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REPUBLIC OF EL SALVADOR
BANCO DE FOMENTO AGROPECUARIO

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EVALUATION OF THE CREDIT ACTIVITY
AND ROLE DEFINITION
OF BANCO DE FOMENTO AGROPECUARIO
IN THE AGRICULTURAL FINANCING

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CONTENTS

EXECUTIVE SUMMARY

I- BACKGROUND

1. Legal Frame and Functions
 - a. Organization and Personnel
 - b. Merchandising
 - c. Bank deposits from the public
 - d. Sources of financing
2. Operations
3. Impact of the Operations on the Bank's Financial Position
4. Institutional and Financial Actions adopted by the Bank
 - a. Financial Drainage
 - b. Capitalization of BFA
 - c. Sale of Loans portfolio and Refinancing
 - d. Constitution of Valuation Reserves
 - e. Non banking activities
 - f. Administrative Measures
5. Fulfillment of Financial Requirements
 - a. Financial Institutions and Banks Legislation
 - b. Global programme of multisector credits

II. CREDIT ACTIVITY

1. Loan Contracting
 - a. Agricultural loans commercial banks type
 - b. Agrarian reformed sector
 - c. Banking operations

- d. Traditional small farmer
 - e. Non agricultural loans
2. Financial sources of the portfolio
 3. Disbursements and Recoveries
 4. Delinquency
 5. Administrative costs
 6. Loans portfolio structure

III- LOANS PORTFOLIO

1. Portfolio situation
2. Risks classification of the portfolio
3. Valuation Reserves
4. Drainage procedures of the portfolio
5. Administration of Portfolio E
6. Drainage of the Loans portfolio

IV- YIELDS AND COSTS

1. Credit activity
2. Commercial banking services
3. Merchandising of grains and sale of materials

V- THE BANCO DE FOMENTO AGROPECUARIO

1. Factors backing or hindering the development of BFA
 - a. Environment
 - b. Organization and Functions
 - c. Administrative-Financial
 - d. Commercial banking
2. Financial Evolution
3. Agricultural Financing
4. Definition of the Banco de Fomento Agropecuario Role
 - a. Basic criteria
 - b. Options on the role of the BFA
 - c. Institutional requirements
 - d. Bank deposits from the public
 - e. Non agricultural loans
 - f. Mechanisms for the granting of loans
 - g. Government programmes
 - h. Evaluation of the programmes

LISTING OF CHARTS

I- BACKGROUND

II-1 Solvency according to the banks and financing institutions law

II- CREDIT ACTIVITY

II-1 Structure of the Operations
30th November 1992

II-2 Structure of the Operations
Portfolio at Collection of Loans granted in
1991

II-3 Loans portfolio
31st October 1992

II-4 Original Financing Loans Portfolio
31st October 1992

II-5 Sources of Financing of the Loans Portfolio

II-6 Sources of Financing in the Short Term

II-7 Loans Granted in 1991
Disbursements and Recoveries
As at 31st October 1991

III- LOANS PORTFOLIO

III-1 Situation of the Loans Portfolio
31st October 1991

III-2 Classification of Risks of the Loans
Portfolio
31st October 1992

III-3 Classification of Risks of the Loans
Portfolio
In Percentages

III-4 Loans Portfolio Classified E
30th September 1992

III-5 Estimated Recovery Portfolio F
In Percentages

III-6 Quantification of Collection Probability of
Portfolio E

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EXECUTIVE SUMMARY

Organization of the Survey

In Chapter I an examination of the Banco de Fomento Agropecuario (BFA) development in order to establish the principal reasons of institutional and financial type that have affected the entity and the result of the adopted measures. In Appendix A the corresponding details are made available.

Chapter II has the principal objective of examining the credit function, on the basis of the attended sectors, the sources of financing and respective costs, originating options to define the role of the BFA. Additional information is provided in Appendix B.

Chapter III contains an evaluation of the loans Portfolio and proposals for its drainage and eventual measures for recovery.

With the purpose of having additional information for the taking of decisions on the role of the BFA, in Chapter IV the principal results of the yields and costs activities of the BFA are presented, on the basis of the analysis contained in Appendix C.

In Chapter V, in addition to presenting data that indicate the credit demand, the environment surrounding the BFA, the necessary requirements for the financial intermediation are established from one of the possible options that define the mission of the BFA.

In the development of the job, the terms of reference were taken into account, the communication from the Central Reserve Bank to the BFA and other notes sent on the survey.

For the focusing of the job, we used the concept of a ~~running business~~. It was necessary to examine the whole of the Bank's activities.

going concern

Findings of the Survey.

1. Institutional and Financial Aspects

Financial Position. The value of the financial resources received from international organisations and agencies in the 80's, was deteriorated due to the devaluation of the national currency, application of negative interest rates and loss of loans of doubtful recovery. In addition, the institutional solvency of the bank was affected.

Financial and Institutional Actions. Since 1990, the BFA recorded in the books the exchange losses, and achieved that the government absorb the debt in foreign currency, constituted valuation reserves for the loans of doubtful recovery, and is retiring from the activity of selling agricultural materials and merchandising of grains. In addition, it received government bonds for \$227,845,000 for the sale of the Portfolio to ISTA, including delinquency loans of the Agrarian Reformed Sector of Phase I.

Level of Credit Operations. Currently, the BFA is an entity that, based on cash movements, handles disbursements and recuperations of loans in the levels of \$450,000,000 annually and covers with the income from interests and services the financial and administration expenses. The operations level no longer keeps a relation with the number of personnel.

Legislation of Financial Institutions-Solvency Requirements. As a result of the measures adopted, the BFA abides to the financial solvency requirements demanded by the Banks and Financial Institutions Law.

Global Programme of Multisector Credit. On the subject of the Global Programme of Multisector Credit, financed with the resources of the Interamerican Development Bank (IDB), a consistent demonstration with the credit activities of the BFA would indicate that at the level of agricultural credit type commercial bank, reformed sector and including those non agricultural, that the bank could meet the criteria of eligibility related with: financial solvency, operation costs and eventually: those of Portfolio delinquency.

2. Credit Activity

Respecting levels of disbursements and recuperations, the BFA handles a revolving Portfolio of \$529,000,000. The standstill situation of Portfolio E, the refinancing and the sale of the Portfolio are factors which have contributed to having limited the credit activity.

The BFA is giving preference to the granting of loans to the agricultural commercial bank type, without this deriving from a defined policy, excepting the opportunity to place the resources in big operations. These operations absorbed 41,4% of the grants in the year 1991. The amount of 27 borrowers received 81,4% of the quantity given to the sector, especially for coffee.

The decision to grant loans of the commercial bank type would be detrimental for the attention given to the traditional small farmer that received 20,5% of the total granted in 1991.

The sources of financing of the credit activity demonstrate that there is no active policy on mobilization of resources for the financing of the agricultural sector, depending on a relatively high degree on funds from the Central Reserve Bank, even to attend the Traditional Small Farmer who has the characteristics of loans for subsistence.

There is no clear definition for the employment of the deposits from the public.

Typifying the credit activity. The typification made of the credit activity demonstrates that its structure has a direct relations with the available sources of financing and the opportunity of using the resources. The funds used totalled \$529,699,000 in 1991.

- Agricultural Loan commercial bank type. Absorbed 31,8% of the funds used which were financed by 79,7% from BCR lines. The bulk was granted in operations for the financing of the coffee crop in an average contracting of \$9,830,000.
- Agricultural Loans to traditional small farmer. Received 22,7% of the funds used financing itself with recuperations and in 55,4% with BCR lines.

Knowing of the high transaction cost, it would not be desirable to use resources from the BCR.

- Reformed Sector. Absorbed 25,5% of the disbursed amount which was basically financed with resources from AID.
- Non Agricultural. Include basically two categories: (1) Loans to small and micro enterprises; and (2) referring to large contracted amounts, operations of coffee mills and to manufacturers of animal feeding, using all the range of financial resources. To this sector 20,0% of the total disbursed was assigned.

The analysis made in Appendix B of the Report, establishes that there is an inclination towards commercial bank type operations.

Recuperations. In relative terms, the Traditional Small Farmer contributed with 24,4% of the loan recoveries for the year 1991, being this slightly above the disbursed amount, which did not occur in the other attended sectors.

Basically, an absolute and relative balance is achieved between the amounts disbursed and the recuperations in each sector attended in the credit activity.

Delinquency. In 1991, a delinquency of \$60,674,000 was generated, which represented 11,5% of the disbursed amount in the year of \$529,699,000. The 44,7% of this delinquency originated from the Traditional Small Farmer sector, followed by the Reformed Sector with 21,8%. The remaining amount corresponded to the Agricultural Commercial Bank Type Loan Sector with 19,1% and the non Agricultural with 14,4%.

Credit Risk It is to be noted that the BFA has not developed, on the basis of experience, methods to establish the credit risk of its operations and consequently the maximum that would be acceptable.

For the effects of this survey, a credit risk was determined on the basis of the experience accumulated during five years from 1987 to 1991, from which resulted a rate that would range from 8,0% to the small farmer and of 6,0% to the commercial bank type operations. The reformed sector, according to the application form of classifying risk assets would reach 2,7%.

Administration Expenses.

Using the more conservative criteria than the yield analysis made in Appendix C, the administration expenses for the loans operations were established.

The administration expenses of the BFA are integrated by the line functions with the highest proportion in the agencies. The line expenses applied to the credit activity totalled in 1991 C46,760,000 and the general expenses were C23,806,000, which correspond to the Head Office.

This overhead could be reduced in case of eliminating the marginal activities that the BFA carries out, without taking into consideration the Creation Law and the operating and information requirements from the financing organisations, including the BCR. This overhead would indicate that there is a personnel installed capacity not being used in productive work.

From the examination of the distribution of the administration expenses for the year 1991 to the sectors typified in the credit activity, we can establish the following cost distribution on the basis of the contracting amounts of the loans.

(In Thousand Colones)

	<u>Contracted</u>		<u>Admin</u>	
	<u>Loans</u>		<u>Expenses</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Agricultural</u>				
<u>Commercial Bank</u>				
<u>Type Sectors</u>	325.911	41,1	5.503	8,8
<u>Reformed Sector</u>	185.758	23,4	9.786	15,7
<u>Non Agricultural</u>	120.577	15,5	6.292	10,1
<u>Sub-Total</u>	<u>632.246</u>	<u>80,0</u>	<u>21.581</u>	<u>34,6</u>
<u>Traditional Small Farmer</u>	158.176	20,0	40.796	65,4
<u>Total</u>	<u>790.422</u>	<u>100,0</u>	<u>62.377</u>	<u>100,0</u>

From analysing the distribution of the administration expenses, this indicates the following:

- Traditional Small Farmer Absorbs 65,4% of the total administration expenses, being per Colon disbursed (C0.34).
- Agricultural Commercial Bank Type. The cost per Colon disbursed is of C0.03. This would explain the inclination of the BFA towards these

operations, including big non agricultural loans, that as mentioned before, are of agricultural type.

