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Author(s): Susana Gauster and S. Ryan Isakson

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# Eliminating Market Distortions, Perpetuating Rural Inequality: an evaluation of market-assisted land reform in Guatemala

SUSANA GAUSTER & S RYAN ISAKSON

**ABSTRACT** *The signing of the Guatemalan Peace Accords in 1996 sought to end nearly four decades of civil war and to rectify what many have identified as the root cause of the violent conflict: the country's extremely unequal distribution of land. To achieve this aim, the agreement embraces the strategy of market-assisted land reform. The agrarian strategy has done little to level the country's agrarian structure, however, as the quantity of land that has been transferred is minimal and often of poor quality. Moreover, rather than alleviating poverty, the market-led strategy has indebted its intended beneficiaries. In part, the failure of the programme results from the limited political and financial support that it receives from policy makers. But its shortcomings are also rooted in the inherently flawed model of market-led agrarian reform, a strategy that disembeds land from its political and cultural contexts and envisions it as nothing more than a transferable commodity. To placate demands for land, Guatemalan officials have implemented a land rental programme that does little to redress the deep economic inequalities that plague Guatemala and underpin its political instability. A more comprehensive land reform is justified.*

29 December 1996 marked a watershed moment in Guatemalan history. Representatives of the Guatemalan National Revolutionary Unity (URNG) came together with government officials on the patio of the National Palace to sign a peace agreement and end a 36-year civil war that had claimed some 200 000 lives. Not only did the treaty represent the end of nearly four decades of violent conflict, but it also provided the framework for transforming the structure of Guatemalan society, addressing the extreme political, social and economic inequities that had underpinned the war.

While the civil war in Guatemala revolved around many issues, the country's highly unequal distribution of land is widely regarded as its

*Susana Gauster is at the Institute of Agrarian and Rural Studies (CONGOOP), 2 Calle 16-60, Zona 4 de Mixco, Guatemala City, Guatemala. Email: investigacion@congoop.org.gt. S. Ryan Isakson is in the Department of International Development Studies, St Mary's University, 923 Robie Street, Halifax, Nova Scotia B3H 3C3, Canada. Email: ryan.isakson@smu.ca.*

principal axis. To redress the country's concentrated agrarian structure, the peace agreement's Accord on Socio-economic Aspects and the Agrarian Situation enlists a strategy known as market-assisted land reform. Drawing upon recent thinking at the World Bank, its basic premise is that, once distortions in land and credit markets are corrected, market forces will reallocate land from large owners to more productive small farmers, thereby advancing both efficiency and equity.

More than a decade after signing the peace accords, it has become increasingly apparent that the strategy of market-assisted land reform is a failure in Guatemala. Not only is it financially unstable, but it has also fostered corruption and inefficiency, burdened many of its purported 'beneficiaries' with debt, and redistributed only a small fraction of agricultural land. While the Socio-economic Accord was fundamental to formalising peace in Guatemala, the market-led strategy that it embraces has failed to alleviate rural poverty and correct the country's concentrated agrarian structure. The fortification of land markets has indeed facilitated market transactions, but it has done so primarily to the benefit of large landowners. Persisting conflicts over land continue to destabilise the country and have tarnished its nascent peace.<sup>1</sup>

### **The paradigm of market-assisted land reform**

The logic behind the World Bank's market-oriented paradigm arises from its critique of state-led land redistribution. The Bank focuses upon the purported inefficiencies of the traditional approach, including its inability to target the most worthy beneficiaries, the loss of economies of scale that comes with the break-up of large farms, and the corruption and rent-seeking behaviour that economists typically associate with government bureaucracy.<sup>2</sup> Moreover, World Bank economists Deininger and Binswanger lament, traditional state-led land redistributions are rarely supported by large landowners and, consequently, are characterised by a 'confrontational atmosphere'.<sup>3</sup>

Instead of top-down, state-led land redistributions that are inefficient and likely to incite protests from powerful landowners, the World Bank maintains that access to land should be mediated via market mechanisms.<sup>4</sup> The ideology of its market-assisted land reform is founded upon 1) the empirical observation that small farms are more productive than large farms;<sup>5</sup> and 2) the belief that market 'imperfections'—especially poorly defined and insecure property rights and the inability of small-scale farmers to obtain credit—prevent land from being redistributed to the more efficient smallholders. Thus the logic is that, by simply correcting the imperfections, a process can be unleashed whereby market forces will induce the redistribution of land to the more productive small-scale farmers, thereby achieving a land distribution that is more equitable *and efficient*.

The implementation of market-assisted land reform is based upon five key components. First, since poor farmers are not typically deemed 'credit-worthy', the creation of a land bank that lends to peasants at subsidised rates

is considered fundamental to the market-led model. Second, clearly defined property rights are also necessary to facilitate the exchange of land via market mechanisms; thus the model is dependent upon the regularisation of land tenure. Third, to ensure that beneficiaries use their newly purchased land efficiently, proponents of the market-led paradigm recommend that farmers wishing to receive credit develop a productive plan for producing market commodities that will allow them to repay their loan, and that beneficiaries receive marketing and technical assistance that will allow them to implement their productive plans. Ideally, the providers of technical and marketing assistance will be from the private sector, as this is thought to ensure accountability and minimise corruption.<sup>6</sup> Fourth, to reduce opportunities for corruption and ensure the co-operation of large landowners, land prices should be negotiated directly between potential sellers and buyers and landowners should be paid the full amount of the negotiated value once an agreement has been formalised. Finally, along with clearly defined and secure property rights, the theory of perfectly competitive land markets is contingent upon having a large number of buyers and sellers. World Bank economists argue that large landowners will be encouraged to participate, first, by structural adjustment programmes that undermine the profitability of farming and hence lower the price of land; and, second, by the levying of taxes on large and under-utilised landholdings.<sup>7</sup>

