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**EVALUATION AND ANALYSIS OF
AIR PROJECT**

PREPARED FOR:

AGENCY FOR INTERNATIONAL DEVELOPMENT

COSTA RICA / OPS

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I- EXECUTIVE SUMMARY

A- PURPOSE

- Evaluate results, development and impact, if obtained, by AIR project.
- Evaluate the Central Bank (BCCR)'s compliance with the terms of the Project Loan Agreement.
- Assess how far the Project has had the desired impact.
- Evaluate participating institutions' performance toward achieving stated goals.
- Make suggestions for possible improvements and recommendations for ongoing monitoring.

B- METHODOLOGY

We interviewed officers of: AID/DPS Costa Rica, Central Bank of Costa Rica, ten private participating banks, Private Investment Corporations and 20 of the 31 final sub-borrowers representing 82% of total disbursed. We used various questionnaires for raising the information. We reviewed the files at AID and at the individual private banks. We became familiar with the Project Paper, Loan Agreement, pertinent amendments and Audit Report.

Invariably, we received full cooperation and met with readiness to provide us with all the information we required from all people we

contacted. This receptiveness greatly facilitated our task.

C- BACKGROUND

A Loan Agreement between the BCCR and AID/Costa Rica was signed in August 1986 followed by various amendments by means of which a \$19.65 MM, twenty five year loan with ten years of grace at an initial rate of 2% p.a. was granted by AID to BCCR to set up a rediscount facility to qualified private Intermediary Credit Institutions (ICIs) of up to seven years.

The funds were to be used to finance the expansion of non traditional exports from Costa Rica to countries outside the Central American Common Market.

This loan had, among other features, two main provisions:

- 1- funds from it would be relent to the ICIs basically at market rates in US dollars but with a provision enabling a final borrower, hence the ICIs vis a vis the BCCR, to repay his obligation in colones at the prevailing exchange rate of the day of repayment, and;
- 2- that the BCCR had to make these funds available to qualified private ICIs without analyzing the final borrower; basically upon request.

The main aims of the Project were: a) depending the Costa Rican financial market; b) provide scarce long term resources to the Costa Rican private banks thereby strengthening their competitive posture, and c) increase employment and foreign exchange earnings by providing funds solely to finance expansion of non traditional exports.

Due to various restrictions in the initial design of the Project and, of equal importance, to a greater availability of long term funds in colones at the initial steps of the project, which borrowers and lenders then preferred, the project got off at a very slow pace. So much so that by 1989 \$12 MM were deobligated for lack of demand. Ironically, deobligation came at the same time that demand was picking up soon after various amendments were made relaxing the restrictions and, as important, other sources of term colones funding were drying up

D- FINDINGS

a) Overall evaluation

This project represented the first time that long term USAID funds were made available solely to the C.R. private financial sector as a whole and on competitive basis with the onus on it to ensure borrower's credit worthiness; that is, the private banks should compete among them, at commercial rates and in "first in-first ^{out} *serve*" basis with no BCCR pre-review.

Via amendments and changing attitudes, this project has matured and come to adequately fulfill its aims, i. e.:

- 1- Deepening of C. R. financial markets. That ten, of fifteen, active private banks utilized AIR funding in the first four of its twenty five years of project's life attests to the maturing of the C. R. private ICIs. Private ICIs in C. R. are a phenomenon emerging in the past decade and becoming a meaningful factor only in the second half

of the eighties. Until the beginning of the eighties, private, almost insignificant, ICIs survived on providing banking services and, occasionally, by giving short term credit. This must be viewed in the context of the small size of the Costa Rican private banking sector; the largest private bank has a net worth of less than \$6 million and total assets of under \$60 MM.

- 2- Private ICIs already had some term lending capabilities having had access to the Development Funds Department of the BCCR for over two years when the AIR project was introduced (1986). However, for three ICIs, AIR funding represented over 10% of their total portfolio and over 30% of their term lending. Several banks have introduced the account officer system, cash flow projections and even sensitivity analysis. AIR funding has already led to one syndication and seen increased competition.
- 3- While most subloans were new projects, not yet producing, AIR funding was instrumental in creating about 2,500 jobs and in generating over \$20 million in foreign exchange earnings for 1990 with close to \$30 million projected for 1991.

b) Impact

There was a preponderance of project lending with AIR funding. Of the total 31 borrowers so far, 22 represent new ventures. Of the total \$7.6 million, 33% was to agriculture/agribusiness, 45% to industry, and 22% to tourism/services.

From the financials supplied by the borrowers, the great majority of subloans are definitely not commercial banking propositions.

However, many borrowers, have acceptable support in the way of guarantors and/or collateral.

The majority of the 31 borrowers are small and middle size companies due mainly to large companies' reluctance to incur in foreign exchange obligations, the availability, originally, of alternative colones long term funding and the initial lack of aggressiveness by the ICIs in selling this project.

c) Triangulation

It was introduced in 1989 as a temporary measure to limit the impact of the provision of Article 63 of the BCCR regulation that limits ICIs access to BCCR's funds (of which AIR is part) to 50% of the ICI's portfolio funded from sources outside the BCCR. Most ICIs were already at their limits and when there was availability, most ICIs and borrowers preferred indebtedness in colones rather than in dollars, that AIR funding represented. AIR funds were triangulated via the BCCR lending to Banco Internacional de Costa Rica which, in turn, lent to the Private Investment Corporation which, then, lent the funds to the ICIs for lending them to the final borrower.

