The Honduras Land Access Pilot Project (PACTA) from 2001-2006 supported the acquisition of land and the formation of sustainable farm enterprises by self-organized landless and land-poor peasant families. The Government is now scaling up and diversifying the pilot into a national program far more inclusive than the current model. The SDR 6.2 million pilot project proved the viability of a public-private partnership strategy, with the private sector lending for land purchase and public sector funds being used for complementary investments and services to improve productivity and build capacity for independent development.

PACTA was based on a transparent set of incentives designed to support the formation of sustainable enterprises through an alliance of poor rural families, private financial institutions (banks and cooperatives), local development organizations, private service providers and government. The program facilitated land purchase only in the framework of enterprise development. Loans for land were approved independently by private financial institutions based on detailed business plans, and loan approval was a condition for making grants to finance complementary investments in the enterprise. The ability to leverage substantial amounts of credit (averaging US$2,780 per family) to benefit groups of poor families was broadly attributable to a consistent and exclusive focus on creating viable business opportunities.

The pilot project was similar to other “negotiated agrarian reform” projects, but there were important differences in its approach. These differences included: the participation of the private financial sector; the priority given to participatory monitoring and evaluation (PME); the emphasis on assuring access to quality services for newly formed enterprises; and the extent to which the program operated as a decentralized process. Throughout implementation PME was used to facilitate the adaptation of procedures, rules and regional strategy, as well as to make sure that services were focused on enterprise development and capacity building as opposed to just technical advice about production.

The results demonstrate the viability of the approach to land access and rural enterprise formation: 81 group subprojects and 100 individual subprojects were approved by private lenders during the pilot phase; 2,398 hectares of land were acquired; and 97.3 percent of enterprises were paying off land purchase loans on schedule when the project closed. The average annual income of participating families rose from US$600 to US$1,300 even while most groups were in the early phase (first three years) of loan amortization and subproject implementation.

As these results became more visible, the level of confidence between financial institutions, service providers, and PACTA grew apace. Other organizations and institutions began to participate along with them in local networks to identify and formulate new initiatives, recommend improvements, and assume roles in oversight role. Six local networks were established.
in Ocotepeque, Intibuca, El Paraiso, Yoro and Colon. The networks were an outgrowth of project strategy in that PACTA consisted in large measure of careful management of financial incentives designed to promote the formation of alliances centered on the success of enterprises. Enterprises do not develop as ‘islands of success,’ but in the context of a web of alliances and market-based relationships. The local networks, in turn, evidenced the potential to undertake larger scale initiatives related to marketing and product processing on the level of a community or an association of producers. Given a basic set of objectives and rules, PACTA was designed to devolve as much responsibility and decision making power as possible to locally-based actors. This made the focus on PME all the more important so that different points of view could be heard and taken into account.

On January 1, 2007, PACTA began a transition for institutionalizing and expanding the program to other land access modalities (like long-term concessions and communal property), and to those who have secure access to land but lack the other assets needed to create a viable livelihood. The transition was supported with public funds and no Bank financing. In coordination with the National Agrarian Institute, the PACTA team has drafted a proposal to adapt the approach proven in the pilot phase to develop self-organized enterprises on reform sector land. There are also plans to develop PACTA on communal lands and with forestry communities. Indeed, the pilot phase included a few successful experiences in these sectors.

**BACKGROUND: ADDRESSING LANDLESSNESS AND RURAL POVERTY**

By the late 1980s, land redistribution based on the Agrarian Reform Law of 1975 had come to an effective end. The Agricultural Sector Modernization Law (LMA) of 1992 called for creating a land fund and a separate land fund law was passed in 1993. However, neither the land fund nor other related provisions in the LMA were ever implemented. More broadly, PACTA was formulated in a policy environment characterized by the near absence of public sector initiatives to create economic opportunities for the rural poor.

Specifically in connection with land access, the need for PACTA was evident in a context where the long term trend in land distribution was (and remains) one of increasing fragmentation of small parcels at the bottom, and increasing concentration at the upper end. Around 80 percent of farms have around 15 percent of agricultural land, and less than 2 percent of farms control some 40 percent of the total. Most farms of less than 5 hectares are rented or borrowed on short-term basis, and plots of less than 1 hectare constituted the most rapidly growing segment during the last inter-census period 1974-1993.

Access to credit for small producers was extremely limited as even microfinance operations did not expand significantly in the rural sector until after Hurricane Mitch (1998). In 2001, the year PACTA was inaugurated, only about 3.5 percent of all rural producers in Honduras had access to formal credit. As recently as 2005, official data shows that the agricultural sector received only 4.4 percent of total private sector credit, the share having fallen precipitously since 2000. Access to technical and enterprise development services was also extremely limited. This was true not only for those with precarious access to land, but also for the more than 200,000 individuals who received property title over the past 20 years.

In the post-conflict situations in Guatemala, El Salvador, and Nicaragua substantial initiatives related to land access were negotiated and implemented. In Honduras, however, there was no such political impetus. In this context, a new approach was clearly needed that would be financially sustainable, self-organized (in the sense of not recreating relations of dependency on government), clearly aimed at providing opportunities to the poor, and able to thrive in the market-based economy.