- Reformed Sector. In Phase I, the behaviour is similar to the Agricultural Loan Commercial Bank Type and those of Phase III the same as traditional small farmer. On the average, the cost per Colon disbursed would be ₡0.06.
- Small and Micro Enterprise The cost per Colon borrowed would be similar to the small farmer.

Definitely, there are two functions: the big loans and the small operations without an intermediate concentration that decreases the credit risk and extreme administration expenses. In the attached chart we can appreciate this variance.

Yields of the Credit Activity

With the purpose of helping in the decision making on the role of the BFA, a statement on the operation results for the year 1991 on the credit activity was made, according to the tipification made which appears in the attachment to this Summary. The income and expenses on interests are on the basis of cash which better reflect the operating reality of the BFA.

In summarized form, the data are as follows:

In Thousand Colones

	Agree. Com. Bank Type	Sector Reform.	Trad. Small Farmer	No Agree.	Total
<u>Interest Income</u>	48.348	22.259	21.298	19.387	104.112
<u>Expenses</u>					
Interests	22.232	4.986	7.579	6.659	41.256
Administration	5.583	9.787	48.796	6.292	62.378
Estimated Loss Loans Doubtful Recovery	18.116	3.693	9.611	1.610	25.329
<u>Total Expenses</u>	<u>37.651</u>	<u>18.466</u>	<u>57.906</u>	<u>14.561</u>	<u>109.664</u>
<u>Operational Income</u>	<u>3.197</u>	<u>4.793</u>	<u>(36.588)</u>	<u>4.846</u>	<u>(24.552)</u>
<u>Movement of Funds</u>					
<u>Loans Disbursements</u>					
<u>Sources of Funds</u>					
BCR	134.288	843	66.568	26.664	228.455
AID	772	123.591	15.662	1.884	141.229
BID	12.545	7.632	22.534	49	32.918
Own	19.357	1.336	78	14.928	36.191
Others	1.945	1.008	5.015	62.715	70.414
	<u>168.687</u>	<u>134.798</u>	<u>129.142</u>	<u>106.160</u>	<u>529.699</u>
<u>Recoverations COLLECTIONS</u>	<u>157.198</u>	<u>116.535</u>	<u>129.142</u>	<u>126.882</u>	<u>529.397</u>

7

The yields analysis shows the following:

- Administration Expenses. The administration expenses corresponding to the attention to the small farmer in comparison with the level of disbursements are excessive.
- Absorbing Administration Expenses The expenses that come from the attention to the small producer are absorbed with the operating margin from the other credit activities.
- Net Income The net result due to the charges for loss estimates of loans of doubtful recovery, would be negative in 1991.

3. Loans Portfolio

The BFA has classified its assets at risk and has constituted valuation reserves that reach 42,6% of the total of the loans to be collected for ₡929,749,000. It is estimated that the BFA has fulfilled the process of establishing the provisions for these reserves, which reflect an accumulated result.

Only 30,3% of the amount to be collected is classified in groups A and B. It was given more importance in the survey to the analysis of Portfolio E that amounts to ₡329,096,000.

Application of Reserves. Due to the great amount of loans and the established procedures, the system of application of reserves, despite the efforts made, is scarce.

Draining of the Portfolio. In order to drain the loans Portfolio and achieve a more realistic presentation and with operating objectives, it is considered:

- Recording the Portfolio Transfer the Portfolio E to order accounts.
- Administration. Administer Portfolio E in a separate manner and design a collections programme. It was estimated that from the total to be collected for ₡430,925,000, which includes capital and interests, 30,4% equivalent to ₡130,974,500 could be recovered.

This does not imply an alternative, that the BFA could be assimilated to the Draining and Strengthening of the

Commercial Banks Law. In the survey it is recommended to give emphasis to the recuperation of the Portfolio.

4. Costs and Yields of the BFA - Appendix C of the Report

- (a) Credit Activity. There is an excess up to the level of administration expenses and interests, after the application of the direct and indirect expenses of the activity.

The following has to be pointed out:

- The administration expenses of the Portfolio (disbursements, recording and collection), are excessive).
- The average cost of granting a loan of up to ₡50,000 was of ₡833 and upon adding a 40% for administration expenses it would give a total of transaction costs of ₡1,173.

Supposing an interest rate of 20% and placed during the entire year, this would result in an interest income of ₡519 and therefore an uncovered amount of ₡654, which multiplied by 17,263 operations, would give a total of ₡11,291,000, which would be equivalent to a social contribution to the country.

- The average granting cost for loans over ₡50,000 would be ₡8,059 due principally to the high costs originated from the organization structure of the BFA that results from the stiffness of the Creation Law.

- (b) Services of the Commercial Banking System. The contribution to the final operation results was marginal. It is estimated that the BFA could retire from these services, also taking into account that it could not diversify the placing of its resources. Eventually it could be dedicated to the collection of savings deposits. This confirms the preliminary appreciation of the BCR.
- (c) Sale of Agricultural Materials and Merchandising of Grains. The activity allowed to absorb part of the general expenses (overhead). The yield in 1991 was minimal.

The BFA is retiring from this activity.

5. Definition of the Role of the BFA in the Agricultural Financing.

For the definition of the options for the restructuring of the BFA, we begin with the examination of the credit activities in the year 1991, which is representative also for the year 1992.

Basic Criteria

Policies. The Banks and Financial Institutions Law recognizes a government participation in the financing of the production, through entities such as the BFA. In addition, the Agricultural Sector Strategy points out that the agricultural foment banking system will specialize in the capitalization loans that will allow to increase the production capacity and the financing of small and middle producers.

Agricultural Credit Demand. The data obtained, that are of an indicative manner, point out that there would be a margin for the formal financial intermediation through the credit offer.

On the other hand, the participation of an entity such as the BFA, capable of carrying out specific tasks in the process of the national reconstruction, is required.

Installed Capacity. The BFA counts with a network of agencies, personnel and procedures and experience liable to be used. The current restriction consists of the availability of the financial resources.

Financial Basis of the BFA. The accounting capital of the BFA is of C\$462,461,000. Nonetheless C\$287,697,000 are at standstill in government bonds (188,295,000), Extraordinary Assets (5,728,000), and Fixed Assets (92,673,000), which would give a net amount of C\$174,764,000 without taking into consideration the refinanced Portfolio such as the FFRAP for approximately C\$85,744,000.

Due to these standstill amounts, the financial basis for an institution like the BFA, can be qualified as precarious. The correspondence between assets and obligations is somewhat exposed, if excluded from the calculations of the Portfolio classified as C.

Options on the Role of the BFA

In any option that is adopted, it will be required to develop an operating mode of the BFA compatible with an assignment of the financial resources available and the entities perspectives.

(a) Specialization in Attention to Rural Small Enterprisers.

The customers of the BFA of this type are dominated by farmers that could be qualified as subsistency.

The main impact would be given by the financing of the administration expenses and the credit risk.

Additional sources of financing would be required than the current ones to increase coverage.

In the definition of this role we must consider the following:

Interest Rate. It is not considered acceptable that an institution such as the BFA fix an interest rate for the attention of the small farmer that is above the market rate.

Financial Resources. The financial basis of the BFA does not offer a perspective to increase coverage. The banking Portfolio is financed with resources from the BCR in a large proportion. A Portfolio of ₡120,000,000 would be handled, if it has the support of the BCR.

Administration Expenses. From the administration expenses assigned to this activity in 1991 for ₡40,796,000, the greatest burden would be given by the direct expenses from the banking agencies which amounted to ₡32,202,000.

Considering the established credit risk for this activity (₡9,611,000), the financial expenses (₡7,579,000) and the operations level, to obtain a balance between income and expenses, the administration expenses would have to be decreased to ₡4,208,000 and would represent 3,5% of the amount disbursed in 1991.

To obtain this balance, considering only the banking agencies and on the basis of the administration expenses, that are dominated by personnel expenses, the number should not exceed 130 officials to handle all 22,149 loans contracted in 1991, that is 170 operations for the total number of employees.

This level of efficiency would be difficult to obtain.

This option, therefore, would not be feasible. Yet, if the function should continue, it would be necessary:

- Minimum Banking Loan. Establish the amount in relation to the administration cost, intermediatio and credit risk and ensure a satisfactory volume of operations.
- Sustenance Loans. In order not to erode the financial base of borrowing, agree on the method of financing the administration expenses and the credit risk.

A bank of this type would have difficulties to agree with the resources of the Central Reserve Bank and would result in a financial dependency on the government.

(b) Specialization in the Reformed Sector.

In principle it would be financially viable.

The reference for this option would be the assigned area to the agrarian reform which is of approximately 280,000 hectares and the area financed by the BFA in all its activities, which is approximately 140,000 hectares.

In terms of administration costs, this option, although considering the characteristics of the farmers of Phase III, would be viable and could be considered as a specialized entity for the attention to the reformed sector. It would handle a Portfolio of approximately C150,000,000.

A combined attention to the small farmer and reformed sector could be considered, which would offer some advantages in terms of the financing of the administration expenses, but a budget support from the government would always be required.

(c) Ample Definition.

The operations of the agricultural loans commercial bank type, although including financial costs, make a positive contribution to the global results of the activities of the BFA.

The option would consist of not imposing restrictions to the field of action of the entity, giving it the possibility to compete with the commercial banking system within the certain limits of the financing policies, that will not make the reformed sector and the small farmers compete with the borrowers of the commercial bank type.

The mission of the BFA within this option would consist of contributing to foment the agricultural production and productivity through three operating modules of financing: loans commercial bank type; reformed sector and small producers.

The advantage would be through uniform interest rates, subsidize in fact the less profitable operations, within the terms that could be agreed with the Government, in order not to deteriorate the financial capacity of the entity.

This option, which is considered the most convenient, would offer better opportunities of development to the bank, if and when:

- Sustenance Loans Agreements are reached in the form of financing of the granting expenses that the BFA could not absorb.
- Support from the BCR. Define margins of intermediation on the basis of the operation modes of the credit activity.
- Own Efforts. That the BFA contribute to the definition of its mission and adopt concrete measures and feasible ones that lead to the guarantee of its institutional stability.

The following aspects are considered relevant:

Creation Law of the BFA Should be modified in order to overcome rigidity.

Legal Faculties. Are related with the capacity of establishing judicial demands for the collection of loans and recuperation measures. This limits the financial intermediation.

