributed its sector loan funds between institutions and types of borrowers, rather than concentrating on post-reform groups and the agrarian reform agency. It also wanted to be sure that all kinds of small farmer borrowers had access to its credit funds--individuals as well as groups, coops as well as reform groups. It did not want the credit mechanism to become a way of forcing farmers to do what they might not want to do, just to get credit--i.e., forming groups rather than working individually, or forming certain kinds of groups rather than others. There was concern that the government would favor its agrarian reform groups in the distribution of credit and other services--that non-reform groups and individuals would be discriminated against. AID wanted access to the credit to be "democratic," and the decision to form or join a group to be one of free will.

The Mission expected that the Honduran government program for the 1974-1978 period would (1) place "major" emphasis on the land reform-asentamiento program, (2) provide "some" services to cooperatives and other associations, and (3) pay "relatively little attention" to the independent small farmer.[1] Yet the land reform-asentamiento program, the Mission felt, "should be viewed as only one mechanism for reaching small farmers." It was important, the Mission believed, "to support all three channels of credit to small farmers"—the BNF's credit for cooperatives and for individual small farmers, as well as its asentamiento fund. It was important to "develop other" channels, the Mission said, in order to (1) reach more farmers, (2) compare different approaches, (3) support private sector institutions servicing small farmers, (4) experiment with "still other" approaches to small farmer credit, and (5) encourage increased flows of credit to small farmers.

It is important to compare AID's needs, as expressed above, with those of an agrarian reform government. Agrarian reform is a time of intense concerted government action to give land to peasants and to get them established as viable producers. All the time, one is working against the clock, trying to establish a political power base and hold it together. Governments have different ways of working against the clock. They usually involve the bestowing of rapid and considerable attention on certain favored groups and institutions. This goes along with the relative

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[1]AID/LA/DR, "Honduras: Agriculture Sector Program," 21 February 1974, p. 4. The rest of the citations in this paragraph are from the same source and page.

neglect of peasants not affected by the reform, of groups established before the reform, or of some peasants and groups who have less power than others.

This time of favoring--perhaps a relatively short one--may be indispensable to the success of the reform. It is not possible, that is, for a government to cover all fronts at a time like this. The technical and political demands on it will be so great that some informal criteria will evolve as to who gets served first. Exclusion of some will be inevitable. The government will want to favor agrarian reform beneficiaries over others in the provision of services. This will be one of its few opportunities to rapidly create a faithful political constituency for the reform. Groups or individuals not associated with the reform may be neutral to it, if not opposed. The relative neglect of them may be unfair, but it does not make bad political sense. It amounts to a rewarding of those who will support the reform government.

An agrarian reform abruptly increases the number of claimants for government services like credit. It declares that the rural poor now have rights to these services along with their new land--in addition to those who already have access. As a result, public services become even scarcer--in the short run--than they usually are. They have to be rationed out even more selectively. Put this together with the difficulty of obtaining political support for an agrarian reform, and one has a rule for rationing by which the scarce service is given first to the group that will render political support. Fortunately, this use of a program to gain political support does not contravene the program's objectives as much as might occur in other circumstances: the favored groups are supposed to be the beneficiaries of the reform anyway.

The favoring of certain types of groups, of course, may continue long after it is necessary to consolidate the reform. But that is the risk of such an undertaking. There are few other ways of approaching the problem, because of (1) the sudden entrance of reform beneficiaries into the population of claimants for government services, and the resulting scarcity of these services; (2) because of the need for the government to keep the reform moving at a rapid enough pace to ward off discontent from the potential beneficiaries themselves—a very real problem in Honduras; and (3) because of the scarcity of institutional capacity and resources to carry out a good reform in a short period of time. In times like these, scarcity choices have to be made. It makes sense to choose in a way that increases the program's chances for survival.

The time of a reform is no time for AID to worry about the left-out groups, or to try and make sure they get equal access to funds. To support them is like supporting reform-neutral public sector institutions. It is to diffuse the government's attempt to channel as much service in a short period of time to reform beneficiaries, and to get as much political support back from them as possible. After all, it was the reform beneficiaries who were the left-out ones of pre-reform times. If the new attention paid to them is somewhat exclusive, it may also be compensating for past imbalances. Of the "neglected" claimants for government services, which were of concern to AID, the cooperatives are perhaps best able to make it on their own for awhile. For they were able to get together and qualify themselves for credit independent of the reform. Individuals who are left out are, unfortunately, equally so before and after the reform--at least in the case of Honduras, where preference is given to group rather than individual land claimants.

