



en breve

34210



July 2005 No. 75

A regular series of notes highlighting recent lessons emerging from the operational and analytical program of the World Bank's Latin America and Caribbean Region

PACTA: RURAL DEVELOPMENT IN HONDURAS THROUGH ACCESS TO LAND AND THE DEVELOPMENT OF PRODUCTIVE ENTERPRISES

Thomas Korczowski, Hiska N. Reyes, Fernando Galeana and Francisco Pichón

Background

“With the land and the resources with which to work it, our family feels safe; we are achieving what we have always dreamed of achieving”. These were the words of Narciso and Maria Dominguez, a poor rural family from Honduras, who are beneficiaries of the Honduras Access to Land Pilot Project (PACTA). PACTA's objectives are twofold, to: (i) facilitate access to land for landless households through the land market; and (ii) promote the development of sustainable rural enterprises.

Prior to his participation in PACTA, Narciso had to rent land on a seasonal basis. He described himself, during a recent visit by the PACTA Management Unit, some World Bank and FAO staff, as a subsistence farmer who was barely able to support his family. Now, his family owns 2.75 hectares of land acquired with a long term loan from a private credit cooperative. When the cooperative approved his loan Narciso became eligible for a complementary grant to implement his business plan and to cover the costs of technical assistance and other services for at least two years.

After little more than a year, the Dominguez family is marketing potatoes grown throughout the year on irrigated fields, and cultivating corn and beans for their own consumption. The loan Narciso received is being paid back on time. The irrigation system (based on a simple hydraulic pump that cost less than \$600) is shared with neighbors who also participate in PACTA. They receive technical assistance and market products as a group.

PACTA has enabled the Dominguez family and others like them to formulate and imple-

ment viable business plans, develop new kinds of know-how, and acquire assets in land and improvements. Instead of renting land on a seasonal basis without the means to invest in sustainable farming, families invest for the long term in their own property, effectively manage soil and water resources, and generate seasonal employment in the neighboring community.

What is PACTA?

The Honduras Access to Land Pilot Project is based on a unique model designed to support the formation of sustainable enterprises by bringing together poor rural families, private financial institutions (banks and cooperatives), local development organizations, private service providers and government and applying a transparent set of incentives. The program facilitates land purchase in the framework of enterprise development: no transactions in land occur without there being a

realistic, detailed plan for how to develop it. PACTA is similar to other “negotiated agrarian reform” projects but the differences in approach are perhaps more important. These differences include: the participation of the private financial sector; the priority given to participatory monitoring and evaluation; the emphasis on assuring access to quality services for newly formed enterprises; and the extent to which the program operates as a decentralized process.

Financing the Enterprise

While land acquisition by itself is not PACTA's main focus, perhaps the most singular aspect of the program is that all land purchases are financed with long-term loans provided by private financial



institutions. These loans are generally made at market rates of interest, usually include a one year grace period, and a term of up to 10 years. PACTA does not (and could not) set any of the lender's financial terms.

The process of leveraging private sector financing with public investment for rural enterprise development has been an extraordinary learning experience. Prior to the start of PACTA there was virtually no long-term credit available for rural investment in Honduras. At the end of last year, loans in the amount of about \$1.5 million had been approved and an equal amount is in the pipeline for 2005. Hence the advances of the pilot project in this regard constitute an important achievement that could be meaningful in the design of similar processes, not necessarily involving land purchase.

After starting out with a single bank, PACTA now has working agreements with 12 financial institutions. The combined offer to provide credit is greater than the program can expect to utilize in what remains of the pilot phase. While five of the largest banks are associated with PACTA, the bulk of this support is coming from regional credit cooperatives. Their management and technical personnel understand more clearly how the program works to control risks; and they are more interested in connecting with the communities that PACTA wants to engage. As these lenders have gained more confidence in PACTA, they have gradually improved credit terms and increased their overall commitment.

The service providers that prepare families for entry into the program make sure that they fully understand the financial obligations and risks involved. This helps to ensure loan repayment and the demonstrated willingness-to-pay promotes a long-term relationship between the families and the lending institution. PACTA also includes a strong incentive for families to establish a good repayment record by keeping a portion of grant money in reserve until the first several loan payments have been made.

While there is a lien on the property, foreclosure on rural land is an extremely unattractive prospect for any financial institution. What matters most is management's knowledge of the program and the high level of credibility that's been established over a period of several years. Presently, none of the borrowers in PACTA is in arrears.