Procedures. Simplifying and regulating the granting of loans.

Participation of the beneficiaries in the granting of loans. Explore the feasibility of organizing auxiliary credit institutions linked to the BFA.

Government Programmes. Transparent requirements respecting the responsibility of granting loans, recovering, credit risks and financing costs. This refers especially to the activities of the National Reconstruction Programme.

Agricultural Debt. The agricultural and the banking debt must be given attention, especially in the Reformed Sector, in order to achieve a stability in the companies.

Evaluation of the Programmes. Establish groups of evaluation independent from the BFA for the evaluation of the programmes.

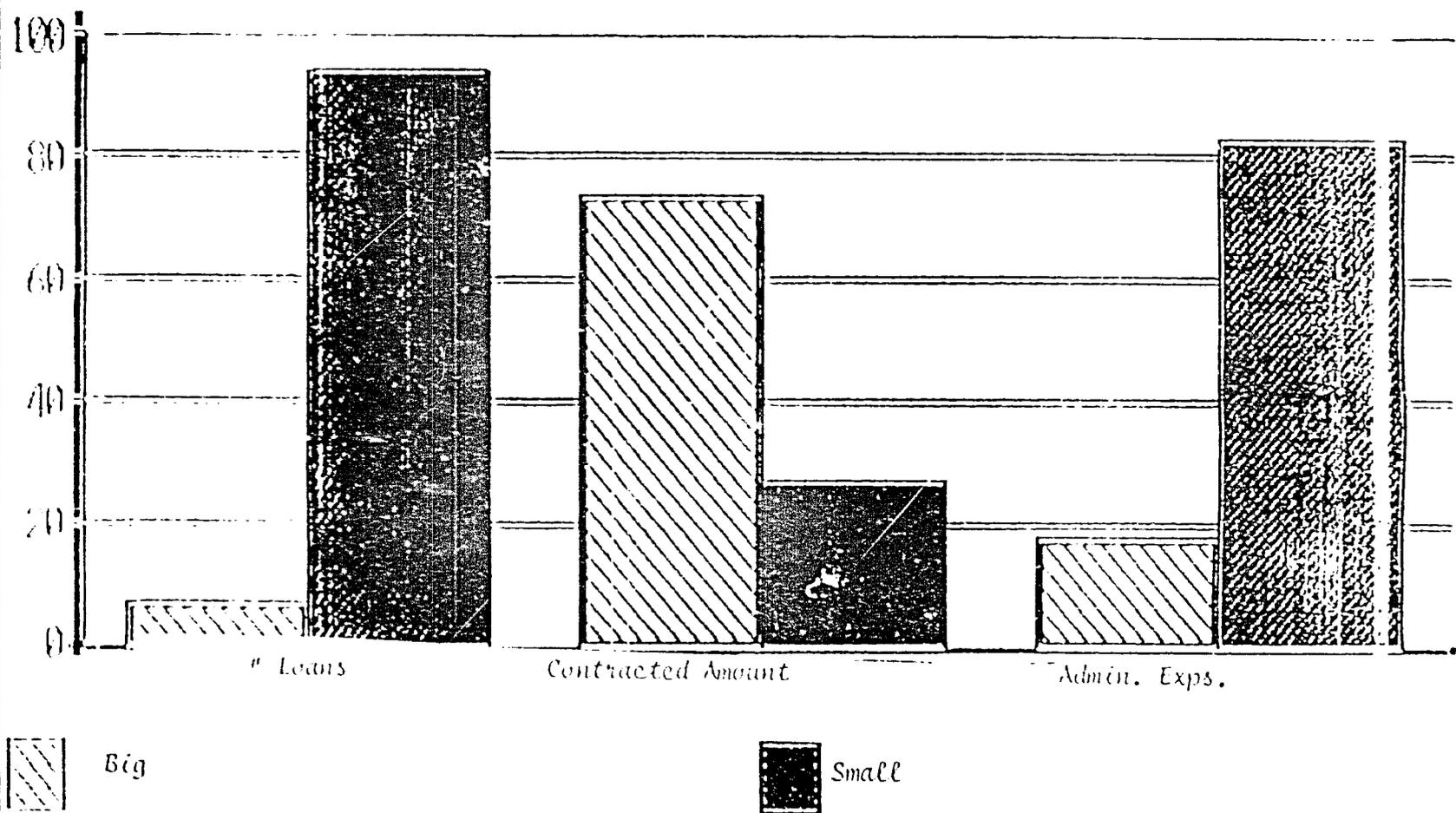
If an ample role for the BFA is accepted, a Work Plan has been designed to be developed by the bank. The Plan is attached to this summary.

Banco de Fomento Agropecuario
 Estantment of Incomes and Expenses
 According to the type of Loans
 Year 1991
 In Thousand Colones

	AgriC. Comm. Bank Type	Reform. Sector	Small AgriC.	Non AgriC.	Total
<u>Incomes</u>					
Interests	29.771	23.259	21.398	11.687	85.115
On deposits	11.377	-	-	-	11.377
Total Income	<u>40.348</u>	<u>23.259</u>	<u>21.398</u>	<u>11.687</u>	<u>104.112</u>
<u>Expenses</u>					
<u>Interests</u>					
Central Reserve Bank	12.736	4.678	6.292	3.523	26.229
Deposits	8.798	-	-	4.136	12.934
Others	586	316	1.287	-	2.189
Total Financial Expenses	<u>22.832</u>	<u>4.986</u>	<u>7.579</u>	<u>6.659</u>	<u>41.256</u>
Financial Margin	<u>18.816</u>	<u>18.273</u>	<u>13.819</u>	<u>11.548</u>	<u>62.856</u>
Administration Expenses	5.583	9.787	48.796	4.292	62.378
Operating Margin	<u>13.313</u>	<u>8.486</u>	<u>(26.977)</u>	<u>3.656</u>	<u>478</u>
Estimate Loans Losses of Doubtful Recovery	18.116	3.693	9.611	1.618	25.938
Income on Operations	<u>3.197</u>	<u>4.793</u>	<u>(36.588)</u>	<u>4.846</u>	<u>(24.552)</u>
Other Income	-	-	-	-	11.464
Net Income	<u>3.197</u>	<u>4.793</u>	<u>(26.588)</u>	<u>4.846</u>	<u>(13.988)</u>
<u>Percentages (%)</u>					
<u>on Disbursements</u>					
Financial Expenses	13,1	3,7	6,3	6,3	7,3
Administration Expenses	3,3	7,3	34,3	5,9	11,3
Estimate Loans Losses	6,8	2,7	8,3	1,5	4,7
Disbursements	163.687	124.798	129.142	186.168	529.595

BANCO DE FOMENTO AGROPECUARIO

Contracting of Loans and Administration Expenses in 1991



BANCO DE FOMENTO AGROPECUARIO

A. DEFINITIONS

The condition of the BFA, both financial and institutional is a structural one. The problem is not to solve a temporary crisis.

B. ASSUMPTIONS

Financial Resources

- (a) The BFA would not receive financial resources comparable to the 1980's.
- (b) The increase of the resources for lending will depend on:

Internal Effort

- To collect a proportion of the Loan Portfolio E which amounts to ¢430.925.000 including principal and interest.
- The selling of government bonds in the amount of ¢ 188.296.000 received in exchange for the portfolio sold to ISTA.
- The selling on a cash basis of the warehouse and silos. The BFA will not immobilize financial resources needed for lending activities.

External Resources

- To qualify for the use of funds available in the multi-sectorial global loan. The purpose: capitalization credit.
- (c) The BCR will continue its policy of supervised line of credits including the establishing of a rate of interest to the final beneficiary.

Lending Operations

- (d) The lending will be carried out by means of supply within working programs, which will allow for the measure of the contribution to the agricultural development.
- (e) The BFA will make only loans related to the agricultural sector.
- (f) Government programs will be handled in the form of trust. Transparency will govern the agreement with donors, related to credit risk and billing of administrative cost.
- (g) The BFA will continue the lending to the small farmer at the subsistence level within an understanding with the government and BCR about the transaction cost and credit risk.

Financial Administration

- (h) The BFA will discontinue the marginal operations such as banking service and small and micro enterprises.
- (i) Design of a plan for the staff re-deployment.

Participation of the Beneficiaries of the Lending Activities

- (j) Promote the establishing of local auxiliary credit intermediaries within the framework of BFA. A feasibility study will be needed.

Programs Evaluation

- (k) The BFA will form external evaluation groups for each lending program.

C WORKING PLAN

<u>Activities</u>	<u>Actions</u>
1. Modify the by-laws.	Form a working group.
2. Legal capability for loans collection	To make recommendations in order to ensure legal capabilities for the selling of rural properties; legal collection in the reformed sectors and debt reduction arrangements.
3. Design of operating lending programs.	Restructure the planning unit into a program and evaluation office. Design lending programs. Design evaluation procedures.
4. Lending Function	<u>Credit Regulations.</u> Design rules and regulations for lending activities for each program including eligibility requirement. <u>Administrative Cost</u> Established a procedure for automatic granting of credit. Promote the organization of solidarity groups. Simplify the contracting of loans for seeds and fertilizers by means of a note. <u>Staff</u> Assigning the branch's staff to the lending programs.
5. Improve the presentation of the financial condition.	<u>Loan Portfolio E</u> Transfer it to extra accounts including the FFRAP portfolio. <u>Sources of Loans Financing.</u> Re-classify the sources of lending financing of funds provided by international agencies previous an agreement with the lenders.

6. Mobilization of Financial Resources

Income Statement. / Show the income statement by lending programs.

Loans Portfolio E. Put in place a working plan for the recovery of Portfolio E including personnel, goals and an activity schedule.

Government Bonds Sell the government bonds.

Multisectorial Loan. Made arrangement for the qualification of this line of credit.

Silo and Agricultural Warehouse. Sell on a cash basis.

7. Financial Policies

Design a policy for the utilization of BCR line of credits in accordance with the BFA's transaction cost.

Established the minimal amount of loan to be made.

Prepare a plan for the recovery of administrative cost of the subsistence loans and government programs.

8. Marginal Operations

Commercial Banking Services. Made a cost-benefit analysis related to the lending customer in order to determine the convenience of continuing with these services.

Saving Specialization. Make a market study in order to establish the possibility of a specialization in saving deposits.

Small and Micro Enterprises. Sell the loan portfolio to an official entity or to a commercial bank.

9. Information System
Simplification

Extraordinary Assets. Maintain it on a cost-benefit basis.

Create a data bank previous to an audit of the information system, both for internal use and external requirement.