By trying to be "democratic" with its post-reform funds, AID inadvertently goes against the grain of a major attempt to democratize the structure of production in the agricultural sector. The imbalance involved in concentrating government services on reform beneficiaries for a period of time is insignificant compared to the inequalities of the system that the reform is trying to break up. AID should allow the imbalance to occur, not because it is desirable or equitable. Rather, the process of redistribution behind the imbalance will have a much harder time succeeding without it. If AID is engaged in a program to support a reform, then, it is not appropriate to push for a criterion of allocative fairness that is alien to that of the reform.

AID didacticism. AID's desire to make sure the non-reform claimants to credit get equal access is part of a didactic approach that characterizes much of the relationship of foreign assistance organizations with their borrowers. One should lend to small farmers, the large farmer bank is told; one should support cooperatives, the government without a small farmer program is told; one should charge market interest rates, the government committed to subsidized interest rates is told; one should lend to all peasants, not just agrarian reform groups, the agrarian reform government is told. The approach results from the fact that offers of foreign assistance are often contingent upon the recipient's behaving in a certain way. "We will make resources available to you if you lend to small farmers, or raise your interest rates, or support cooperatives."

The conditional offer of assistance evolves into didacticism because many would-be borrowers aren't interested in doing these things. They agree to do so as the "cost" of getting the loan--just as the BNF agreed to engage in a small farmer program even though it wanted only seed capital, as told in the

BNF section above. This type of response is a logical one for any person or institution who is offered attractive financing. Thus the behavior desired by AID may end up being the focus of loan negotiation and implementation, rather than a previously met condition. AID tells the borrower that it "should" do various things because they fit in with the behavior pattern of one who had already satisfied the precondition for obtaining the resources.

There is not necessarily anything wrong with this approach. Recipient governments live in an environment containing all kinds of economic incentives to favor large-farmer over small-farmer borrowers. There is nothing wrong with AID's introducing an economic incentive in the other direction, and trying to make it work. Some recipient institutions will end up engaging in the desired behaviors on their own, after a considerable period of AID tutelage. The AID loan, for example, can protect them from opposition to the desired behavior from other persons or institutions. By the end of AID's support, they may have built up enough experience and institutional strength to withstand that opposition alone. Though the didactic approach to change may often fail, it may sometimes succeed. But agrarian reform is not the time to be didactic.

<u>Agrarian reform as precondition</u>. The commitment to agrarian reform is a rare case where the government actually meets an AID precondition <u>before</u> the loan. And it meets the condition much more profoundly than is represented by government support of small farmer groups or credit programs. What is needed from AID after such an unusual sign of commitment is support and not suggestions. It is as if AID is so used to not having its preconditions met and to teaching and cajoling, that it cannot step back in this different kind of role--that of a creditor whose preconditions have been met extravagantly.

The time period in which agrarian reform must accomplish several things is short, in comparison to the open-ended time span of loans during more stable times. This shortness also is incompatible with the process of AID teaching, and the time-consuming disagreeing and compromising that this involves. It is not the time, therefore, to tell the Honduran government that its supply of services is too exclusive, or that it is not allowing enough freedom to the peasant to choose whether or not he wants to join a group. It is not the time to convey to a government that its organization of peasant groups into second-level associations smacks of state control of peasant production.

A government engrossed in a reform cannot afford to be confronted with a donor organization telling it to do things differently in order to get funds. What is important is not whether the reform fits AID's preferences, but that this rare event is occurring. Trying to convince the reforming government to do things differently, and holding out resources to bring that different allocation about, is a process that weakens the reform, even though it is done in the name of support. As one AID manager wrote, in response to others who wanted to "diversify" the sector loan out of asentamientos and communal production,

> The GOH [Government of Honduras] has decided on the worker-owned and operated agriculture business approach after intensive consideration of the alternatives. We do not believe that A.I.D., whose experience in land reform programs is hardly definitive, should dictate to the GOH the "correct" approach to the problem in Honduras... The GOH is in a good position to understand the realities of the Honduran context where cooperatives and peasant labor unions are strong and group farming has been done with some degree of success.[2]

AID's decision during a reform, then, is not how it can influence the government to do the reform more to its taste. It is not how to design a loan program that will counterbalance the concentrations of the government program and hedge against the risks of failure. The decision during a reform, in short, is a simple one: will we or won't we support their reform?