Despite promises that market-assisted land reform will improve equity while enhancing economic efficiency, the paradigm has been widely criticised. Banerjee, for example, articulates several theoretical deficiencies of the model, including the limited likelihood that it will benefit the neediest peasants, the fact that it is unlikely to achieve the optimal level of land redistribution, and that it is an unusually costly approach to agrarian reform.<sup>8</sup> In an empirical evaluation of market-assisted land reform in Columbia, South Africa and the Philippines, Borrás documents several problems with the model. He confirms Banerjee's hypothesis that the market-led strategy tends to exclude the weakest segments of the rural population and that the extension services and overall programmes are costly. He also observes that the land that is exchanged tends to be overvalued and of poor quality; the high prices are partly a result of landlords using their power to capture a share of the loans and cash grants that are intended to assist beneficiaries.<sup>9</sup>

### **Peace through agrarian reform**

The concentration of landholdings in Guatemala is extreme, even by Latin American standards. According to the country's 2003 agricultural census, 2% of the country's farms, with an average area of 194 hectares, control 57% of the land, while 87% of all farms, with an average size of 1.2 hectares, occupy just 16% of the land.<sup>10</sup> With a Gini coefficient for farmland distribution of 0.84,<sup>11</sup> Guatemala has the dubious distinction of maintaining the second most unequal distribution of farmland in all of Latin America.

The issue of agrarian inequality has long been politically explosive in Guatemala. When President Jacobo Arbenz attempted a modest redistribution of land in 1952, he was overthrown in a US-backed military coup. In the ensuing years small-scale farmers continued to lose land to large-scale agro-exporters and mining interests. As dramatically demonstrated by the 1978 Panzós massacre and the 1980 burning of the Spanish Embassy, peasants who protested against violations of their land rights were met with violent repression. Left with no legal recourse, they increasingly turned to guerrilla activities.<sup>12</sup>

The strategy for addressing Guatemala's agrarian question is embodied in the Accord on Socio-economic Aspects and the Agrarian Situation. Signed on 6 May 1996, the Socio-economic Accord is the longest component of the peace agreement, and was arguably the most contentious to negotiate. Talks on the accord lasted more than a year and entailed actors from a variety of political persuasions. At one end of the spectrum the Civil Society Assembly (ASC) and the National Co-ordination of Peasant Organizations (CNOC) demanded guaranteed land ownership for the poor and the reinstatement of the principle of a social function for property, which had been established in Guatemala's 1945 constitution but was subsequently revoked by the military government that overthrew Arbenz. At the other end of the spectrum the Co-ordinating Committee of Agricultural, Industrial and Financial Associations (CACIF), representing the country's business and land-owning elite, argued for the continued sanctity of private property rights and against any significant restructuring of land ownership. Among the two principal signatories to the peace accords, the conservative Arzú government toed the line of its supporters in CACIF while the URNG believed that it would have little success if it advanced 'revolutionary positions' and took what it considered to be a more 'realistic' approach to negotiating.<sup>13</sup> Moreover, the United Nations facilitators had been in close contact with international financial institutions like the World Bank and the International Monetary Fund, and encouraged both parties to adopt an accord that would be consistent with their stabilisation and structural adjustment efforts in Guatemala.<sup>14</sup>

As a result of the conservative pressures exerted during the negotiation process, the Socio-economic Accord articulates a land reform strategy that is very much akin to the market-oriented approach that is advocated by the World Bank and has been adopted in countries throughout the so-called 'developing world'. Adopting the basic premise of the World Bank's market-assisted land redistribution, the Socio-economic accord suggests that the agrarian question in Guatemala can be answered by simply correcting for distortions in the land and capital markets that prevent market forces from reallocating land from large landowners to more productive small farmers. The political and cultural context in which those markets operate is largely ignored.

The adoption of market-assisted land reform to address one of the most volatile issues in the Guatemalan peace accords has led many experts to refer to the agreement as a 'neoliberal peace', or a peace agreement that is more

focused upon the creation of a market economy than on the equitable distribution of resources and power.<sup>15</sup> The Socio-economic Accord's reliance upon market mechanisms to level Guatemala's highly concentrated agrarian structure and its avoidance of redistributive strategies have earned it the reputation of a 'soft' accord that is unlikely to sustain Guatemala's fragile peace. Indeed, peasant organisations were so sceptical of its market strategy that they carried out land occupations immediately following the signing of the accord. The government only exacerbated the violence by forcibly evicting the families involved in the occupations.<sup>16</sup> Land occupations and forcible evictions have mounted over the ensuing decade, including the widely-publicized death of 11 Guatemalans in 2004 when riot police tried to remove squatters from a ranch in the municipality of Champerico. 'In this always-sensitive area,' Jonas writes of Guatemala's market-assisted land reform, 'peace brought more new conflicts than conflict resolution'.<sup>17</sup>

### **Fontierras and the 'accomplishments' of market-assisted land reform**

To promote market-assisted land reform in Guatemala, the federal government established a land trust fund, Fontierras, in May 1997. Two years later, after long and difficult deliberations, the Guatemalan congress approved Decree 24-99, which formalised the operation of the fund and established it as a decentralised and autonomous entity with its own resources. The principal responsibility of Fontierras is to facilitate the functioning of 'transparent' land and credit markets by land regularisation and authorising credit for land purchases. In order to minimise corruption and harness the purported efficiency of market-like negotiations, the fund's mandate is not to select land for redistribution or to determine land prices, but rather to co-ordinate negotiations between willing sellers and willing buyers. In practice, these responsibilities fall to the land poor.