REPUBLIC OF EL SALVADOR
BANCO DE FOMENTO AGROPECUARIO
EVALUATION OF THE CREDIT ACTIVITY AND ROLE
DEFINITION OF BANCO DE FOMENTO AGROPECUARIO
IN THE AGRICULTURAL FINANCING

I-BACKGROUND

1. Legal Frame and Functions

The Banco de Fomento Agropecuario (BFA), formed in 1973, is an official credit institution, that has as fundamental objective:

- Create, foment and maintain financial facilities and related services, necessary to contribute to foment the agriculture; and
- Serve as financial agent to the organisations in charge of developing programmes for the social welfare and reforms to the agrarian structure. For this objective, it will receive the corresponding resources and sign the agreements necessary with the organisations in charge of administrating such programmes.

To achieve its objective, the BFA handles in separate accounts the banking operations; the foment, which consists of granting loans to agricultural producers, small and medium, in accordance with the special regulations, even in those cases where they are economically unable to give real guarantees; and trust operations.

Currently, the BFA must adjust itself to the requirements of the Banks and Financial Institutions Law, approved in April 1991.

In Appendix A of this document, institutional and financial aspects of the BFA are presented, of which the most outstanding are the following:

a. Organisation and Personnel

Modifications have been made to the organisation structure in 1992, with the purpose of better defining the functions in the main offices. It is considered that the BFA personnel, which totals 1,477 permanent and temporary, have acceptable social benefits. Of this personnel, a total of 505 are posted at the main offices and 972 at bank

agencies. The financial position of the BFA in 1992 compared with the year 1991 has improved in:

- Having paid the debt with the Government, as a result of the capitalization of its obligations in foreign currency, with government bonds in the hands of the BFA; and
- Certain stability in the provision charges for loans and doubtful collection accounts, which affected the yields of the institution.

Nonetheless, the examination of the results of the BFA during the years 1991 and 1992, on the basis of the cash, show that the income resulting from interests and other financial products were not sufficient to cover the total interest and administration expenses. The negative operation margin was covered with other income for services rendered, principally resulting in an excess amount of ¢4,273,000 in 1991 and ¢154,000 during the 10 month period that ended on 31st October 1992, as funds provided for the operations.

In addition, it is evident from the analysis on the basis of cash, that the loans disbursements as well as the ~~capital recuperations~~^{recoveries} are located in the order of ¢450,000,000 annually, which can be considered as the current operations level of the BFA.

2. Operations

a. Credit Activity

In the credit activity of the BFA, the financing of the basic grains production stand out, followed by exports, especially coffee.

Within the agricultural financing, the reformed and non reformed sectors are attended, which are definitions used respecting the ownership of the land.

The BFA also grants loans of non agricultural type, including the financing of micro enterprises.

b. Merchandising

As a support to the agricultural production the BFA carried out activities of stocking grains and selling materials, such as fertilizers. In addition it has

handled, as commissioned by the Government, the Strategic Reserve Programme of Basic Grains.

c. Deposits from the Public

The BFA receives deposits from the public in current accounts, savings and term deposits. The volume received by the BFA, as compared with the total of the banking system is minimal.

d. Sources of Financing

In the development of the financing of the activities of the BFA, we may point out the following:

- Loans granted by the Interamerican Development Bank (IDB), during the period 1976/1985 for US\$121,800,000; which include US\$45,900,000 in 1980, for the financing of the reformed sector; and US\$15,600,000 in 1982, for the construction of warehouses and silos.
- From the Agency for International Development (AID), destined for the financing of the reformed sector, in accordance with agreement 519-0263 between AID and the Government of El Salvador, in July 1980. The BFA used funds from the programme for US\$84,500,000. From the agreement 519-0307 for the same purpose, the BFA used funds in the form of renewed discounts from the Central Reserve Bank.
- From the International Fund for the Agricultural Development (IFAD) DEG US\$5,050,000 in 1985 for the financing of investments and working capital for individual and corporate exploitations of micro producers of the traditional sector; and
- With the financial support of Kreditanstalt Fur Wiederaufbau (KfW), the BFA carried out, starting in 1986, a programme of micro enterprises.

Part of the resources from these programmes were received in the form of capital contributions from the Government and in others the BFA acted as borrower. The BFA obligations in foreign currency were assumed by the Government of El Salvador in July 1991, with due balances at 31st December 1990.

From the content mentioned in the above paragraph, it can be noted that the BFA received substantial support,

from the Government of El Salvador as well as from the external financial agencies, especially in the 80's.

3. Impact of the Operations on the BFA's Financial Position

The factors that affected in a negative manner the financial position of the BFA, included the devaluation of the national currency in 1986, which caused exchange losses; the application of real negative interest rates to the borrowers; and the high delinquency index of the loans Portfolio.

All of the above factors resulted in the deterioration of the loan capacity of the BFA, affecting also its institutional solvency.

4. Institutional and Financial Actions adopted by the Bank

As a result of its own initiative as well as resulting from the Agreements with the financial organisations and adopting the new policies of the country, the BFA has developed a series of measures, of which results we inform as follows:

a. Financial Drainage

With reference to the financial drainage of the institution, the exchange losses were recorded in the books and for this effect adjustments and reclassifications were made in the financial statements of 1989, which resulted in the emittance of a dictum without exceptions from the external auditors; whilst in 1987 they abstained from giving an opinion and in 1988 gave a negative one. In 1990 and 1991, the dictum from the auditors contained no exceptions.

b. Capitalization of the BFA

In June 1991 an Agreement with the Government of El Salvador was signed, wherein the first absorbed the external debt of the BFA resulting from the international agencies loans for \$533,000,000, for which amount \$400,000,000 were destined to reinforce the capital of the BFA and the remaining \$133,000,000 were constituted as a loan in national currency in favour of the Government, payable in five years and with an interest rate of 4% annually.

In 1992, the BFA paid this obligation to the Government, with Government bonds resulting from the sale of the ISTA Portfolio.

c. Sales of Loans Portfolio and Refinancing

In 1989, the BFA received from the Financing Fund for the Reactivation of the Productive Activities (FFRAP), constituted by the Central Reserve Bank, bonds for the amount of ₡176,880,000 for the refinancing of the delinquency loans, and in 1990 government bonds for ₡227,845,000, in payment for the sale to the Salvadorean Institute of Agrarian Transformation (ISTA), through the Central Reserve Bank, of the delinquency loans of the Agrarian Reformed Sector of Phase I and in exchange of bonds from the FFRAP for ₡91,136,000, since part of the Portfolio sold had been refinanced previously in the mentioned year 1989. The net effect of the refinancing from the FFRAP was ₡85,744,000.

The benefit from these operations for the borrowers consists of their rehabilitation as credit customers and for the BFA in having been able to use parts of its financial instruments for the payment of the obligation assumed with the Government, as part of the capitalization of the institution.

d. Constitution of Valuation Reserves

The BFA is complying with the regulations dictated by the Superintendency of the Financial System for the determination of the risk assets of doubtful recovery and for the constitution of valuation reserves. The regulations established adapt to the characteristics of the operations of the BFA upon taking in account more strict aspects such as climate effects and conflictivity in the location area of the borrower.

At 31st October 1992, the estimates for loans of doubtful recovery represented 42.6% of the total loans to be collected for the amount of ₡929,749,000. In addition, provisions have been made for interests to be collected and accounts to be recovered.

e. Non Banking Activities

In accordance with the policies of the Ministry of Agriculture and Cattle (MAG) and in accordance with agreements with MAS, the BFA has proceeded to close its non banking activities, which consisted in stocking,

merchandising and selling of agricultural materials and grains.

In this context, the leasing contracts for 22 real estate properties have been cancelled and the necessary authorization has been obtained from BID for the sale of the warehouses and plants financed with resources from the mentioned institution. These assets will be bid in competition, once the necessary administrative procedures for the process have been agreed.

Nonetheless, it is worth mentioning that the BFA yet continues handling, on behalf of the Ministry of Agriculture and Cattle (MAG), the operations of the Strategic Reserve of Basic Grains which consists in the purchasing of maize and beans. This will also be done in 1990 and 1991.

f. Corrective Measures

In addition, upon the closing of the BFA's non banking activities, the Agreement Memorandum with AID contains the following objectives:

- Reduce by December 1990 the administrative costs of the BFA operations. Although surveys have been carried out, its implementation is limited.
- Reduce the delinquency percentage of the existing Portfolio by 31st December 1989. The objective consists of punishing loans that cannot be recovered. This has been done in an acceptable manner.

Additionally, measures have been adopted to increase collections, which include the posting of personnel in the bank's agencies who receive commission as a result of their actions. It is yet too soon to evaluate the results of these actions.

- Recover as a minimum 85% of the new loans granted after 30th March 1990. As explained in Chapter III of this document, its objective is being met.
- Sale of Fixed Assets. The sale of fixed assets is a permanent activity of the BFA, nonetheless the progress made in the sale of urban and rural real estate assets, is not satisfactory.

5. Fulfillment of Financial Requirements

a. Financial Institutions and Banks Legislation

The BFA abides to the solvency requirements established in the Financial Institutions and Banks Law, as can be noted in the demonstration made in Chart I-1.

The improvement noted in 1991 and 1992 as compared with the year 1990, is basically due to the capitalization made by the Government in 1991 and the payment in 1992 of the obligations that resulted from the operation.

Although considering excluding the government bonds owned by the BFA for \$188,295,000, the BFA will adjust to the solvency requirements.

It is to be noted that the excess in the relations, as compared with the legal requirements, is due to the fact that the same are applicable to commercial banks and not to institutions as the BFA, due to its capitalization structure and in this particular case to the foment operations.

b. Global Programme of Multisector Credits

From the eligibility requirements established in the Credit Regulations of the Programme, the BFA will adjust to the solvency requirements, as well as the delinquency Portfolio. In relation to the operating costs, it would be demonstrated that the established condition would be satisfactorily met, of taking into account that the credit activity of the BFA can be separated in two parts: the commercial bank type and the other with a social content, which is the attention to the small farmer with subsistency characteristics.

II-CREDIT ACTIVITY

The analysis of the credit activity of the BFA is made on the basis of the contracting of loans in 1991, that would be representative of the year 1992.

For the effect of typifying the credit activity, the following classification was adopted:

Agricultural Loans Commercial Banks Type. The borrowers have assets above \$300,000 and are credit customers of the Banking Division.

Traditional Small Farmer. The assets are up to ₡300,000. These are attended by the Foment Division.

Reformed Sector. Include operations of the Phase I and Phase III.

Non Agricultural Loans. Loans to the micro and small enterprise and others granted by the Banking Division.

The granting and disbursement of loans during the year 1991 is presented in the form summarized in Chart II-1.