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[2] AID/LA/DR, "Honduras Agriculture Sector Loan," Memo to Deputy U.S. Coordinator, 13 June 1974, p. 1.

Diffusing Power: The Case of the Cooperative Department

For the reasons discussed in the sections above, AID's agricultural sector loan was spread across five institutions. Two of them--the Ministry of Natural Resources and the National Development Bank--had many large farmer strands in their histories. The third institution receiving support under the sector loan program was the Cooperative Department (DIFOCOOP) of the government. Unlike the other two, it had no history of association with large farmers; but it had also played no significant role with the small ones. Like many such departments in other countries, it had been a minor agency with an insignificant budget for many years, in charge of cooperative assistance and regulation.[1] It had also been the site for depositing the remains of FECOAGROH, which it had supplied with a part of its budget. Except for these latter cooperatives, the Department was "widely viewed as of little consequence in the [cooperative] movement except with respect to its key role in the legalization process."[2]

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[1]In 1974, the Department's operating budget was $205,000. It had a staff of 9 auditors and 11 extension agents serving 310 chartered cooperatives. The Department is within the Ministry of Economy and Industry. AID/LA/MRSD/SCD, "The Credit Component: A Semi-Analytical Report to USAID/Honduras to Assist in Preparation of the Capital Assistance Paper for the 1974 Agricultural Sector Loan," by John Heard, April 1974, p. 22.

[2]Ibid., p. 23.

AID felt that the Cooperative Department should be strengthened considerably, as a complementary aspect of its sector loan program. The Department, it was said, should play an important role in developing simpler and more effective systems of small farmer cooperative organization. It would be important to the restructuring of FECOAGROH—a small federation of cooperatives originally created by AID, but unrelated to the agrarian reform. Because of the creation of so many new farmer groups through the agrarian reform process, AID felt that in general the department administering the cooperative law should expand proportionately.[3] The sector loan, therefore, required that the Honduran government increase the Department's budget by 50% over its previous $200,000 annual level—that is, an annual increased government contribution of $100,000 over the four-year period of the sector program.[4] Another $300,000 in AID technical assistance to the Department was proposed by the Mission in early 1975.[5]

There seemed to be no compelling reason for assisting the Cooperative Department, except that it made for a more complete,

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[3] AID/LA/DR, "Honduras: Agriculture Sector Program," 14 June 1974, pp. 156-157.

[4] *Ibid.*, pp. 156, 162.

[5] AID/H, "Agricultural Cooperatives (Small Farmer Organizations Development)," Noncapital Project Paper (PROP), 30 January 1975.

more comprehensive sector loan. That the Department was insignificant had been of no hindrance to the development of farmer groups in the past. These groups had proliferated much more in Honduras during the ten years preceding the sector loan than in almost all other Latin American countries. The banana cooperatives had grown to be particularly successful during this time, despite the absence of a significant Cooperative Department.

The agrarian reform government had almost ignored the Cooperative Department completely. It was investing its group-creating concerns in the programs of the National Agrarian Institute, involving it in many of the tasks that the Department saw as its own. In early 1974, the director of the Department had expressed to AID his "tremendous personal frustration at [this] lack of government support and attention." He sought to remedy the government's neglect by making "a strong case" to AID for including conditions in the sector loan that would "<u>force</u> a major increase" from the government in its budgetary resources.[6] He was apparently successful, at least according to the budgetary arrangements for the Department in the sector loan, as described above.

It was clear, then, that the Cooperative Department was not considered by its

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[6] <u>Ibid</u>., pp. 23-24. Emphasis mine. The same AID evaluation also found the Department "'out of it' in terms of planning for ag sector development." P. 24.

own government to be an important part of the agrarian reform effort. It was AID and not the government that felt the need to strengthen the Cooperative Department.

As might be predicted from this story of a neglected agency, the sentiment against the National Agrarian Institute was strong in the Cooperative Department. INA and the agrarian reform program were considered "communist" and "paternalist" by the Cooperative Department. ("Communism" and "paternalism" were frequent bedfellows in the lexicon of criticism against the Honduran agrarian reform agency.) INA did not hesitate to return the epithet, calling the Department reactionary and impotent.