Although Decree 24-99 specifies that Fontierras should facilitate land purchases by individuals or organised groups of peasants, thus far the fund has only attended to applications from groups comprised of at least 25 families. Some groups are comprised of 300 or more families. One of the key motivations for working with groups is to minimise the 'transaction costs'—or the resources and energies expended in bargaining, obtaining information, and enforcing market transactions—that large landowners would incur if they had to subdivide their land and deal with multiple buyers. Instead, those costs are incurred by land-poor farmers who must organise themselves into groups appropriately sized to purchase a particular parcel of land and fall within the credit limits established by the fund.

True to its intention, market-assisted land reform has facilitated land transfers in Guatemala. Its accomplishments, however, have been relatively meagre. During its first eight years of operation (1997–2005), Fontierras financed the purchase of 163 000 hectares of land by 17 822 families. Based upon figures from the country's 2003 agricultural census,<sup>18</sup> the reallocated land accounts for a mere 4.3% of Guatemala's total agricultural land.

Fontierras' limited success in redistributing land is attributable to a variety of factors, including its basis upon a dysfunctional model, its limited funding and, ultimately, a lack of political will to level Guatemala's heavily concentrated agrarian structure. Despite the World Bank's encouragement to adopt its market-oriented land policies and the Guatemalan government's enthusiastic endorsement of the strategy, both actors have been slow to provide financial backing. The World Bank, for example, waited until April 2000—nearly three years after Fontierras began operating—to provide the first of what were to be three loans to finance market-assisted land reform in Guatemala. Moreover, the loan provided funds for regularising land tenure and technical and marketing assistance, but nothing for agricultural credit.<sup>19</sup> For its part, the Guatemalan government has failed to provide the \$40 million for a guarantee fund that was to help finance land purchases, as stipulated by Article 27 of the Law of Fontierras.

There is a general consensus that, with its current lack of funding and resources, Fontierras will not be able to notably improve poor and landless Guatemalans' access to land. Indeed, even the World Bank acknowledged that the project 'was able to respond to only a fraction of the demand from beneficiaries'.<sup>20</sup> As of July 2005 the fund had received 1137 applications from groups of families wishing to purchase land. Among these, only 214 groups—or 18.8%—had received credit; 37% were still enduring the long review process, while the remaining 44.2% were closed or had fallen into inactivity. The funding shortfall is so severe that Fontierras has only been able to attend to an estimated 1% of the total demand for land.<sup>21</sup>

### **The shortcomings of the market-oriented strategy**

In addition to its inability to substantially improve the highly unequal distribution of land in Guatemala, the failure of market-assisted land reform is manifest in multiple dimensions. This section discusses the various shortcomings of the model in the Guatemalan context.

#### *Failure to benefit the most marginalised peasants*

One of the most obvious shortcomings of market-assisted land reform in Guatemala is its failure to assist its intended beneficiaries. Ten years after the establishment of Fontierras the land demands of an estimated 316 000 peasant families remain unmet. Moreover, the beneficiaries of the programme have not necessarily been the most needy. Although the fund has a mandate to assist poor and landless farmers, in practice it allows beneficiaries to earn a monthly salary of up to *four times* the mandated minimum wage. Given that most rural workers do not even earn the minimum salary, the fund is allocating its scarce funds to help finance land purchases by the rural middle class.

Fontierras has no mechanism for prioritising farmers who suffer from poverty or extreme poverty. Instead, it reserves its limited financing for the most economically viable applications. Indeed, two key criteria for evaluating

applications are the estimated profitability of the productive projects proposed for each piece of land and the entrepreneurial ability of the group. The fund pays particular attention to the proportion of applicants in a group who are literate or have experience in commercial activities, particularly cash cropping.<sup>22</sup> Since poor farmers are also the most likely to be illiterate and the least likely to have commercial experience, the practice of vetting applicants according to their entrepreneurial ability is inherently biased against the most land-deprived segment of the rural population.

In addition to its failure to acknowledge Guatemala's poorest peasants, the market-oriented strategy has done little to improve the asset base of rural women. Decree 24-99 specifically recognises the importance of attending to landless *campesinos y campesinas*—or 'peasant men and women'—but in practice the beneficiaries have mostly been men. Among the more than 5000 beneficiaries who received credit to purchase land between 2003 and 2005, only 8.5% were female-headed households. Although married and common law couples are to receive joint titles over the newly purchased land, women often lack the required documents to prove their eligibility and those who receive joint titles are rarely empowered. A review of beneficiary profiles indicated that the governing bodies for beneficiary groups were made up almost entirely of men; the handful of women who held positions were all listed as second vocal, the lowest of the five administrative positions. Women are rarely granted a legitimate voice or voting rights in group assemblies. Article 20 of the Decree stipulates that Fontierras stimulate the participation of women in group governance and projects, yet efforts rarely go beyond the formation of women's groups.

#### *Limited supply of quality land*

In addition to its failure to attend to its most marginalised peasants, Guatemala's market-oriented agrarian reform has also suffered from an insufficient quantity of land available for purchase. Like their counterparts in Brazil, South Africa and other countries that have employed market-assisted land reform,<sup>23</sup> Guatemalan landowners prefer to keep their land rather than selling it on the market. Even as the fall in international coffee prices around the turn of the century undermined many Guatemalan producers, large landowners were still unwilling to sell their land. Their reluctance can be attributed to the unique benefits that emerge with land ownership. Despite World Bank ideology, land is more than a market commodity. It is a source of power, wealth and prestige; it guarantees access to credit; and it is a defence against inflation and economic instability. The income earned from land sales is rarely enough to compensate Guatemalan landowners for the loss of such entailments. Moreover, the Guatemalan government has failed to implement the land tax that was intended to provide an economic incentive to sell under-utilised land.