The Bank, as can be noted from the information in Chart II-1. destined in 1991 the larger proportion of its resources to the loans commercial bank type, that is 41,1%, followed by the Reformed Sector which constituted 23,4% and the Small Farmer with 20,0%. The Non Agricultural received 15,5%. Respecting disbursements, the same proportions are not maintained, due to the lower level of relative disbursements in the loans commercial bank type that originate from the adjustments to the cultivation areas and crop yields.

1. Contracting of Loans

a. Agricultural Loans-Commercial Bank Type

The principal characteristics of the agricultural loans commercial bank type is the concentration of the contracted amount in a number of reduced operations. The 81,4% of the contracted amount in 1991 was absorbed by 27 borrowers for the financing principally of coffee. The detailed information of these contracts is shown in Chart II-2.

b. Agrarian Reformed Sector

Phase I

In the loans granted for Phase I there predominate those corresponding to Agricultural Associations of the Reform, Agricultural and Cooperatives. These operations are characterized by their relatively high individual amounts, as can be noted from the information in Chart II-3.

Phase III

The phase III only represents 3,0% of the total contracted in 1991. In the loans range and types of clients, this subsector presents a great variety

similar to the foment type loan, as can be noted from the information supplied in Chart II-5.

c. Traditional Small Farmer

The principal distinction of these foment loans is their small individual amount. Of the 22,149 loans contracted in 1991, 63,5% of these operations of up to \$5,000 and 86,2% of up to \$10,000 having received 44,8% of the financing of the foment loans and 8,9% of the total contracted in 1991. The detailed information of the loans, as per contracting ranges, can be seen in Chart II-4.

Of these operations, only a reduced amount, 8.6% of the total, were contracted with solidarity groups, which is a mode that can allow for a reduction in the costs of granting loans.

d. Non Agricultural Loans

The non agricultural loans, which represent 15,5% of the total amount granted in 1991, include operations of considerable amounts in the Banking Division, principally to manufacturers of financed feedings through the handling of the strategic reserve of grains and loans to coffee mills owners. In the Foment Division they have a diversity of destinations and in the Trust for micro and small enterprises. The detailed information is presented in the Chart II-6.

2. Sources of Financing

The sources of financing for the disbursement of loans in the year 1991 are detailed in Appendix II-1. The information in a summarized form is shown in Chart II-7.

From the information in Chart II-7 we can note the following:

- The principal source of financing was the BCR, followed by funds from the Agency for International Development (AID), which is concentrated in the Reformed Sector;
- The own sources only represented 6,8% of the funds used in 1991; and,

- The rest of the funds come from the use of recuperations from the micro and small enterprise programme; FIDA and the deposits from the public.

It is not possible to determine a relation of the sources of financing with the capitalization structure of the BFA, upon the latter including the absorbing of loans in foreign currency by the Government. The use of funds in 1991 include the use of recuperations from programmes which had been financed by BID, AID and other agencies.

It is not evident from the structure of the source funds of the year 1991, that there is a defined policy for the use of the resources. Nonetheless, the following can be inferred:

- The agricultural loans commercial bank type for the amount of \$168,607,000 were financed by 79,7% with BCR funds;
- The Reformed Sector was principally financed with funds that have a recent origin. The sale of the Portfolio to ISTA result in that the recuperations of the BID loan and of AID, are minimal;
- The traditional small farmer was financed by 55,4% with BCR resources, followed by BID with 27,1%. The use of BCR resources for these operations would not be profitable, due to its administrative cost; and
- For the non agricultural loans all the scope of funds resources were used, including own funds, BCR and the deposits from the public.

3. Disbursements and Recoveries

In 1991 the movement of disbursements and effective recoveries shows that there is a resulting balance between both. In relation to the disbursements, the operations of the small traditional farmer and the non agricultural loans make a higher contribution in relative terms to the recuperations as compared with agricultural loans commercial bank type and the reformed sector. These demonstrations are shown in Chart II-8.

4. Delinquency

Chart II-9 show the delinquency generated in 1991, which reached ₡60,674,000. The 44,7% of delinquency was originated from the loans to the traditional small farmer. This can be a result of the lack of supporting prices, due to the fact that the majority are cereals, materials costs and in some measure the client's responsibility, due to exogenous factors.

5. Administrative Costs

The administrative expenses of the BFA were distributed to the different sectors of the credit activity, as explained in Appendix II-2. Based on this criteria, the distribution of costs was carried out as shown in Chart II-10.

The highest burden of the administration costs, 65,4% is absorbed by attention to the traditional small farmer, to whom 22,149 loans were granted, whilst from the amount granted it only represented 20,0%. The cost per Colon borrowed in this sector would be ₡0.26.

The agricultural loans commercial bank type and the Reformed Sector Phase I which have similar characteristics referring to individual amount of the operations, have, as can be expected, the lowest cost, which is ₡0.02 per Colon borrowed.

In total, the reformed sector would not be burdensome, despite the fact that Phase III is similar to the traditional small farmer when it reflects an average of ₡0.05 per Colon borrowed.

The non agricultural loans which include some considerably large operations, have per Colon borrowed a cost of ₡0.05, when some considerably large operations are included.

With reference to the costs obtained per Colon borrowed, the same would be higher if the amounts disbursed were assigned. It is also worth noticing that the administration costs are influenced by a high general burden of the Main Offices and somewhat annoying procedures in the administration of the loans.

The examination of the yields and costs of the BFA test is made in chapter IV of this report, confirms the need to establish the minimum desired loan that the

institution should make to cover the corresponding administration costs and its effect, develop mechanisms to cover them.

6. Loans Portfolio Structure

As an addition to the examination of the credit activity of the year 1991, in Appendix B we made a typical loans Portfolio as at 30th November 1992, separating the banking operations, those of foment type and not agricultural; from where the following principal facts emerge:

Minimum Advisable Loan. The need of establishing mechanisms for the financing of administration costs in the loans to the traditional small farmer is confirmed, as well as the establishing of more appropriate measures for the granting of such loans.

Destination of the Loans. Although an inflationary problem is manifested, we can perceive a deviation towards the commercial bank type operations.

Use of the ^{Recovers/AS} ~~recuperations~~. In relation to the sources of financing for the loans Portfolio at 30th November 1992, it can be noted that it would be advisable to make a final evaluation of the operations financed by international organisations in order to reach agreements for the use of the recuperations, in case these are still payable on demand, with the additional objective of simplifying the registration of the resources funds.

Chart II-1
 Banco de Fomento Agropecuario
 Contracting of Loans and Disbursements
 year 1991

In Thousand of Colones

	Number	%	Amount	%	Disburs.	%	% of Contract
<u>Agricultural</u>							
<u>Banking Division</u>							
Commercial Bank Type Loan	554	3,3	325.911	41,1	168.688	31,9	51,7
Reformed Sector	3.482	11,6	185.758	23,4	134.790	25,4	72,6
Traditional Small Farmer	22.149	73,7	158.176	20,0	128.143	22,7	76,8
	25.631	85,3	343.934	43,4	254.023	48,1	74,1
<u>Total Agricultural</u>	26.625	88,6	657.845	84,5	423.541	80,0	63,2
<u>Non Agricultural</u>	3.415	11,4	122.576	15,5	106.158	20,0	86,6
<u>Total</u>	<u>30.040</u>	<u>100,0</u>	<u>792.421</u>	<u>100,0</u>	<u>529.699</u>	<u>100,0</u>	<u>66,8</u>

Chart II-2

Banco de Fomento Agropecuario
 Agricultural Loans Commercial Bank Type
 Ranges of Contracting

Year 1991
 In Thousands of Colones

Range of Colones (C)	Number	%	Contracting	
			Amount	%
Up to 20.000	346	34,8	3,545	1,1
From 20.000 to 25.000	74	7,4	1,791	0,5
From 25.001 to 50.000	273	27,5	11,022	3,4
From 50.001 to 100.000	122	12,3	9,344	2,9
From 100.001 to 250.000	114	11,5	17,514	5,4
From 250.001 to 500.000	29	2,9	10,534	3,2
From 500.001 to 1.000.000	3	3,3	3,772	2,1
In excess of 1.000.000	27	2,7	255,429	81,4
	594	100,0	325,311	100,0

II-3

Banco de Fomento Agropecuario

Reformed Sector-Phase I
Ranges of Contracting

Year 1991

In Thousands of Colones

	Loans		Contracting	
	Number	%	Amount	%
<u>Range of COLONES (C)</u>				
Up to 29.000	96	15,3	1.024	3,6
From 29.001 to 25.000	25	4,3	566	8,3
From 25.001 to 50.000	95	15,2	3.535	2,2
From 50.001 to 100.000	107	17,1	7.666	4,7
From 100.001 to 250.000	155	24,8	25.256	15,6
From 250.001 to 500.000	35	13,5	29.998	17,9
From 500.001 to 1.000.000	36	5,3	25.549	15,3
In excess of 1.000.000	27	4,2	39.447	23,3
	383	100,0	162.102	100,0

Chart II-4
 Banco de Fomento Agropecuario
 Agricultural Foment Loans
 Ranges of Contracting

Year 1991
 In Thousand of Colones

	Loans		Contracting	
	Number	%	Amount	%
<u>Range of COLONES (C)</u>				
Up to 5.000	14.236	53,5	35,134	22,2
From 5.001 to 10.000	5.951	22,3	35,710	22,6
From 10.001 to 15.000	1.427	6,4	17,562	11,1
From 15.001 to 20.000	583	2,6	10,319	6,5
From 20.001 to 25.000	316	1,4	7,185	4,5
From 25.001 to 50.000	548	2,5	29,958	12,7
From 50.001 to 100.000	111	0,5	9,336	5,1
In excess of 100.000	77	0,3	24,142	15,3
	<u>22.149</u>	<u>100,0</u>	<u>153,176</u>	<u>100,0</u>
Individuals	29.113	50,3	125,523	80,1
Solidarity Groups	1.914	3,5	11,469	7,3
Individual Person FIRMS	18	0,1	1,285	0,8
Cooperatives	104	0,5	19,862	12,9
	<u>22.149</u>	<u>100,0</u>	<u>153,176</u>	<u>100,0</u>

Chart 11-5
 Banco de Fomento Agropecuario
 Reformed Sector - Phase III
 Ranges of Contracting
 Year 1991
 In Thousand of Colones