The reasons for the Cooperative Department's discomfort with what the National Agrarian Institute was doing were more complex than conveyed above. The Institute was working with post-reform groups called asentamientos, which had no legal personality and were simpler in structure than cooperatives. The Department's bailiwick was cooperatives, which were somewhat peripheral to the agrarian reform government's main focus. There was some controversy, moreover, between those who favored asentamientos and those who favored cooperatives. Studies had been done of successful cooperatives, showing that a large part of their labor was hired outside the cooperative on a part-time basis; the outside laborers were found to earn less than member laborers.[7] This meant that cooperatives were treating their hired labor exploitatively, it was said; they were taking on the undesirable features of the business enterprises from which they were meant to differ. When the peasant union federation, ANACH, tried to help organize the outside laborers of one of the successful banana cooperatives, the Cooperative Department informed them that it was not legal to organize labor hired by cooperatives.

Because of concerns over this type of problem, the agarian reform law of 1975 directed (1) that cooperatives should expand their membership to the point that outside labor was not necessary; (2) that any seasonal outside laborers be given preference in admitting new members; and (3) that the cooperative pay its outside seasonal labor at the same rate as its own members.[8] Needless to say, the cooperatives and the Cooperative Department were unhappy about this provision of the law.

The asentamiento was said by its proponents to avoid the cooperative's "exploitative" and "elitist" features. In contrast

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[7] Instituto Interamericano de Ciencias Agrícolas de la O.E.A. (IICA), Estudio sobre organizaciones campesinas en Honduras," by Noel A. García, Tegucigalpa (April 1974), 34-82; Enrique Astorga Lira, Evaluacíon de los asentamientos y cooperativas campesinas en Honduras (Período 1973), [1974], reproduced by INA in Tegucigalpa.

[8] Honduras, Ley de Reforma Agraria, Decree No. 170 (Tegucigalpa: 1 January 1975), Article 107, Chapter II.

to coops, asentamiento members were usually required to work a minimum number of days per week in the fields, even if they were elected officials. The latter were required to rotate once every year, in contrast to coops, and re-election was not allowed. The asentamiento member's contribution to the group was made principally in the form of his own labor.[9] The cooperative member had to contribute in capital. According to the critique, this allowed for significant discrepancies in contributions and benefits between members. The cooperatives, in turn, felt that the asentamientos were too controlled by the National Agrarian Institute, and that the cooperative principle of democracy was thereby being violated.

There was, then, a strong difference of opinion between the National Agrarian Institute and the Cooperative Department on peasant-farmer groups. It was almost predictable that the government would have left the Department on the sidelines: the Department dealt with groups somewhat peripheral to the reform, and it and many cooperatives were unhappy with the form of peasant organization promoted by the government. Finally, to cement the gap between the two agencies, the director of the Cooperative Department had previously been with the National Agrarian Institute, and had left that agency before the reform with dissatisfaction.

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[9] *Ibid.*, Article 118, Chapter II.

As a case study in inter-agency rivalry, there is nothing particularly unusual about this story. What calls attention to it here is that AID chose this particular moment to strengthen the Cooperative Department. This gave the neglected agency some hope of being able to stand up to the Agrarian Institute. AID's support and funds represented power for the Department. The concomitant working relation with AID opened up a potentially sympathetic ear for the Department's criticism of the Institute. The Department's power, of course, is still small compared to that of the Institute. But AID's support amounts to the reinforcement of an agency that was discontented with the agrarian reform, as carried out by INA, from the start.

AID's involvement of the Cooperative Department in its sector program--in addition to the other agencies--grew out of a desire to support the Honduran agrarian reform comprehensively. But it also resulted in a diffusion of power across the public sector at a time when power needed to be more concentrated in one or two reform-sympathetic institutions. Spreading the funds across different institutions was done also out of the concern for spreading risk. This way of spreading risks and covering bases, however, can be self defeating. Where difficult attempts are being made to redistribute wealth or public sector benefits, this kind of approach can dilute institutional power to the point of increasing the risk that the program will fail.