Among the limited land that is available for sale, most of it is of poor quality. Most of the farms that have been purchased through Fontierras are characterised by deteriorated soil and scarce tree cover, are difficult to access,



and have limited supporting infrastructure like irrigation, roads and working capital. As several Fontierras officials observed, 'Productive lands are not sold'. Many observers concur, claiming that the current agrarian strategy has simply allowed landowners to receive compensation for their most marginal lands.

There are, of course, exceptions. Not all groups have purchased poor quality land. Some beneficiaries have exerted a considerable amount of time looking for good quality land, searching up to three years to find a suitable farm for purchase. Others have contracted with intermediaries who they compensate with a portion of the benefits from their land purchase.

Despite the poor quality of most of the available farms, land-hungry peasants are often eager to purchase them. Most are desperate to acquire any land, even when it is clear that the farm has limited productive potential. As a result, most parcels purchased through the land trust fund are overvalued; in some instances sale prices are more than double the actual value of the land.<sup>24</sup>

In addition to their eagerness to acquire land, beneficiaries' limited understanding of Fontierras' policy has also contributed to high land prices. The fund fails to properly educate interested peasants about the responsibilities associated with receiving credit. Believing that Fontierras would cover the whole cost of their purchase, many farmers made little effort to negotiate a better price for their land. Information regarding debt, interest rates and terms of payment is typically only shared with the leaders of each group; however, in many instances even they are poorly informed. As illustrated in Figure 1, the land fund has done a poor job of communicating the terms and conditions of its loans to borrowers. In a survey of the eight communities where site visits were made, more than one-third of the beneficiaries were unsure about the amount they owed for their purchase, while nearly one-half were unaware of the interest rate that they were being charged and the schedule for their payments.

The Socio-economic Accord stipulated the implementation of two institutions to increase the quantity of land available for sale. Thus far,

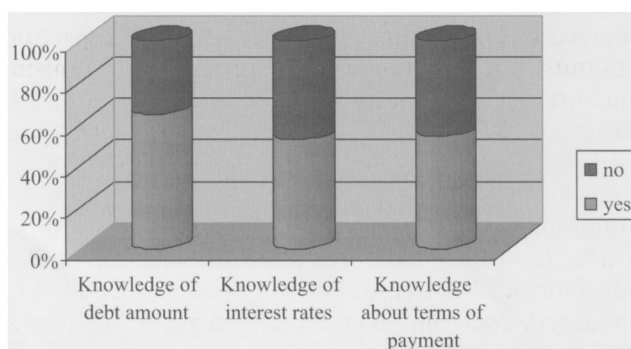


FIGURE 1. Beneficiaries' knowledge of their debt payments.

neither has been implemented. As outlined in paragraph 34 of the Accord, Fontierras was to make various forms of land accessible for purchase. In addition to private lands available from willing sellers, the fund was to be able to offer multiple types of land, including 1) unused national landholdings and state-owned farms; 2) land that had been fraudulently acquired by the military during the civil war; 3) lands purchased by the government with national and international funds; 4) lands purchased with proceeds from the national cadastral survey; and 5) lands acquired under Article 40 of the Guatemalan constitution, which allows the government to expropriate idle land so long as it provides appropriate and timely compensation as determined by the national legislature. In a clear violation of the peace accords, none of these types of land have been made available.

Apart from making multiple types of land available for purchase, the signers of the Peace Accords also envisioned the implementation of a land tax that would provide an economic incentive for large landowners to sell their underutilised holdings. Specifically paragraph 42 of the Socio-economic Accord mandates the establishment of an easily collectable land tax upon idle or underutilised land controlled by large holders. In a move to comply with this obligation, the Guatemalan congress approved a variable-rate land tax in late 1997 that would have disproportionately affected large landowners, as rates were based upon factors such as the size of the land, its location, and the type of use. Although it was notably more progressive than its predecessor, a single-rate land tax passed in 1995, popular support for the new tax was undermined by a misinformation campaign by its opponents. With the government making no effort to clarify its provisions, the legislation was met with widespread protests. The conservative president Álvaro Arzú ultimately withdrew the legislation in February 1998, making no effort to modify it or to propose an alternative more palatable to the landed elite.<sup>25</sup>

### *High transaction costs*

The paradigm of market-assisted land reform aims to limit the efforts and resources that large landowners must expend when selling their land, since they might otherwise lack the incentive to do so. Instead, such transaction costs are transferred to land-hungry peasants who are eager to acquire land. Peasant farmers must not only undergo the process of organising themselves into groups that are sizeable enough to purchase land through Fontierras, they must also exert considerable time and effort locating suitable plots of land for purchase and must endure the fund's increasingly cumbersome bureaucracy.

Once they have organised themselves into groups, most peasants must undergo the task of searching for land. Among the 134 groups that purchased land through Fontierras between 1998 and 2001, more than one-half looked for parcels on their own. Many engaged in long and tiresome searches that lasted up to three years. Another 18.5% already resided on the farm or had possession of it, while the same proportion found their property

through intermediaries; none had acquired land from a list of available lands obtained by the fund.

After they have located a suitable piece of land, the organised groups must expend more of its resources completing socioeconomic profiles of each group member and other requisites. It must make long trips to the land trust's regional offices, purchase photocopies, notarise documents and solicit recognition as a formal group from the state. Having completed some 30 steps in all, the groups must then endure a lengthy review process by Fontierras. Table 1 shows the average amount of time that beneficiaries have had to wait for the fund to approve their loans. While the initial groups only had to wait three months to receive credit, the average wait had steadily increased to more than two years by the end of 2001.