The project loan became effective in August, 2001. The first six bank loans for land purchase under PACTA were approved in the first quarter of 2002.
INCLUDING THE LOW-ASSET GROUPS IN PRIVATE FINANCING AND RURAL ENTERPRISE DEVELOPMENT

The program was broadly aimed at the rural population with no access to land or precarious access to small parcels for subsistence production. Of the 1,226 families that took part in the program, 991 were part of this group – day laborers, sharecroppers, or other kinds of subsistence producer. The rest were poor families with access to municipal forestland (two sub-projects) or communal land (one sub-project). These sub-projects were implemented at the end of the pilot phase. In addition, the sub-projects supported by PACTA in forest communities and afro-Honduran communities are promising for the diversification of economic activities in areas like tourism, crafts, fishing, sustainable timber harvest and wood processing, and environmental services.

Both locally-based service providers and local financial institutions benefited from their participation in the program: their market opportunities expanded and they learned much better how to identify viable business opportunities. After starting out with a single bank PACTA managed to sign working agreements with 17 financial institutions. As loans started to be repaid in a timely way, lenders gained more confidence in PACTA and they gradually improved credit terms while increasing their overall commitment. The participation of regionally-based credit cooperatives (65 percent of the portfolio) was especially strong. Nevertheless, the underlying problem in expanding credit for land purchase remains as identified during preparation: the assets of financial institutions are almost entirely composed of short-term deposits and this imposes a barrier to the volume of long-term loans that can be provided for land purchase. Hence, even those financial institutions that are willing to cooperate in expanding the project will encounter built-in limits.

For the program to greatly expand on the experience to date in facilitating land purchase, further provisions for long-term financing for land purchase will have to be established. However, other modalities, where land acquisition is not an issue (and loan size and term might be reduced significantly), could be more easily accommodated by the financial sector. The experiences of Banco de Desarrollo Rural in Guatemala and Fondo de Desarrollo Rural in Nicaragua are especially interesting in this regard.

To make this approach work, PACTA supported a learning process centered very tightly on the challenge of formulating and implementing viable business plans: service providers, project personnel, producers and financial institutions themselves all had to learn how to identify market opportunities and support building competitive enterprises that could grow in accord with the members’ capacity.

Prior to the start of PACTA there was virtually no long-term credit available for rural investment in Honduras. However, the program demonstrated the feasibility of leveraging loans from private financial institutions to support rural enterprise development in the benefit of poor and very poor families. While PACTA remains unique in certain respects, especially in connection with the public-private partnership to finance land acquisition, the experiences of the rural credit programs mentioned above—which took off roughly in parallel with PACTA—suggest that there is a relatively great potential for applying and adapting the approach in the rural communities of Honduras.

The scheme of incentives worked well in large part because both risks and benefits were shared in a transparent way by all parties, including credit providers, service providers, enterprise members and the public sector. PACTA included 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

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**Box 1. Government Plans to Continue PACTA**

The present government evidenced its commitment to the program by allocating 16 million lempiras a year for the next three years out of the national budget to support continuation of PACTA beyond the pilot project completion date. The program will thus be able to guarantee follow-up on all investments made in rural enterprises during the pilot phase; keep the current project team intact so as not to sacrifice the institutional learning that has been attained over the past five years; and maintain the partnerships developed with financial institutions and service providers. This commitment reflects the expectation that government hopes to expand operations on a national level in the subsequent phase.

*Source: Malcom Childress and Tom Korczowski*
payments had been made. The service providers that worked with families to prepare business plans made sure that they fully understood the financial obligations and risks involved. This helped to ensure loan repayment and the demonstrated willingness-to-pay promoted a long-term relationship between the families, service providers, and the lending institution. While five of the largest banks are still associated with PACTA, most 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. In this way, PACTA facilitated development of a new market opportunity in partnership with the credit cooperatives.

In sum, the incentives were designed and implemented in such a way that the success of the enterprise was the unifying objective. From this point of view, the achievements and lessons learned in the pilot project could be meaningful in the design of similar processes, not necessarily involving land purchase.

REFERENCES


Box 2. Costs and Employment Indicators

The incremental annual net income for family and group enterprises is around US$2,400/family and US$1,400/family, respectively. In terms of annual employment, in one calendar year the enterprises generate on average 255 days of work per family, which is equivalent to almost an annual full time job per family. This means that the project generated the equivalent of 1,226 jobs in financial sustainable enterprises, with the potential to grow and generate more direct and indirect employment. Average technical assistance and project management costs were around US$3,170/family (30 percent of total costs). However, these costs included complementary investments such as the testing and adjustment of pilot operational processes and capacity strengthening of local technical units. In a follow-on phase, these costs can be reduced to an estimated US$1,270/family (15 percent total costs) if only effective time and costs of local technical units and project management were taken into account. In terms of resource allocation, the average subproject grant to enterprises was US$4,700 per family – about 35 percent higher than ceiling estimated at appraisal, but in line with changes agreed during project implementation. The average loan obtained from public financial institutions was US$2,780 per family.

Source: Malcom Childress and Tom Korczowski