Limiting Risks: The Chosen Forty Asentamientos

The features of a risk-spreading strategy are sometimes completely outside the constraints within which an agrarian reform government must work. AID's decision to choose 40 reform groups (asentamientos) for credit out of the 600 in existence is a good example. This decision was a result of Washington's hesitancy to give all-out support to an agrarian reform government that had not yet proven itself. The reform government was a military one that had taken power in a coup several months previous to the loan discussions. The reform was operating out of a temporary decree and no one was sure it would be followed by the real thing when it would expire in December 1974. No one knew how long the government would last and whether the reform would stick. The financial requirements of assisting the 600 asentamientos--and those yet to be formed--would be considerable.

With all these considerations in mind, AID decided that only a select number of the asentamientos would be eligible for its credit--instead of making credit available to all reform groups or to only reform groups. Cooperatives would also have access to the credit and, unlike the asentamientos, would not have to be pre-selected. As the sector loan paper said,

> In the case of asentamientos, one can expect considerable risk to be involved due to the lack of lending experience with such organizations. Thus, AID loan support for lending to asentamientos should have as one primary objective the development of lending criteria. This strongly suggests that initial AID loan support should be limited to a relatively modest program in a limited number of compact areas, in order to obtain data for evaluating the preferable alternatives...
>
> In the case of the cooperative window, sufficient experience exists to permit AID loan support for a generalized program.[1]

These modifications of the sector loan proposal left AID much less out on the limb. If the reform were to fail, AID would not have all its money invested in the asentamientos. The cooperatives had existed before the reform and would continue to exist after. AID would have invested, moreover, in only 40 of the 600 asentamientos--the strongest 40 of the bunch. Among the criteria specified by the loan paper for eligibility for AID asentamiento credit were (1) location within five kilometers of an all-weather road, with dry-weather trails permitting vehicular access; (2) a credit record during 1973, if organized prior to April 1, 1973; (3) secure status of the land assured; (4) a minimum of 3 hectares of total area; (5) 75% of the group's area had "to be free of general flood danger, be cleared of timber, and

[1]AID/LA/DR, "Honduras - Agriculture Sector Program," 14 June 1974, p. 102.

generally be susceptible to cultivation without major land improvement activities"; and (6) at least 50% of the land area had to be of good soils.[2] In Honduras, any asentamiento meeting all these criteria before commencement of AID credit was likely to be in excellent shape. There was a good possibility that it would be able to survive any ending to the reform.

The 40-asentamiento approach was also risk-averting in that it was designed as a pilot program, on which data would be collected all along the way, including baseline data before loan disbursement. Control groups were to be selected so that the progress of the groups receiving AID credit could be compared to those not receiving credit. The program was "designed to promote the process of <u>learning how</u> to develop and manage a large-scale Agrarian Reform Program."[3] If things worked well, the Agency would be back with more financing on a larger scale. Among other things, this approach was expected to generate valuable and unusual longitudinal data on the project and the agrarian reform. In a sense, it was

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[2] <u>Ibid</u>., Annex I, Exhibit B, 12-12a. The acceptable soil types were (1) AB - well-drained, developed over alluvial materials; (2) VP - deep soils developed over volcanic materials; (3) AS and AA - soils developed over alluvial materials, flat to rolling.

[3] <u>Ibid</u>., pp. 25, 46-50. Emphasis mine.

the project evaluator's dream--the opportunity to measure an agrarian reform in progress and guarantee a supply of hard data on the impact of an AID program.

This experimental aspect of the sector loan was fittingly called the "Pilot Program." The name was later changed to "Model Asentamiento Program," representing the chosen forty. The change of the program's name from "pilot" to "model" was a result of dissatisfaction by the Hondurans. Some in the government felt that it would be politically difficult if all they could come up with from AID for the agrarian reform was an experiment limited to 7% of the asentamientos, at best. The government, after all, had planned to carry out the agrarian reform in a sweeping way. It was "particularly concerned with having assured financing for the requirements of the asentamientos," as the AID Mission reported, "and appears committed to give this program the highest priority within the allocation of National Funds."[4]

This was not a time to run experiments, in other words, or to reward a chosen and successful few. In the government's eyes, it was a time to provide support for a decision that had been taken, not to try and find out if the decision was worthwhile. How could the government give 40 hand-picked asentamientos special

[4] AID/LA/DR, "Honduras: Agriculture Sector Program," 21 February 1974, p. 5.

treatment, it was asked, when the political commitment of the agrarian reform was to all groups? The change of the program's name from "pilot" to "model" was the only concession to these concerns in the final version of the project. Though the government agreed to the 40-asentamiento plan, there was resentment about it. It was a partial reason for a period of strained relations between AID and INA after the change of government in early 1975. The story illustrates the power of donor organizations with scarce public capital to get countries to do what they would prefer not to. Likewise, it illustrates the problems that such financial "motivation" can cause.