Despite intentions to harness the purported efficiency of decentralised procedures, most beneficiaries of Guatemala's market-oriented agrarian policy have said that they incurred significant transaction costs in their quest to purchase land through Fontierras and that the process is painfully slow and bureaucratic.

#### *Abandonment, poor living conditions, and beneficiary debt*

Despite the difficulty that they must endure to receive credit through Guatemala's market-assisted land reform, half of all beneficiaries ultimately abandon their groups.<sup>26</sup> Abandonment is widespread. Among the 23 groups participating in consultative workshops, more than three-quarters had members who had deserted. According to a member of the Fontierras board of directors, some 30% of the purchased farms have had high levels of abandonment.

In large part the desertions are attributable to the poor quality of the lands and their lack of basic services. The farms are often remote and inaccessible: nearly one-third of the purchased lands have insufficient road access. Even among the farms with road access, conditions are bleak. Nearly three-quarters of farms do not have access to health services while 61% lack schools. Housing conditions are also poor, as two-thirds of farms lack formal housing, 71% are without electricity and 68% have insufficient access to

TABLE 1. Number of months from initial application to receipt of credit

Period	Credits awarded	Semester average	Annual average
1998 Jan–June	3	2.94	
1998 July–Dec	10	16.00	12.99
1999 Jan–June	3	16.73	
1999 July–Dec	14	14.96	15.27
2000 Jan–June	4	16.25	
2000 July–Dec	41	20.39	20.03
2001 Jan–June	36	21.27	
2001 July–Dec	23	24.33	22.46

water. It is little wonder that one-third of the groups have not relocated to their newly purchased land.

In addition to the difficult living conditions that they face, the high rates of abandonment are also attributable to beneficiaries' fear that they will not be able to repay the large debts that they have acquired. Among the 10 742 families that received credit during Fontierras' first three years of operation, the average household incurred \$2400 of debt before interest; 431 families acquired debts of \$5000 or more. Meanwhile, the households on the three most successful farms identified by Fontierras earn an average of \$53 per month, less than one-third of the minimum wage. As leaders from one peasant group observed, 'The high prices paid for land create an unbearable debt'. The leaders from another group concurred, 'The farms are expensive and barely productive . . . sometimes our colleagues get sad once they receive their land and they become aware of the debt that they must face'. Indeed, many 'beneficiaries' maintain that their economic situation was better before they acquired their land.<sup>27</sup> Most families are reliant upon income earned away from the farm; many have resorted to work as illegal immigrants in the USA.

Officials at the land fund are well aware of the hurdles faced by their borrowers. Among a sample of 160 farms, fund officials determined that 19% had a low probability of success while another 37% had an average probability of success.<sup>28</sup> Given the high debts that they face and their limited chances of success, many 'beneficiaries' determine that the actual benefits of owning a poor quality piece of land that lacks basic services are not justified by the costs, and abandon their groups.

### *Corruption and lack of transparency*

Despite the dogma supporting market-based agrarian reform, its implementation in Guatemala has failed to eliminate corruption and improve transparency. During its eight years of operation Fontierras has been marred by allegations of profiteering and political manoeuvring.<sup>29</sup> The land fund has been criticised for the politically motivated redistribution of land, excessive payments to landowners, and for authorising the sale of lands known to be either unproductive, protected or even, in some cases, nonexistent. Employees of the fund who maintain dubious relations with landlords are said to discourage peasants from negotiating low prices for their land. Similarly, anomalies have been observed in the evaluation of land prices, including the presence of commission-earning intermediaries who maintain ties with Fontierras staff. Signs of corruption are also evident in the administration of the technical assistance intended to help beneficiaries implement productive projects on their newly purchased land. Although the peasant groups supposedly have the freedom to choose their providers of technical assistance, many claim that they have been obliged to contract with agencies that are owned by Fontierras staff or have fund employees working for them.

In addition to fraud among its lower ranks, the fund's image has been tarnished by allegations that its board of directors is often subject to political

pressure. As the World Bank acknowledged in its 2006 evaluation of the project, ‘a pattern of political interventions into the actions of the Fontierras Board of Directors led to accusations of non-transparent decisionmaking by the institution’.<sup>30</sup> According to its congressional charter, Fontierras was established as an autonomous entity governed by a board of directors representing various public interests, including representatives of peasant organisations, indigenous groups, agricultural co-operatives and agribusiness. Two of the board’s seven members are representatives of the Ministry of Finance and the Ministry of Agriculture. Given that the power of the government appointees extends well beyond the functioning of Fontierras, many observers claim that the Guatemalan presidency maintains a disproportionate share of power that severely weakens the fund’s purported autonomy.

The politicisation of Fontierras was illustrated in September 2004, when the board fired 40 members of its land regularisation team. Although the employees were ostensibly dismissed as part of an organisational restructuring, many—including the fired workers themselves—believe that it was because they failed to protect the interests of large landowners. The team was widely respected for its objectivity, experience and competence. Nonetheless, its actions were apparently inconsistent with the aims of the Guatemalan presidency and its loyalty to the country’s wealthy elite, so it was replaced with new employees who were more sympathetic to the administration’s allegiances.

#### *Regularization and the commodification of land*

In addition to financing land purchases by organized peasants, Fontierras also has the responsibility of regularising land tenure in the Guatemalan countryside. In theory adjudicating the landholdings of poor and indigenous farmers should enhance their property rights and improve their access to agricultural credit and other productive resources. In practice, however, the process has done little to improve the security of peasants’ landholdings or to enhance their productive capacity. In fact, rather than improving smallholders’ access to credit, it is thought that land regularisation in Guatemala has only increased the supply of credit available to medium-sized commercial farmers and occasioned a greater concentration of land.