Range of COLONES (C)	Loans		Contracting	
	Number	%	Amount	%
Up to 5.001	1.056	65,9	4.705	19,9
From 5.001 to 10.000	669	23,5	4.546	19,7
From 10.001 to 15.000	137	4,8	1.795	7,2
From 15.001 to 20.000	44	1,5	760	3,2
From 20.001 to 25.000	29	1,1	577	2,9
From 25.001 to 50.000	62	2,2	2.212	9,4
From 50.001 to 100.000	27	0,9	1.325	7,7
From 100.001 to 250.000	21	0,7	3.131	10,0
From 250.001 to 500.000	7	0,2	2.787	11,5
From 500.001 to 1.000.000	2	0,1	1.253	5,3
	2.955	100,0	23.525	100,0
Individuals	2.353	79,6	10.225	43,5
Solidarity Groups	175	5,9	1.380	5,8
Cooperatives	92	3,1	7.009	29,8
Campesino Community Associates	4	0,1	145	0,6
Agricultural Associations	21	0,7	1.252	5,3
Non Classified	8	0,3	583	2,5
Total:	2.955	100,0	23.525	100,0

Chart II-5
 Banco de Fomento Agropecuario
 Non Agricultural Loans
 Ranges of Contractings

Year 1951

In Thousands of Colones

	Banking		Foment		Trust		TOTAL	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<u>Range of Colones (C)</u>								
Up to 15.000	158	933	518	4.247	2.368	13.213	2.736	18.0
From 15.001 to 25.000	16	336	165	3.374	90	1.927	271	5.6
From 25.001 to 50.000	61	2.369	166	6.137	78	2.533	305	11.0
From 50.001 to 100.000	38	2.479	11	843	-	-	41	3.0
From 100.001 to 250.000	13	2.876	4	616	-	-	22	3.4
From 250.001 to 500.000	7	2.364	-	-	-	-	7	2.0
From 500.001 to 1.000.000	13	11.369	-	-	-	-	13	11.0
In excess of 1.000.000	23	67.253	-	-	-	-	23	57.0
	<u>320</u>	<u>99.636</u>	<u>856</u>	<u>15.217</u>	<u>2.458</u>	<u>17.670</u>	<u>3.415</u>	<u>120.0</u>

Chart II-7
Banco de Fomento Agropecuario
Sources of Financing

Year 1991

In Thousands of Colones

	Own	BCR	AID	31D	Others	TOTAL
<u>Banking Division</u>						
Loan Commercial bank type	19.857	134.388	772	12.545	1.945	169.687
<u>Foment Division</u>						
<u>Reformed Sector</u>						
Phase I	1.325	413	188.411	6.689	425	17.256
Phase III	-	431	15.108	1.882	312	17.525
	1.326	844	123.591	7.682	1.338	134.791
<u>Traditional small farmer</u>	78	66.568	15.662	32.534	5.316	129.142
<u>Total Foment Division</u>	1.406	57.484	139.253	40.216	6.654	254.999
<u>Total Agricultural</u>	21.263	291.792	140.325	52.791	7.399	420.549
<u>Non Agricultural</u>	14.329	25.564	1.304	19	52.714	196.159
<u>Total Sources of Financing</u>	35.591	329.456	141.329	52.310	79.413	529.599
<u>Percentages (%)</u>	6,3	43,1	26,3	10,3	13,3	100,0

Chart II-8
 Banco de Fomento Agropecuario
 Disbursements and Recuperations
 Year 1991
 In Thousands of Colones

	Disbursements		Recuperations	
	Amount	%	Amount	%
<u>Banking Division</u>				
Loan Commercial bank type	168.687	31,8	157.198	29,7
<u>Foment Division</u>				
<u>Reformed Sector</u>				
Phase I	117.256	22,2	101.218	19,2
Phase III	17.525	3,3	15.345	2,9
	134.791	25,5	116.535	22,1
<u>Traditional small farmer</u>				
	128.142	22,7	127.142	24,4
<u>Total Foment Division</u>	254.933	49,2	243.597	46,3
<u>Total Agricultural</u>	423.549	89,3	402.395	75,2
<u>Non Agricultural</u>	186.159	39,3	126.002	23,3
<u>Total</u>	529.599	100,3	528.397	100,3

Chart II-9
 Banco de Fomento Agropecuario
 Delinquency Generated in 1991
 In Thousands of Colones

	Delinquency	
	Amount	%
<u>Banking Division</u>		
Loan Commercial bank type	11.582	19,1
<u>Foment Division</u>		
<u>Reformed Sector</u>		
Phase I	8.729	14,3
Phase III	4.541	7,5
	13.270	21,3
<u>Traditional small farmer</u>	27.101	44,7
<u>Total Foment Division</u>	40.371	56,5
<u>Total Agricultural</u>	51.953	38,5
<u>Non Agricultural</u>	3.721	14,4
<u>Total</u>	55.674	100,0

Chart II-10
 Banco de Fomento Agropecuario
 Credit Activity - Administration Expenses
 Year 1991
 In Thousands of Colones

SECTOR	Loans		Contracted		Admin. Exps.		Unit Cost Cent. C
	Amount	%	Amount	%	Amount	%	
Banking Division							
Agricultural Loan Commercial bank type	994	3,3	325.911	41,1	5.593	9,3	8,32
Foment Division							
Reformed Sector							
Phase I	627	2,1	162.132	29,5	3.472	5,6	0,32
Phase III	2.355	9,5	23.627	2,9	6.315	10,1	0,27
	3.482	11,6	185.759	23,4	9.787	15,7	9,35
Traditional small farmer	22.149	73,7	158.176	20,3	40.796	63,4	0,26
Total Foment Division	25.631	85,3	343.935	43,4	59.563	81,1	0,15
Total Agricultural	26.625	83,6	363.045	44,5	66.386	39,3	0,30
Non Agricultural	2.415	11,4	22.377	15,5	3.292	19,1	2,35
Total	29.040	100,0	282.420	100,0	102.970	100,0	2,35

Banco de Fomento Agropecuario
Resources of Funds in Cash

Appendix 11-1

1981

In Thousands of colones

	Don Funds			BCR Funds			AID Funds			BID Funds			Other Funds ^{1/}			Total	
	Amount	%	%	Amount	%	%	Amount	%									
Banking Division	19.657	54,9	11,0	134.300	50,8	79,7	772	0,5	0,5	12.545	23,0	7,4	1.945	1,5	4,6	188.207	31,1
Agricultural Loans - Commercial bank type																	
Form of Provision	1.442	3,9	0,2	67.403	29,5	26,4	137.253	90,2	54,6	40.216	76,2	15,8	5.054	5,4	2,6	254.932	40,1
Non-Reformed Sector (Agricultural Loans to traditional and small farmer)	70	0,2	0,0	66.560	29,0	26,0	15.662	11,0	6,1	32.534	61,6	12,0	5.010	7,5	2,1	129.146	21,1
Reformed Sector	1.372	1,7	0,5	67	0,4	0,4	121.591	87,1	40,5	7.682	14,5	3,8	1.044	1,9	0,5	134.740	25,1
Phase I	1.330	1,6	0,5	61	0,2	0,2	109.411	86,4	42,5	6.600	12,5	2,6	970	0,6	0,2	117.262	22,1
Phase II	42	0,0	0,0	6	0,0	0,0	12.180	10,7	6,6	1.082	1,9	0,3	74	1,3	0,3	17.478	3,0
Non-Agricultural Loans	14.569	41,3	15,1	26.654	11,7	25,1	1.624	1,3	1,7	49	0,1	0,0	22.710	18,1	59,1	100.100	16,9
Total	35.191	100,0		270.455	100,0		141.029	100,0		52.010	100,0		70.414	100,0		527.279	100,0

^{1/} Others include:
FIDA Funds, IFW and Several others

Appendix II-2

1. Distribution of Administration Expenses

To the administration expenses of 1991 for the amount of ₡70,566,000, the amount of ₡8,189,000 of direct expenses of the Commercial Manager were deducted, leaving a net balance to be distributed in the credit activity of ₡63,377,000, according to the following detail:

Administration Expenses
Thousand Colones

<u>Unit</u>	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>
Credit Manager	3.805		3.805
Bank Agencies	32.202		32.202
Bolivar Agency	1.811		1.811
Special Operations	753		753
Commercial Manager	8.189		8.189
Governors Assembly		394	394
Higher Directors		5.906	5.906
Auditing		2.147	2.147
Financial Manager		3.339	3.339
Supporting Services		12.020	12.020
Total	<u>46.760</u>	<u>23.806</u>	<u>70.566</u>

Administration Expenses
Application of Indirect Expenses
In Thousand Colones

	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>
Credit Manager	3.805	3.240	7.045
Bank Agencies	32.202	18.042	50.244
Bolivar Agency	1.811	1.924	3.734
Special Operations	753	390	1.152
<u>Credit Activity</u>	<u>38.577</u>	<u>23.806</u>	<u>62.377</u>
<u>Commercial Manager</u>	<u>8.189</u>	-	<u>8.189</u>
Total	<u>46.760</u>	<u>23.806</u>	<u>70.566</u>

2. Distribution of Administration Expenses

Credit Manager. In accordance with the number of loans, the expense of ¢7,045,000 was distributed as follows:

Agricultural Loans	
Commercial bank type	994
Reformed Sector Phase I	627
Reformed Sector Phase III 10%	286
of 2855	<u>1,907</u>

Bank Agencies, Bolivar Agency and Commercial Operations. The amount of ¢55,332,000 was distributed according to the number of loans (30,040) granted to each sector, resulting in an average of ¢1.842 per loan.

3. Unit Costs

Average per loan (55,332,000 % 30,040)	¢ 1.842
Expenses Banking Division (7,045,000 % 1/907)	3.694
Sum	5.536

III-LOANS PORTFOLIO

1. Portfolio Situation

The status of the loans Portfolio as at 31st October 1992 is presented in Chart III-1.

From the information in Chart III-1 there arise the following principal facts:

- The portion in effect represents 68,4% of the total to be collected, which is relatively acceptable when considering that the status of the Portfolio represents an accumulated whole and is due in part to the refinancing of the loans. Nonetheless, this portion does not have a direct relation with the classification in accordance with the assets at risk;
- The classified portion as contingency, 3,0% of the total to be collected, is that amount whose final deadline payment has less than 90 days overdue;
- No variances of importance are present in the overdue proportion of the reformed and non reformed sectors. It is to be noted that the sale of the reformed sector Portfolio has an incidence in that this balance has resulted;
- The embargoed Portfolio for the amount of \$110,925,000, which represents 11.9% of the total to be collected, is concentrated in the non reformed sector and within this the Banking Division.

2. Risks Classification of the Portfolio

At 31st October 1992, the BFA classified 98,1% of the Portfolio at that date, in accordance with the instructions established by the Superintendency of the Financial System. The detailed information appears in Appendix III-1. The result of the classification of the Portfolio is shown in Chart III-2.