The story of the name change of the "Pilot Program" reflects the problematic aspect of taking a risk-avoiding and experimental approach at this kind of historical moment. Experimenting is a way of spreading one's assistance through time, doing a project in more mincing steps than one would normally take. It is analogous to the institutional risk-spreading described above, which spreads one's assistance across institutions instead of time. But the time span implicit in an experimental program involving 7% of the asentamientos is much longer than the kind of time one is working with in an agrarian reform. The experiment may go well. But by the time one finds out, analyzes the data, and puts together a follow-up project, the reform may have come undone. The pilot project may have been a success for a few groups. But it can turn out to be not replicable because time runs out, rather than money.

Showing Support for a Reform

AID has a chance during an agrarian reform to markedly decrease the probability of failure by providing an unstinting commitment. The political impact of such a commitment, even if it involves no greater amount of funds, can be one of the most significant aspects of the AID support. It increases the power of the reform government and the reform-committed institution against those public sector institutions and other groups who are less sympathetic. A reform is of such a nature, in sum, that it is not possible to both support it and spread the risks of such support through space and time. Risk-spreading support is in itself an act of non-support, even if inadvertently so. For AID to experiment mincingly at a time like this is to give up an opportunity to swing considerable power, through a marginal investment of resources, toward bringing about a successful agrarian reform.

All this is not to say that AID should have committed more funds to the sector loan or to the asentamientos. It is not the absolute amount of funds that is relevant here, but the investing of a given amount of funds at a certain point in time and in a certain institution—instead of in various times and various institutions. AID could have approved, for example, a limited but rapid US$4 million project for asentamiento credit--the same as the model-asentamiento funding of the sector loan. The credit could have been made available only to asentamientos, and not to other kinds of borrowers peripheral to the reform. It could have been made available to all asentamientos, instead of just certain ones with certain kinds of histories. In this way, the loan could have amounted to a greater and more significant kind of AID support for the reform than the much larger $12 million loan, designed as it was. That an agrarian reform needs resources for its beneficiaries fast, then, does not mean that the resources need to be committed profligately. AID can support such a reform and still be cautious, just by committing a reasonable amount of resources at the right time and in the right place.

Agrarian Reform as a Development Project

Agrarian reform is a different animal than other kinds of projects that AID supports. When a reform is taking place, and AID wants to lend for it, the reform process should be looked at as the thing being lent to. During a reform, a program to supply an input or the servicing of a particular client will take place only if the reform is properly cared for. The agrarian reform program, moreover, represents much higher stakes for AID than a program of small farmer cooperatives or credit. If the reform works, it will have a much broader impact on small farmers than a successful cooperative or credit program. AID has rarely been able to achieve significant impacts with these latter programs, even when they were successful--as the cases in this and other evaluations show. The stakes are higher for AID in an agrarian reform, then, because of the unique and brief opportunity to have a significant impact on the well being of the small farmer.

All this means that agrarian reform requires a different timing of responses by AID than, say, the kind of institution-building program involved in the BNF small farmer credit program. With a BNF-type program, the institution has considerable time to grow with AID support and assistance. It can even afford the luxury of having serious problems in its first years, because AID is committed to help overcome these problems over a long period of time. By definition, institution-building takes time. Cautious behavior by AID on these occasions is compatible with the task at hand. It does not cause any setbacks.

An agrarian reform project, in contrast, has to achieve highly in its first years, if it is to survive at all. Unlike a small farmer credit program, which has no uphill political battle to fight, it cannot build up its strength in an incremental fashion. It is more like a dam construction project, which has to be finished before the rains come: if not, the rains will make it impossible to work until the next season and will undermine the construction already in place. An agrarian reform, similarly, is vulnerable to the opposition that will mount inevitably if it does not get things in place quickly enough.