Rather than empowering farmers or facilitating the progressive redistribution of land, the objective of land regularisation is to fortify the functioning of land markets. The process has privileged private property over collective ownership and other forms of holding land. Land plays an important role in the cosmology of Guatemala’s predominantly Mayan rural population. Working the land is a means of expressing cultural identity and holdings are often managed by loosely bound communities, clans and extended families.<sup>31</sup> Privatising land via regularisation removes it from this cultural context. Moreover, the campaign has not been accompanied with the technical assistance or access to capital that would enhance the productivity of land. Instead, regularisation has converted land from a cultural and economic asset

into a generic commodity that can be easily bought and sold in the marketplace.

The commodification of land via regularisation has stimulated its market exchange in Guatemala. In many regions of the country—specifically, the Petén, Alta and Baja Verapaz, and the area around Quetzaltenango—one-fifth of the land that is regularised is immediately sold. In some instances landowners use the titling process itself to transfer the land to third parties.

Most of the exchanges facilitated by regularisation are to the benefit of the landed elite and foreign capital. Faced with economic or political pressure, poor peasants are often forced to sell good quality land or parcels that are rich with minerals and other natural resources. For example, many poor peasants sell their land not because they want to abandon agriculture, but rather to acquire cash for the purchase of basic needs or to finance migration. In some areas of the country, particularly Alta and Baja Verapaz, large landholders have pressured their peasant neighbours to sell-off their most productive lands. Despite highly publicised—and paralysing—protests by Guatemala's indigenous population, the emphasis on land titling in resource-rich areas of the country has also played an important role in reopening the country to extraction of minerals and other primary products by foreign-owned capital.<sup>32</sup> In short, land regularisation has not secured the asset base of poor farmers. Instead, it has increased their vulnerability to losing their land. By transferring preferred lands from the weakest and most economically vulnerable segments of the rural population, the regularisation of land is not alleviating agrarian inequality, but exacerbating it.

#### *From land reform to land rentals*

With the many failures associated with its land access programme, Fontierras has dramatically altered its agrarian strategy in recent years. Instead of supporting market-assisted land *redistribution*, it has shifted its resources and focus to subsidised land *rentals*. Although land rentals were authorised under the 1999 Law of Fontierras, the strategy was not initiated until May 2004. Since that time land rentals have become the fund's principal means of improving access to land.

The change in Guatemala's agrarian strategy coincides with the World Bank's recent emphasis upon land rentals over land sales. The shift in focus stems from the theoretical argument that leasing land is likely to be more efficient than its outright exchange.<sup>33</sup> Of course, given that land rentals do not entail a full transfer of land rights, they are not as effective as land redistribution in terms of alleviating rural inequality.

The rental programme in Guatemala provides three forms of assistance, the monetary values of which have varied over the years. The principal benefits are nine months of interest-free credit and a subsidy for expenditures on working capital, agricultural inputs and food. Beneficiaries also receive two bags of chemical fertiliser, 25 pounds of hybrid corn seed, and a tool kit. Table 2 shows the amounts available for subsidies and credit in 2004 and 2005. As it illustrates, total support fell by 16.7% even as the amount of

credit increased. The difference was made up with a 40% reduction in the amount of the subsidy.

In principle the land rental programme is targeted at poor and extremely poor peasant farmers who live in subsistence and below-subsistence conditions. Peasant organisations have tried to ensure that the objective is achieved by registering their poorest members. In certain areas of the country, however, the necessary forms are being distributed in the name of various members of Congress. In some instances the political representatives sell the forms for as much as \$6.70, thereby discouraging many poor farmers. Anonymous informants have suggested that Fontierras staff tacitly approve of the politicisation of the rental process, once again hinting at the possibility of corruption.

Figure 2 compares the achievements of the current programmes in redistributing and renting land in Guatemala. As it demonstrates, during its three years of operation the land rental programme has benefited more than double the number of families than the strategy of subsidised land purchases. Nonetheless, it has provided access to less than one-fifth of the amount of land. Redistributing nine hectares per family, the land-purchasing programme provides the average beneficiary with nearly 12 times the amount of land accessed by the average renter (who paid for the temporary use of a mere 0.77 hectares).

TABLE 2. Benefits associated with Fontierras' land rental programme

Year	Total benefit	Subsidies		Credit
		Working capital	Agricultural inputs and food	
2004	\$400	\$173	\$93	\$133
2005	\$333	\$93	\$67	\$173

Source: Based upon information gathered in a workshop with directors of the Coordinating Committee of Peasant Unity (CUC) and in Fontierras, *Memoria de Labores, 2004*, Guatemala: Fontierras, 2004.

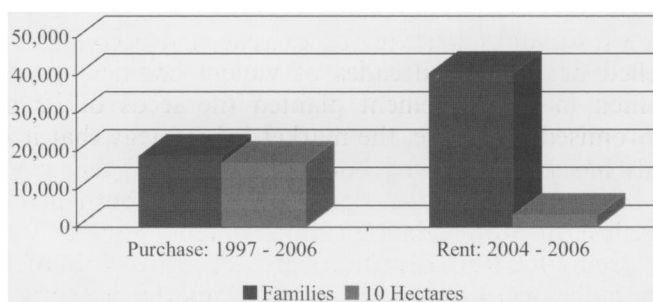


FIGURE 2. Comparison of the achievements of the land purchase and land rental programme. Sources: Fontierras, *Diagnostico Situacional del Fondo de Tierras*; Fontierras, 2004; Fontierras, *Memoria de Labores, 2005*, Guatemala: Fontierras, 2005; Fontierras, *Memoria de Labores, 2006*, Guatemala: Fontierras, 2006.