Since the decision to make a loan belongs to the financial institution, PACTA cannot arbitrarily select beneficiaries. This is another factor that has contributed to the credibility of the program: enterprises are selected essentially by a consensus of the lender, the service provider (who receives incentives when the group receives financing), and the project coordinat-



ing unit which assures quality control. (One of the lessons learned is that inexperienced lenders can make serious errors in evaluating proposals, i.e., be willing to finance unrealistic projects.)

Despite the burden of loan repayment, families have consistently expressed their satisfaction with the project because it brings together all the parts needed to build a viable enterprise for the long term. This is echoed in the words of Maybeli Chinchilla, a

member of the productive enterprise "Brisas de Montecristo," in Santa Fé, Ocotepeque, when she said: "The investment that the government has made in our productive enterprise has placed it on fertile ground, since we are going to produce to pay for the loan that was used to purchase the land and we are going to improve our living conditions." Self-esteem, motivation, commitment to the process, and respect among neighbors have also increased notably. Some groups have begun to take additional economic initiatives to supplement incomes after getting the basics of the business plan in place. Families are encouraged to take a broad view of what constitutes the enterprise and how to make it viable. Family ties have been strengthened because more members of the family engage in the enterprise, including women, and contribute to its success.

In addition to land acquisition, PACTA facilitates access to services, including technical assistance and capacity building, to support families: (i) in the preparation of business plans, selecting suitable land, and making loan applications; and (ii) in the start-up phase, for at least two years, when families face an intense, demanding transition to managing an enterprise endowed with substantial assets and in association with a number of other families. If a loan is approved, PACTA proceeds to (iii) co-finance the enterprise with grants for working capital and other productive investments defined in the business plan. Access to high quality services is critical to making this transition successful. More than technical assistance related to production the critical needs are related to marketing, organizational issues, and managing finances. Careful management is needed to make sure that the grant is used to capitalize the enterprise and not just to overcome short term problems. Similarly, the services contracted by the enterprise ought to envision a capacity building process and not be limited to a series of short term consultations.

The rules of the game are very simple and allow for a maximum of creativity in formulating proposals: enterprises based on environmental services and community forestry have been established; and a diverse typology of organizations has appeared, with property rights, financial commitments, production systems and marketing arrangements being combined in interesting ways.

PACTA is implemented in a highly decentralized way with the flexibility to operate equally well in very different contexts. However, the program encountered deficits in institutional capacity in different areas that were greater than expected and limited operations in the first few years. To make the decentralized approach work, the project had to support local capacity building among service providers (which include locally based development organizations and individual specialists) and credit cooperatives, which often lack expertise in evaluating the viability of business plans.

For these reasons, the PCU has had to exert a greater level of quality control than was anticipated during project design. In addition, the PCU takes on the important role of facilitating the interaction between enterprises, lenders, and service providers. To do this more effectively, regional coordinators have recently been hired. By decentralizing its own operations, the PCU can be more effective in promoting alliances with municipal governments and civil society organizations like producer unions, peasant federations, and marketing cooperatives. These alliances have proven to be quite important in supporting PACTA enterprises; while the success of the enterprises improves the image of the municipality and the other organizations with which the families are affiliated.

Finally, all activities carried out in the framework of PACTA are included in an ongoing process of participatory monitoring and evaluation. Since PACTA was defined as a pilot project, emphasis was given to developing a systematic social and institutional learning process so that the project could adapt and scale up appropriately. *The system of participatory monitoring and evaluation (PME)* was established as a separate component around which all other activities are organized. PACTA uses different participatory methods to monitor the effectiveness of program procedures and arrangements; and to support a deeper understanding of impacts than is obtained from counting progress toward pre-established indicators. Each of the main participants has a voice in project development by means of the PME component.

The component is centered on the process of enterprise formation but given that PACTA thrives to the degree that different, autonomous actors cooperate, the viewpoints of service providers and financial institutions are absolutely essential. The PME has enabled PACTA to correct a number of problems in initial design, identify weaknesses characteristic of each of the actors (for example, the lack of experience of many service providers with enterprise development as opposed to production techniques), make adjustments in the structure of incentives, and to generally guide the program to establish a more stable footing.

One of the lessons learned in pilot project implementation is that the potential for this (or any) decentralized model to scale up will depend on a broader political commitment to local capacity building. Local institutional development is essential for small scale rural enterprises to be competitive.