The design of AID's involvement with an agrarian reform, then, has to be radically different from that of other projects in more tranquil times. Because a quick and concentrated AID response is important, and because the income redistribution following a successful reform is one of AID's highest priorities at the present time, the Agency should work out a response strategy for any future agrarian reforms that might occur. Such a design should take into account the unique quality of the reform as an assistance project, and its high stakes for AID.

Legislation as precondition or goal? A government committed to an agrarian reform is operating, by definition, in an uncertain political setting. It is the certain and stable political settings, in a sense, that have been associated with the intractability of the rural poverty problem. Instead of seeing a reform process as fraught with riskiness and requiring caution, AID should perhaps reverse its implicit conception of the causality of this situation. AID has the power of making such a government more certain and more stable, that is, by committing itself to the reform. Waiting-and-seeing, in contrast, can in itself lead to enhanced shakiness. Though caution can keep the Agency away from risky investments, it can also keep it away from potentially successful agrarian reforms.

In 1973 and 1974, AID was hesitant to commit so much to a reform that existed on the basis of a temporary decree and a military government of uncertain duration. An immediate AID loan, however, could have been seen as increasing the probability that permanent reform legislation would materialize. Instead, the absence of a permanent law was pointed to by AID officers as a sign of less than full commitment—of an uncertain future. The situation regarding the implementing legislation for the reform law was similar. AID had set up the sector loan so that the loan monies for asentamientos could not start disbursing until issuance of the implementing legislation defining asentamiento structure and legal status. This seemed a perfectly reasonable requirement.

In Latin America, implementing legislation is often as politically significant and controversial as the basic law. Sometimes it is even more controversial than the law; it can nail down the situation more tightly than the law itself, which opponents may have more hopes of evading. The implementing legislation for the asentamientos was a particularly significant issue in Honduran politics, since it would define the degree of control that the government would have over peasant groups. It was expected to reveal the political cast of the government according to the amount of state control that it designated over the groups and their second-level associations. Hence the implementing legislation was long in coming--almost a year. During this period, the structure of the asentamiento and its relation to the government was a hotly debated issue. Opposition to the reform mounted from peasant organizations themselves, who feared having to give up control to the government.

AID did not disburse credit to asentamientos during this period even after the government came up with the promised permanent agrarian reform law and with no delay. For AID had required implementing legislation as a precondition for disbursement. (This did not affect the other credit lines of the sector loan to individuals and cooperatives through the BNF.) AID might have been able, however, to bring about an event as difficult as the issuance of the implementing legislation —instead of considering this achievement as a precondition of lending and as a sign of commitment. It could have designed a project agreement that did not make loan disbursement contingent upon a difficult political achievement. AID itself could have increased the probability of that implementing legislation coming to light sooner, by arranging to release its credit prior to the legislation.

With respect to the implementing legislation for asentamientos, AID has pointed out that it could not lend to groups without legal title or stature. But the Central Government had been lending to these groups through the BNF for two years under such conditions; in lieu of legal title to the land and legal personality of the group, the Agrarian Institute had guaranteed the loans. Indeed, even AID 018 funds had been lent to such groups during 1973. (I do not know how prevalent such cases were. I found two in my sample of 018 loans.)[1] In Ecuador, moreover, AID was heavily involved in a program of investment credits to peasant groups who, like the Honduran asentamientos, did not yet have legal title.[1a]

AID felt that the delays in issuance of the implementing legislation, and of the permanent agrarian reform law in 1975, were signs of an inability of the government to get itself together.

[1] See footnote b to Table 7b, p. 145 of BNF section.

[1a] See PPEA chapter of Ecuador volume.

These signs, however, can be interpreted in a different way. The process of achieving consensus within the government on legislation is a highly political and extremely difficult one—even for a military government. The temporary nature of Decree 8, the undefined legal status of the reform groups, and the large amount of government credit immediately committed to them—can be seen as the genius of the reform and not its inadequacy. The half-way quality of these measures allowed the reform to get going without first requiring laws and implementing legislation, the enactment of which would have been much more difficult to pull off.[2]

This stepwise approach allowed the peasants to get a foot in the door. As a result, they became politically stronger. They played an important role in pressuring to keep the pace of expropriation going, and to get the reform law and its implementing legislation issued. Having the peasants identify lands they wanted in "forced rental," moreover, was a way of shifting the burden of identifying expropriable lands from the government to the beneficiary —at a time when it was necessary to settle people fast and the institutional capacity of the government was not up to the task. The reform might never have gotten off the ground, in short, if it had tried to do first things first in terms of legislation.