One achievement that cannot be quantified is the difference between the *ownership* that arises from purchasing land and the *access* that comes with renting. Land is more than an input for growing crops, it is also an asset. As the amount of land owned by poor farmers increases, so does their economic security, social prestige and political power. Moreover, farmers who own land have greater incentive to invest in sustainable agricultural practices like terracing, using organic fertilisers, rotating crops or intercropping, and planting trees. The land rental programme may placate demands for land in the short run, but it does little to level Guatemala's heavily tilted socioeconomic landscape. Large landlords maintain their position of power and receive income even though they do not work the land, while renters receive little more than the temporary right to use a parcel of land and only a portion of the returns from their labour.

Despite—or, perhaps, because of—the land rental programme's failure to redress Guatemala's unequal distribution of land ownership, it has become the preferred means for addressing the country's agrarian question. In 2006 Fontierras only provided credit for one group of 42 families to purchase a farm. At the same time it assisted 10 98 families to rent land, providing them with six times the amount of subsidies and credit allocated to land buyers.<sup>34</sup> One reason for favouring the rental programme is its relative cost. Market-assisted land reform is an incredibly expensive means of distributing land. Given their shorter time frame—one year of land use versus perpetuity of land ownership—rental programmes allow Fontierras to attend to the immediate demands of land-hungry peasants at a much lower cost. While it may not empower beneficiaries to the degree that land redistribution does, subsidised rentals provide a short-term solution to the demand for land without upsetting Guatemala's underlying power structure. Indeed, with its greater visibility and quick accomplishments, the motivation for shifting the focus to land rentals may be more political than economic.

### Conclusion

Even as the signing of the Guatemalan Peace Accords more than a decade ago raised the hope of redressing the extreme socioeconomic inequalities that had fuelled nearly four decades of violent conflict, the land reform strategy outlined in the agreement planted the seeds of its own failure. Although it promised otherwise, the market-led strategy that it is embodied in the accords has not improved poor Guatemalans' access to land and, paradoxically, rather than alleviating poverty, it has burdened many of its intended beneficiaries with debt. During its eight years of operation the strategy has facilitated the distribution of a mere 4% of agricultural land, most of it is overpriced and of poor quality and little productive potential.

By pressing for the adoption of market-assisted land reform as *the* solution to the primary source of contention during Guatemala's civil war, the World Bank and International Monetary fund have betrayed and undermined the spirit of the peace accords in the name of economic liberalisation. In a



country where three-quarters of the rural population lives in poverty, Guatemala's land reform programme has prioritised efficiency over poverty alleviation and rural development. Given its dependence on the repayment of loans, market-assisted land reform does not necessarily benefit the neediest peasants. Instead, it targets farmers with the greatest entrepreneurial potential. Yet, even in its quest to transform peasants into 'new market citizens', the agrarian strategy has failed, as it does not provide farmers with the necessary training and appropriate quality of land to succeed in the marketplace. The purported 'efficiency' of the decentralised approach creates so many transaction costs for land-hungry peasants that many of them drop out of the process. Among those who see it through, many are so disappointed by the squalid conditions of their new landholdings that they abandon them.

In part, the failure of market-assisted land reform in Guatemala can be attributed to its vision of land as a commodity. While there may be plenty of willing buyers, wealthy landholders are unwilling to sell their property. Their reluctance is not because the price is too low, but rather because price does not matter. As elsewhere, land is a source of political power and social prestige in Guatemala. It also provides security against the instability of Guatemala's export-oriented economy. In short, land is an asset, the transfer of which could greatly empower the country's rural poor. Like their wealthy counterparts, Guatemala's rural poor view land ownership as a means of improving their economic, political and social well-being. For the peasantry's predominantly Mayan majority, land ownership is also a means of cultivating maize and beans for food security and, ultimately, of practising their cultural heritage.

Given the many non-market values associated with land ownership, it is foolhardy to think that market mechanisms alone are enough to spur its redistribution. Guatemalan policy makers have apparently come to this realisation. Government leaders recently refused what would have been the second of three World Bank loans to support market-assisted land reform in Guatemala. The strategy has been virtually abandoned by Fontierras. In its place has emerged a land rental programme that placates some of the immediate demand for land, but ultimately benefits the landed elite with state-subsidised land transactions. The rental programme not only fails to redress the deep economic inequalities that plague Guatemala and underpin its political instability, it exacerbates them.

Although the current Guatemalan constitution is biased towards the sanctity of private property, it also offers the possibility of a more comprehensive land reform policy. Specifically, Article 40 allows for the expropriation of land for social progress, so long as owners are justly compensated in due time. A new approach to redistributing land is necessary and warranted in Guatemala.<sup>35</sup> It is justified on several grounds, including the following. First, as a means for alleviating rural poverty and empowering the country's historically marginalised peasantry and indigenous population. Second, given that small farmers tend to use land more productively than largeholders, land redistribution would improve overall agricultural

productivity in the country. Third, reallocating land from large agro-export plantations to small-scale farmers who tend to cultivate staple crops for domestic consumption would enhance Guatemala's national food sovereignty. Fourth, justice will only be served when Guatemala's indigenous population can reclaim the stolen land that is their heritage. Finally, Guatemala's 1996 Peace Accords call for a 'firm and lasting peace'. Such a peace will not be achieved until the inequitable distribution of land, which underpinned the civil war and continues to be the source of political conflict, is resolved.

## Notes

We are grateful for helpful comments from Saturnino M Borrás, Jr and two anonymous referees. The usual disclaimers apply.