In relative terms, only 30,3% of the BFA Portfolio is classified as A and B, with some variances between Divisions, being in the Banking Division of 31,2% of the total to be collected and in the Foment Division of 24,1%. It is classified as C Portfolio 11,1% of the total Portfolio of the bank with some uniformity

amongst Divisions, due to the sale of the Foment Division Portfolio. These demonstrations are shown in Chart III-3.

III-1

Banco de Fomento Agropecuario
 Situation of the Loans Portfolio
 31st October 1992
 In Thousands of Colones

	In Effect	Contingency	Due	Embargoed	TOTAL
<u>Banking Division</u>					
Non Reformed Sector	296.674	18.483	31.968	39.783	386.913
Reformed Sector	417	2.663	-	-	3.081
	<u>297.091</u>	<u>21.151</u>	<u>31.969</u>	<u>39.783</u>	<u>389.994</u>
<u>Foment Division</u>					
Non Reformed Sector	251.185	2.371	38.414	21.325	313.295
Reformed Sector	141.917	4.381	31.715	187	178.040
	<u>393.102</u>	<u>6.752</u>	<u>70.129</u>	<u>21.512</u>	<u>491.343</u>
<u>Trust Division</u>					
Non Reformed Sector	35.933	482	2.245	-	38.660
Reformed Sector	35	-	186	-	221
	<u>35.968</u>	<u>482</u>	<u>2.431</u>	<u>-</u>	<u>38.881</u>
<u>Others Foment Division</u>					
Total	44	-	-	-	44
	<u>626.183</u>	<u>28.225</u>	<u>154.443</u>	<u>112.975</u>	<u>921.826</u>
<u>TOTALS</u>					
Non Reformed Sector	473.701	21.231	102.527	112.363	709.822
Reformed Sector	142.363	6.964	31.532	187	181.056
Total	<u>616.064</u>	<u>28.195</u>	<u>134.059</u>	<u>112.550</u>	<u>890.886</u>
<u>PERCENTAGES (%)</u>					
Non Reformed Sector	55,3	2,3	15,4	14,3	129,3
Reformed Sector	23,3	2,3	17,3	3,1	129,3
Total	58,4	3,3	16,3	12,9	169,3
Order Accounts					

Chart III-2
 Banco de Fomento Agropecuario
 Classification of Risks of the Loans Portfolio
 31st. October 1992
 In Thousands Colones

Classification	Banking	Foment	Trust	Total	%
<u>Agricultural</u>					
A	16.659	23.318	-	39.977	4,9
B	96.611	186.707	61	283.379	24,9
C	39.148	198.664	8.625	246.417	33,2
D	17.699	18.926	23	36.648	4,5
E	91.556	193.329	4.518	289.374	35,5
Total Agric.	<u>261.673</u>	<u>543.915</u>	<u>13.227</u>	<u>818.795</u>	<u>183,3</u>
<u>Non Agric.</u>					
A	1.945	-	1.487	3.432	3,5
B	21.836	-	8.189	30.025	31,1
C	7.469	-	13.218	20.687	21,4
D	2.525	-	229	2.754	2,8
E	37.390	-	2.342	39.732	41,3
Total Non Agric.	<u>71.155</u>	<u>-</u>	<u>25.577</u>	<u>96.732</u>	<u>100,0</u>
Total Portfolio	<u><u>332.828</u></u>	<u><u>543.915</u></u>	<u><u>38.804</u></u>	<u><u>915.547</u></u>	

Chart III-3
 Banco de Fomento Agropecuario
 Classification of Risk of the Loans Portfolio
 31st October 1992
 In Percentages

Classificat.	Banking		Foment		Trust		TOTAL	
	Partial	Cumulat.	Partial	Cumulat.	Partial	Cumulat.	Partial	Cumulat.
A	5,6	5,6	4,3	4,3	3,6	3,6	4,7	4,7
B	35,6	41,2	19,7	24,0	21,3	24,9	25,6	33,3
C	14,3	55,2	36,7	60,7	56,4	81,3	29,3	59,6
D	6,1	61,3	3,5	64,2	0,9	82,2	4,3	63,9
E	39,7	100,0	35,2	100,0	17,3	100,0	36,1	100,0

If the Portfolio classified as E is excluded, which is the result of an accumulation of loans susceptible to draining, the Portfolio A and B would represent 47,4% of the total classified and if the C is added, the 93,2%, which would be more representative of the current characteristics of the BFA, situation which should be improved through a better selection of the users.

3. Valuation Reserves

The BFA, in accordance with the regulations for the classification of the assets at risk, has constituted reserves of 10% of the total value of Portfolio C; of 50% of Portfolio D; and of 100% of Portfolio E. These regulations apply to the interests to be collected and collectable accounts of these loans.

4. Draining Procedures of the Portfolio

The BFA has its own regulations for the draining of loans. The accumulation of the amount drained at 31st October 1991 amounted to ¢85,402,000 and at 31st December 1990 to ¢82,069,000. The variance, which is not of importance, is due to the process which involves costs and time for the operation, independent of the amount.

5. Administration of Portfolio E

The origin of the Portfolio classified as E and its integration, which include 29,595 loans in the Foment Division, of a total of 32,539 operations, that is 43,9% of the total of 74,186 loans, recommend the establishment of an adequate mechanism to give a separate treatment to it.

The integration of Portfolio E at 30th September 1992, shows that 48,0% of the capital owed is a result of 805 operations of more than ¢20,000 with an average of ¢161,880 per loan, whilst the 28% are operations with an average debt of ¢9,499. The 19,2% of these loans had active balances. Including interests, the total owed amounted to ¢430,925,000. This detailed information is presented in Chart III-4.

The loans for less than ¢20,000 included 2,706 operations for less than ¢500 each.

the operation of the BFA territories, an estimate was made on the probabilities of recuperation

of each one of its components and according to the characteristics of the corresponding agency.

Chart III-4

Banco de Fomento Agropecuario
Loans Portfolio Classified E
30th September 1992

In Thousand Colones

	CAPITAL			Interest	TOTAL	
	Number	Effectiv	Due			Total
<u>Cooperatives</u>						
Traditional	105	19.409	26.732	46.141	30.238	76.379
Phase I	4	214	241	455	112	567
Phase III	85	8.664	18.947	18.711	7.345	25.756
<u>Total Cooperatives</u>	<u>194</u>	<u>28.287</u>	<u>37.820</u>	<u>65.307</u>	<u>37.395</u>	<u>102.702</u>
<u>Others</u>						
Balances of more than*	805	14.839	115.474	130.313	73.683	203.996
Balances less than*	13.327	8.325	67.109	76.804	48.193	124.227
<u>Total</u>	<u>14.825</u>	<u>52.851</u>	<u>219.683</u>	<u>271.654</u>	<u>159.271</u>	<u>430.925</u>
Percentage(%)		19,2	80,8	100,0		
				63,8	37,8	100,8

*20.000

The simulation for these calculations is shown in Appendix III-2.
The results of the expected recuperations are shown in Chart III-5.

Chart III-5
Banco de Fomento Agropecuario
Estimate of Recuperation of Portfolio E
In Percentages

<u>Weighted Range %</u>	<u>Number of Agencies</u>
Up to 25	6
From 26 to 30	7
From 31 to 35	7
From 36 to 40	4
From 41 to 45	1
From 46 to 50	2
<u>Total Agencies</u>	<u>27</u>

The agency with less proportion was La Union with a 12% and Bolivar was the highest with 50%. The final weighted result was 30%, which is equivalent to \$130,974,000 of the total to be collected, including capital and interests. The detailed information is presented in Chart III-6.

Chart III-6
Banco de Fomento Agropecuario
Estimated Probability of Collection Portfolio E
30th September 1992
In Thousand Colones

	<u>Total to Collect</u>	<u>Estimated Recuperation</u>	<u>%</u>
<u>Traditional Cooperatives</u>	78.379	24.438	32,1
Phase I	567	-	-
Phase III	28.756	8.810	24,5
<u>Total Cooperatives</u>	<u>102.702</u>	<u>30.818</u>	<u>30,0</u>
<u>Others</u>			
Balances of more than*	208.998	68.181	33,5
Balances less than*	124.227	31.867	30,4
<u>Total</u>	<u>430.925</u>	<u>130.974</u>	<u>30,4</u>

*\$20,000

The first recommendation would be to transfer in the books the Portfolio E to order accounts. This would allow to analyze the development of the Portfolios, which can be considered as normal and of high risks.

The most important part would be to organize a specific unit for a defined period, in the active collection and specialized in Portfolio E. The basis for this,

taking into account a margin of error of 15%, is to add in time, a 25% of the financial capacity to borrow at this time, that is and additional ¢100,000,000.

Another advantage of taking these actions is to activate users that cannot access formal credit. .

6. Drainage of the Loans Portfolio

The measure recommended for the treatment of Portfolio E, which amounts to ¢329,096,000 and which represents 36,1% of the total to be collected does not imply its drainage. This would occur once the collection measures are finalized.

Nonetheless, the transfer of the mentioned Portfolio E would allow a more realistic presentation of the financial situation of the Bank.

Banco de Fomento Agropecuario
 Classification of the Loans Portfolio
 31st October 1992
 In Thousand Colones

Appendix III-1

	A	B	C	D	E	Total
<u>Classified Portfolio</u>						
<u>I- Banking Division</u>						
<u>Agricultural</u>						
Number of Loans	354	373	377	335	1339	3-53
Amount	13333	33333	33333	17333	33333	333333
<u>Non Agricultural</u>						
Number of Loans	20	333	33	116	333	35-
Amount	1345	33333	7467	3333	33333	74133
<u>Total Banking Division</u>						
Number of Loans	401	1172	776	445	1513	4-310
Amount	13604	113447	43317	20224	133333	333333
<u>II- Foment Division</u>						
<u>Agricultural</u>						
Number of Loans	1534	9743	13333	2414	33333	33333
Amount	33313	133707	133334	13333	133330	540313
<u>III-Trust Division</u>						
<u>World Food Program</u>						
Number of Loans	0	33	33	17	34	33-
Amount	0	33	31	33	---	33
<u>Microenterprises Program</u>						
Number of Loans	133	1333	3333	33	311	3113
Amount	1337	3333	13313	33	33-3	33-33
<u>National Reconstruction Program</u>						
Number of Loans	0	33	1337	0	373	133-
Amount	0	33	333-	0	4074	1333-
<u>Total Trust Division</u>						
Number of Loans	133	1433	1333	33	1433	73-7
Amount	1337	3333	13313	333	3333	3333-
<u>Total Qualified Portfolio</u>						
Number of Loans	3131	13341	2433-	3341	3333-	7-133
Amount	43323	333404	333333	33333	333333	333333
Percentages (%)	4.7	33.3	33.3	4.3	33.1	100.0

IV. YIELDS AND COSTS

As a complement to the examination of the costs of the credit operations, it was considered appropriate to examine the costs and yields of the activities of the BFA. The result of this examination is presented in Appendix C.