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[2]Albert Hirschman describes a similar sequence for the achievement of agrarian reform legislation with respect to the Colombian case. Journeys Toward Progress (New York: The Twentieth Century Fund, 1963), pp. 93-158.

That AID had made the implementing legislation a precondition of lending to asentamientos contributed in part to a situation in which the Mission was working with the National Development Bank, the Ministry of Natural Resources and the Cooperative Department for a considerable time during which it was not working with the Agrarian Institute.[3] The latter was the institution most associated with the reform. This put AID at some distance from the institutional heart of the reform during the early implementation period of the sector loan.

Conclusion. AID's relation with the Honduran reform government, and the design of its sector loan program, were influenced by apprehension over the risk of investing large amounts on an unproven reform government and its beneficiary groups. The risk was indeed there. But I disagree with the implicit assumption

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[3]The sector loan was authorized in June 1974. The permanent agrarian reform legislation was issued in January 1975. By August 1975, the implementing legislation had not been issued, and none of the sector loan funds for credit had started disbursing--for various reasons, in addition to the one cited in the text. The Mission was working with the three other agencies because of technical assistance monies in the sector and previous programs.

that AID's other small farmer projects are less risky. Two years of involvement in agrarian reform certainly gave the Honduran government a track record sufficient enough to warrant a less cautious AID commitment. In Latin America, two years of survival for such a program is a good piece of time.

Looking at the AID decisions to finance other programs in its Honduran history, one finds it difficult to understand why the agrarian reform in particular evoked such caution. AID decided to provide the National Development Bank with $7.9 million in 1969, for example, even though it was fully aware of the fact that the Bank had never made a profit, had a 25% delinquency rate, was against independent audits, had a proven bias toward large borrowers, and was on the record as uninterested in small farmer groups.[4] That was certainly less of a track record for a small farmer credit program, let alone for a bank, than that established by the post-1972 government for agrarian reform. Similarly, FECOAGROH was chosen by AID as the conduit for more than $1 million of credit for small farmer groups and construction of grain storage facilities before it was even created, let alone had a record.[5] The BNF and FECOAGROH decisions, in short, were fraught with considerable risk.

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[4] See BNF chapter above.

[5] See FECOAGROH chapter above.

I am not saying that AID's decisions to finance the BNF and FECOAGROH were unusual. These kinds of histories are the rule rather than the exception for many foreign assistance projects. I am also not saying that the Honduran agrarian reform government merited full confidence, or exuded certainty and stability. I am saying, rather, that it merited no less confidence than most other programs AID has financed in the agricultural sector. To apply caution to this particular situation was to invoke a decision standard that is almost never used in the Agency's other small farmer programs. There is now enough evaluative evidence on small farmer programs to show that they generally carry substantial risk and uncertainty. Whether it's small farmer credit or an agrarian reform, AID is going out on a limb.

Table 1

Honduras: Comparison of Budgets for National Agrarian Institute (INA) and Ministry of Natural Resources (MRN), 1966-1974 (dollar thousands)

	Annual budget						
	MRN[a]		INA				
			Internal[b]		Total		
	Value	Annual % change	Value	Annual % change	Value	Annual % change	Ratio of total INA to MRN budget
1968	4,158	-	na	-	1,381	-	0.33
1969	5,670	36.4	na	-	1,873	-35.6	0.33
1970	5,358	5.5	na	-	1,979	5.7	0.37
1971	5,281	1.4	2,216	-	4,691	137.0	0.89
1972	4,514	14.5	2,694	21.6	4,072	-13.1	0.90
1973[c]	6,448	42.8	4,975	84.7	7,129	75.1	1.11
1974	9,516	47.6	3,666	-26.3	6,715	-5.8	0.71

[a] Net of transfers to other government agencies.

[b] The difference between internal resources and total resources is listed in the data source as "external." This includes foreign assistance (the IDB was channeling funds through INA) and resources transferred from other Honduran government sources.

[c] Military coup occurred on November 14, 1972; agrarian reform Decree No. 8 was issued December 26, 1972. First year of the agrarian reform is 1973.

Source: Based on data from AID/LA/DR, "Honduras: Agriculture Sector Program" (21 February 1974), Annex A, p. 5.