- 1 The findings for this evaluation of market-assisted land reform in Guatemala are based upon several years of investigation, beginning in 1999, and a variety of research methodologies. Much of the data emerged from consultative workshops that were held in four regions of the country with representatives of 23 communities who had purchased land through the market-led agrarian reform, and from field visits to a representative sample of eight communities. The study is also based upon interviews with representatives of Washington-based international financial organisations (including the World Bank and the Inter-American Development Bank), with officials from Guatemala's land trust fund and the government's Ministry of Agriculture, and with leaders of peasant groups and other civil society organisations. Additional data were gathered through documentary analysis of primary and secondary sources.
- 2 For a succinct summary of the market-led paradigm, see SM Borrás, 'Questioning market-led agrarian reform: experiences from Brazil, Columbia and South Africa', *Journal of Agrarian Change*, 3 (3), 2003, pp 367–394.
- 3 K Deininger & H Binswanger, 'The evolution of the World Bank's land policy: principles, experience, and future challenges', *World Bank Research Observer*, 14 (2), 1999, pp 247–276; and K Deininger, 'Making negotiated land reform work: initial experience from Columbia, Brazil, and South Africa', *World Development*, 27 (4), 1999, pp 651–672.
- 4 K Deininger, *Land Policies for Growth and Poverty Reduction*, Washington, DC: World Bank/Oxford University Press, 2003.
- 5 A number of empirical studies has observed an inverse relationship between farm size and productivity, including RA Berry & WR Cline, *Agrarian Structure and Productivity in Developing Countries*, Baltimore, MD: Johns Hopkins University Press, 1979; and RJ Herring, *Land to the Tiller: The Political Economy of Agrarian Reform in South Asia*, New Haven, CT: Yale University Press, 1983.
- 6 Deininger, 'Making negotiated land reform work'.
- 7 Deininger, *Land Policies for Growth and Poverty Reduction*; Deininger & Binswanger, 'The evolution of the World Bank's land policy'; and Deininger, 'Making negotiated land reform work'.
- 8 A Banerjee, *Land Reforms: Prospects and Strategies*, Massachusetts Institute of Technology Department of Economics Working Paper 99-24, 1999.
- 9 Borrás, 'Questioning market-led agrarian reform'.
- 10 Instituto Nacional Estadística (INE), *IV Censo Agropecuario: Características Generales de las Fincas Censales y de Productoras y Productores Agropecuarios*, Guatemala: INE, 2004.
- 11 A Gini coefficient is a measure of inequality that ranges from 0 to 1. A coefficient of 0 represents perfect equality, while a coefficient of 1 represents extreme inequality.
- 12 J Handy, *Revolution in the Countryside: Rural Conflict and Agrarian Reform in Guatemala, 1944–1954*, Chapel Hill, NC: University of North Carolina Press, 1994; and Handy, *Gift of the Devil: A History of Guatemala*, Boston, MA: South End Press, 1984.
- 13 Interview with URNG representative and signatory to the Socio-economic Accord, Pablo Monsanto, 23 May 2001.
- 14 S Jonas, *Of Centaurs and Doves*, Boulder, CO: Westview Press, 2000.
- 15 *Ibid*, pp 220–222.
- 16 CD Deere & M León, *Mujer y Tierra en Guatemala*, Asociación para el Avance de las Ciencias Sociales en Guatemala (AVANCSO), Serie Autores Invitados, No 4, Guatemala City: AVANCSO, 1999, p 39.
- 17 Jonas, *Of Centaurs and Doves*, p 182. See also J Pearce, 'From civil war to "civil society": has the end of the Cold War brought peace to Central America?', *International Affairs*, 74 (3), 1998, 587–615.

- 18 INE, *IV Censo Agropecuario*.
- 19 World Bank, *Implementation Completion Report (SCL-44320) on a Loan in the Amount of US\$23 Million to the Republic of Guatemala for a Land Fund Project*, Washington, 2006.
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- 21 B Garoz, A Alonso & S Gauster, *La Balance de las Políticas de Tierra del Banco Mundial en Guatemala: 1996–2005*, Guatemala: CONGCOOP, 2005.
- 22 Interview with an official from the Land Access Division of Fontierras, 17 December 2001.
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- 24 Garoz *et al*, *La Balance de las Políticas de Tierra del Banco Mundial en Guatemala*.
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- 28 Fontierras, *Diagnostico Situacional del Fondo de Tierras*, Acta 37-2005 del Consejo Directivo del Fontierras del 6/06/05, Guatemala, 2005.
- 29 Land Fund Institute in Crisis, *Central America Report*, 33 (26), 2006; and M del Cid, 'Corrupción en Fontierras', *Prensa Libre*, 23 December 2005.
- 30 World Bank, *Implementation Completion Report*, p 9.
- 31 LR Goldin, 'Work and ideology in the Maya highlands of Guatemala: economic beliefs in the context of occupational change', *Economic Development and Cultural Change*, 41 (1), 1992, pp 103–123.
- 32 E Holt-Giménez, 'Territorial restructuring and the grounding of agrarian reform: indigenous communities, gold mining and the World Bank', paper presented at the Institute for Social Studies, The Hague, January 2006.
- 33 The theoretical argument for rentals is outlined in E Sadoulet, R Murgal & A de Janvry, 'Access to land via land rental markets', in A de Janvry, G Gordillo, JP Platteau & E Sadoulet (eds), *Access to Land, Rural Poverty, and Public Action*, Oxford; Oxford University Press, 2001.
- 34 Fondo de Tierras, *Resultados 2006*, at <http://www.fontierras.gob.gt/?mnu=5&sec=1>.
- 35 The National Coordination of Peasant Organizations (CNOC) has proposed a viable strategy for comprehensive agrarian reform in Guatemala. See Coordinadora Nacional de Organizaciones Campesinas, *Propuesta de Reforma Agraria Integral*, Guatemala: CNOC, 2005.