1. Credit Activity

In the established functions, the granting of loans up to ₡50,000 and of more than ₡50,000, confirm that loans to small farmers do not cover with the interest return the administration costs.

The credit activity makes a positive contribution to the BFA operations.

If the Portfolio qualified as E is excluded, the cost of the credit activity of the BFA in 1991 would be equivalent to 9,3% of the average loans Portfolio. The structure of the granted loans, wherein the higher number is less than ₡5,000, recommends to develop a special method for the granting of such loans.

The minimum advisable loan that the Bank should have would be ₡5,900.

The examination of the yields of the BFA, even considering the distortions that originate from the fact of having drained the Portfolio, show that 19,8% of the administration expenses of the credit activity were not covered with the income from interest returns that generate the loans for less than ₡5,000.

In addition, the BFA should develop a policy for the financing of the operation costs of subsistence loans and other similar loans which should also be the basis of negotiation for the intermediation operations margin in trust.

2. Commercial Bank Services

The services of commercial bank cover its costs and could be productive if there were a policy of placing the resources to the public. The development of these plans for the increase of these activities should be carried out as an investment project that establishes costs and benefits, sensitivity and risk analysis, placing of resources and the specialization option in savings deposits, all based in a market strategy linked to the active operations of the Bank.

3. Merchandising of Grains and Sale of Materials

The activity of merchandising grains and selling farmers materials was not financially profitable in 1991. The BFA is retiring from these activities that contributed to finance a proportion of the indirect expenses of the institution.

V-THE BANCO DE FOMENTO AGROPECUARIO

1. Factors that Hinder or Support the Development of BFA

a. Environment

The environment surrounding the BFA, which is linked to the structure of the holding of the land, where the small farmer and the reformed sector with a series of weaknesses predominate, is a factor that does not support the development of the BFA and policies and procedures have not been developed to diminish the risks that derive from this fact.

In the reformed sector several government institutions participate as well as the Central Reserve Bank, which disperses the action. The participation of the BFA, to which 294 cooperatives of Phase I have been assigned, should be framed within a development programme of them.

The existing restrictions for the disposal of embargoed rural estate properties and for the collection through the judicial means in the reformed sector, affect the level of recuperations of the BFA and could hinder the mobilization of the financial resources.

In the judicial order, there are provisions such as alienation of assets and payment arrangements with the borrowers that are not compatible with the financial intermediation.

b. Organisation and Functions

Derived from the Constitution Law of the BFA, which has not been modified, there comes an organization structure in the principal offices which hinder the function of management and control and gives an excessive expense burden in the granting of loans.

The BFA field of action is not clearly defined, therefore the credit activity responds to a tradition, commissioned by the Government and subject to the credit lines of the Central Reserve Bank.

The procedures for the granting and administration of loans include a type of excessive statistic information that has been accumulating as a result of the agreements with financing organizations and requirements from the Central Reserve Bank, derived from its credit lines.

c. Administrative-Financing

In the internal aspect, the weakness in the collection of the loans, coupled to the policy of refinancing of debts and sale of the Portfolio, have united in that the effective loan capacity is in the order of \$450,000,000 annually, which no longer keeps a relation with the number of personnel and whose interest return only cover the administration costs and for interests of the institution.

d. Commercial Banking System

The services of the commercial banking system do not have an unfavourable effect of a financial aspect. Its potential yield could make a contribution to the operations, if there were a policy for the placing of resources from deposits from the public.

2. Financial Evolution

The financial position of the BFA is acceptable, nonetheless, the integration of the loans Portfolio respecting the classification of the assets at risk, is not acceptable. It is hoped that the charges for estimated losses of doubtful collections loans do not have an important negative impact in the final operations results.

3. Agricultural Financing

The credit demand in the country on the basis of the area and production of the principal agricultural items, can be estimated in \$3,500 millions, of which coffee would represent 31,3% and basic grains 63,8%. The credit coverage of the financial system is in the order of \$1,473 millions, absorbing coffee the 33,7% and basic grains the 13,9%.

The relations between demand and credit coverage for the agricultural production, that are an indication, show that there would be a margin for the financial formal intermediation through the credit offer.

In addition, available surveys show that credit attention is scarce for the small producers and there are access problems in the reformed sector, especially in Phase Three.

The BFA participates, as compared with the financial system, in 75% of the granting of loans for basic grains; sugar cane with 29%, coffee with 18% and others with 45%. Of the amounts granted for investment, the participation of the BFA is with 14% of the total financed by the financial system.

The agricultural debt, banking and agrarian, especially in the reformed sector, would constitute a hindrance for the agricultural financing, since it leads to instability in the companies.

4. Definition of the Role of the Banco de Fomento Agropecuario

a. Basic Criteria

Both the Sector Agricultural Strategy as well as the Law of Financial Institutions and Banks, define a government participation, especially in the agricultural financing.

The BFA has an office infrastructure in the country, procedures, personnel and experience, which is an aspect to consider in the definition of its field of action.

In addition, the national reconstruction process would make it necessary for the State to have a means for the channelling of financial resources.

In order that the BFA can increase its credit coverage, it would be necessary to increase its financial basis, which would include the active recovery of the delinquent Portfolio, mobilization of the available resources and the adopting of policies for the attention to the small farmer.

b. Options on the Role of the BFA

The alternatives to define the role of the BFA can be characterized in the following manner:

- Limit its function to the attention to the small farmers;
- Specialize the bank in the attention to the reformed sector; and

- Compete with the commercial banking system and at the same time, as an official bank, finance programmes of national interest.

The third option should be based on the establishment of operational policies in accordance with the availability of financial resources and their destination to programmes, that would be equivalent to loans windows and at the same time introduce procedures that would lead to a better employment of the existing means, in order to improve the efficiency of the bank.

In this case, it would be advisable that the BFA limit its credit activity to three specific programmes: Commercial Agriculture, Reformed Sector and Small Farmers for Subsistency, assigning them the existing financial resources in the bank. The sources of financial resources and the modes of the organization and procedures are explained in Chart V-1.

c. Institutional Requirements

Creation Law

An essential requirement is the modification of the creation law of the BFA, in order to strengthen the management function and surpass the stiff measures that hinder the activities of the bank.

Preferably, the bank should be located in the level of the Central Reserve Bank.

The modification to the Law must necessarily include the following faculties:

- Sell the assigned assets, in accordance with the established regulations in the Financial Institutions and Banks Law;
- Make judicial demands to the borrowers of the Reformed Sector in case of non compliance, subordinating the loans from other government institutions to the Bank;
- Reach payment arrangements with the borrowers, including elimination of obligations, when it is convenient to the bank interests.

Procedures

In relation to the procedures, the following would be necessary:

- Develop credit regulations for each programme, with specifications as to eligibility requirements;
- Specialize the functions of the credit personnel at the agencies, eliminating the current territorial assignment. The official would handle the programme Portfolio and type of specific client;
- Grant loans in an automatic manner to borrowers classified as type A or who, according to the Bank as a result of their previous compliance, qualify as such;
- Give emphasis in the granting of loans to solidarity groups.
- Simplify the method of contracting loans for the purchase of materials to small farmers.

Regulations

On the aspect of regulations, it is considered necessary to develop procedures on the cases of non compliance of the loan contracts and judicial demands.

d. Deposits from the Public

In accordance with the type of client that the BFA would attend, it would be advisable that the deposits from the public be limited to savings.

e. Non-Agricultural Loans

In accordance with the recommended specialization for the BFA and congruent with the receipt of deposits from the public, it would be advisable that the BFA abstain from granting loans not linked with the agricultural sector, including the small and micro enterprise. The latter could be transferred to existing entities in the country.

f. Mechanisms for the Granting of Loans

With the purpose of achieving the participation of the beneficiaries in the granting and administration of the loans, it is proposed that the Bank promote the creation of credit institutions at local level, linked to the BFA operations and duly enabled by the Superintendency of the Financial System.

The requirements to be enabled would include: adequate solvency demonstrated with sufficient margin of indebtedness; adequate liquidity; positive profitability; a satisfactory administration which includes financial policies; accounting and audit procedures; operating procedures and qualified personnel.

In these auxiliary credit institutions, the Bank could participate in the capital, together with the beneficiaries to whom the purchasing of shares within the investment loan plan would be provided financing, which would be a requirement.

The possible interested persons in these arrangements could be the cooperatives in the reformed sector and non government organisations with experience and work continuity in the labour zone.

g. Government Programmes

In the amount possible, the BFA should only accept Government commissions, related with the agricultural financing.

In this order, we find the financing for the National Reconstruction Programme (PRN). The arrangements for the participation of the BFA must be specific in relation to the granting, recuperations, quantities of the credit risks, risks and collection of the costs on the basis of invoicing of the same by the Bank.

h. Evaluation of the Programme

For the evaluation of the execution of each Bank programme, it would be convenient to organise groups of high level persons, directed by an official of the Central Reserve Bank.

BANCO DE FOMENTO AGROPECUARIO

CREDIT PROGRAMMES

<u>FINANCIAL RESOURCES</u>	<u>ORGANIZATION</u>
<u>I - COMMERCIAL AGRICULTURE</u>	
<u>FINANCIAL RESOURCES</u>	<u>MAIN OFFICES</u>
Portfolio A,B,C, and D of the Banking Division	- Management and Evaluation
#170,117,000	<u>BANKING AGENCIES</u>
Liquidation of non agr.cultural portfolio	- Loans officials, responsible for all phases
BCR Credit Lines	of granting and collection
<u>PROFITABILITY: Commercial</u>	<u>PROCEDURES</u>
	- Automatic loan to category A clients
<u>II - REFORMED SECTOR</u>	
From the Foment Fund, deducting: investments	<u>HEAD OFFICE:</u>
in securities of subsistency loans:	- Development of policies
#190,498	- Coordination with MAG, ISTA, FINATA
BCR Credit Lines	and Banco de Tierras
<u>PROFITABILITY: Commercial</u>	<u>BANKING AGENCIES</u>
	- Officials in charge of cooperatives
	- Officials in charge of individual
	farmers
	<u>EVALUATION: Inter-institutional group</u>
<u>III - SUBSISTENCY LOANS</u>	
Current portfolio for #65,452,000	<u>HEAD OFFICE:</u>
Government contributions	Management and Supervision
<u>FINANCING OF COSTS:</u>	<u>BANKING AGENCIES:</u>
Government Contribution	Programme officials
Profitability assignment of BFA	<u>PROCEDURES:</u>
	- Automatic loan to A Clients
	- Solidarity groups
	Evaluation: MAG-BFA Group