In sum, PACTA's implementation strategy is based on the interaction of different actors, each of whom responds to different incentives and makes independent decisions. These include: NGOs and other private service providers that are qualified to support the formation of rural enterprises; private financial institutions that provide long-term loans for the purchase of land; and the Project Coordinating Unit. At the center of this arrangement are the families who organize themselves, usually on the basis of some prior experience or community connection, to establish an enterprise through PACTA.

Since project implementation began in 2002, some 27 enterprises ranging in size from 8 to 25 members; and 54 individual family enterprises, have been formed. Most of the individual participants receive technical assistance in small groups and some actually operate as collectives. They are classified as "individual" because they have separate loans and individual property titles.

On a local level, PACTA operations require a basic set of conditions:

- Access to qualified service providers;
- Private lending institution with a presence in the area and with the capacity to make long-term loans;
- Privately held land for sale.

PACTA operates in three regions, in the departments of Choluteca, Valle, La Paz, Comayagua, Colon, Yoro, Copan, Intibuca, Ocotepeque and Santa Barbara. A total of 414 families (2,070 people in total), have purchased land and established productive enterprises through PACTA. By the end of the pilot phase in mid-2006, the goal is to have incorporated some 840 families into self-organized, sustainable enterprises based on newly acquired land.



Eligibility criteria are based on the Agrarian Reform Law and are very broad. A majority of the rural population would potentially be eligible, given the number of families with precarious access to land or who possess less than 1 hectare. Given the very large number that fall into this category, the families who are most able to fulfill PACTA requirements tend to be those with some prior organizational experience, strong community ties, and some prior training. The importance of local alliances is apparent as well.

On the participation of women and the establishment of productive enterprises, Regina Saravia, a member of “Unidos en Dios” a productive enterprise in Las Pilas, La Paz said: “We fought for this land for over 10 years, we never imagined that via business...with a loan from a private bank, the support of the government for necessary capital and with market contacts we would be able to establish our own enterprise in our land...this is the future of our children.”

Forty-five women are working in the productive enterprises established through PACTA. Women are seriously underrepresented overall but in some enterprises, such as “Unidos en Dios” in La Paz, women are the majority of members. In others, such as “Las Cuchillas,” in Azacualpa, El Triunfo, Choluteca, and “Los Olivares,” in El Negrito, Yoro, the number of women is almost equal to that of men.



Moving Ahead

PACTA’s achievements, thus far, can be summarized as follows:

- Established a working model for rural enterprise formation that leverages private sector financing. The equivalent of over \$1.5 million in loans for the purchase of land had been approved by the end of 2004. A total of 1,108 hectares of land (about 2.67 hectares per family) have been acquired in the market.
- This model appears promising as a way to allocate public funds in rural development projects: grants made to families are used to establish productive projects, leverage a proportionally large private investment, and improve access to land.
- 27 group productive enterprises and 54 individual enterprises have been established in 24 municipalities in 10

departments in Honduras, benefiting 414 families. No enterprise is in arrears on loan repayment.

- The program’s methodology has been validated in different regions with very different social and environmental conditions.
- Institutional alliances have been established on a local level in support of the target population.
- Participatory monitoring and evaluation has proven to be an essential component in the process and enabled

PACTA not only to make a number of adjustments in a timely manner but to generate a stronger foundation for moving beyond the pilot phase.

As described in this note, PACTA stands in contrast to the previous land access project, where land was the focus of the program. In PACTA, the productive enterprise is the focus and land is seen as an asset with which to achieve broader goals. Technical assistance, financial arrangements, capacity building initiatives,

and market connections are parts of an integrated approach.

As mentioned, substantial political commitment to local capacity building is necessary if PACTA and similar programs are to be successfully implemented using a decentralized approach. A further concern is that, in the long run, PACTA will come up against a weakness in the Honduran financial system: the limited capacity to make long-term loans given that financial system assets are almost all very short term. The pilot project is of such limited scale that this limit has not yet become a factor. However, if PACTA is to be expanded and become an effective instrument of rural development policy it will have to be more directly linked to the national poverty reduction strategy.

About the Authors

This note was prepared by Francisco Pichon, a Senior Natural Resources Management Specialist, Thomas Korczowski, a Consultant of the Rural Development Family, Hiska N. Reyes, a Consultant of the Social Development Family, and Fernando Galeana, a Consultant of the Rural Development Family. All from the Latin American and Caribbean Region, World Bank.