The scheme looked, and to some extent still is, cumbersome. In placing all these intermediaries between the BCCR and the ICI, it added to the cost to the BCCR (3.5% p.a.) and made the process somewhat unwieldy. In its defense, however, we can state that:

- 1- it did enable limiting the negative impact caused by Article 63;
- 2- it provided the ICIs additional borrowing power with BCCR (equal to 50% of loans triangulated);
- 3- it brought about more cooperation among the banks, and
- 4- after the initial problems were ironed out, it has come to work smoothly. See recommendation #3 for possible ways to streamline it further.

d) Reduction of AIR funds from \$19.65 to \$7.65 MM

\$19.65 million were originally allocated to the AIR project in August 1986 following the findings of an extensive Project Paper that among other things, evidenced the demand on the part of the C.R. private non traditional exporters of long term dollar funds. At the time the project was started, however, substantial term colones funds at the BCCR also became available. Additionally, the "mini devaluations" kept its steady pace (17.5% p.a. in 1987). ICIs also preferred to push colones as opposed to dollar lending. Through 1988 only five subloans had been made.

The project termination date was extended from original August 29, 1988 to September 30, 1990, yet demand failed to pick up. Following a demand study (September 1988) several amendments were introduced: triangulation, reduction in the maximum interest from 3% to 2% p.a. over Libor, allowing working capital financing, tourism and services projects could qualify and increasing the maximum per loan from \$350,000 to \$500,000.

The triangulation mechanism was one of the main features.

Nevertheless, due to some initial implementation delays ^{1/} and its effects retarding loans that could have been booked, by September 1989, \$12 million were deobligated. It is interesting to note that by the time of the project final completion date (September 1990) the pace of utilization was accelerating. The present pipeline for AID funding is around \$15 million to 43 potential borrowers. Actually more than the amount deobligated.

We believe that, as important as outside conditions are, (availability or non availability of colones, rates of interest and of exchange), it is the slow but definite change in attitude on the part of the ICIs as well as of the potential borrowers that contributed to the posterior greater demand for AID funds.

So, in retrospect it can safely be said that despite the postponement, the deobligation of the majority of the AIR funds was premature.

e) Evaluation of individual participating ICIs

That 10, of 15 active ICIs participated, though belatedly, in the reduced AIR funding, demonstrates its acceptability and viability. We visited and reviewed all ten ICIs.

^{1/} In February 28, 1989 the triangulation was approved; in June 14, 1989 Bicsa and Pic signed the agreement among them and, finally in July 21, 1989, the first loan was disbursed under this mechanism. So, the triangulation took 5 months to start.

While participation varied from \$1.9 million for the largest to less than \$90,000 for the smallest with AIR funding making up 28% of the total portfolio for one to less than 1% for the smallest, all ICIs concurred in that AIR represented a good source of funds and all stated they had additional potential borrowers for these funds.

Basically, all ICIs had already acquired expertise, at various levels, in putting together term loans; expertise they had gained in funding borrowers with "development" funds from the BCCR. We found the great majority of banks have further learned from the application of these funds and did their conscientious analysis, cash flow projections, sensitivity analysis, periodic visits and made reports to the files. It is doubtless that the existence of AIR funding strengthened the banks that already engaged in these practices. In some isolated instances, however, where these practices were not used, AIR funded apparently did not contribute to their adoption especially considering that there was no BCCR forcing them to do it.

Project training component was deobligated (see point 14 of Conclusions and 9 of Recommendations).

f) Selected sub-borrowers

We reviewed the files on all sub-borrowers and visited 20 of them. The majority of the borrowers are relatively small or middle size companies; among the 31 ultimate borrowers, 22 represent start ups with 13 still operating at a loss.

The ICIs' sub-borrowers portfolio is definitely project/development

oriented. In the great majority of the visited companies, AIR funding was a substantial part of the total project cost (Annex I-3).

E- CONCLUSIONS

- a) Though the overall impact was not of the same magnitude as had been anticipated in the project paper or annex to the Loan Agreement due to unexpected events (initial greater availability of long term colones) and the deobligation of the majority of the AIR funds, the project has had a positive impact on the local economy. Close to 2,500 jobs created can be attributed to the contribution brought by the project funds; over \$20 million in foreign exchange earnings can also be ascribed in a significant part to this project.
- b) While the project started at a slow pace, after the triangulation it showed a considerable dynamism in utilizing the AIR funds.
- c) Very important, the project has brought about a change in attitude related to incurring obligations in foreign currency on the part of exporters.
- d) Future results should be considerably greater than those achieved so far.
- e) BCCR has not complied with the reporting requirements nor with relending the reflows as required in the Loan Agreement.

F- MAIN RECOMMENDATION

- a) BCCR should make reflows available by June 30, 1991.
- b) BCCR should start sending quarterly reports to AID immediately.
- c) If triangulation remains necessary, eliminate one of the triangulating parties, by September 30, 1991.
- d) That AID/DPS Costa Rica, update the table "General Statistical Information of the AIR Project" at least once every six months (ongoing).
- e) In future programs, before including funds for grants, the legal opinion of the Central Bank should be asked, in order to make clear whether there are impediments or not.

II. INTRODUCTION

Since the crisis of the early 80's, Costa Rica has implemented a new model of development (Structural Adjustment Program), based, among others, on the promotion of non-traditional exports to markets outside Central America. In recent years, Government authorities have altered economic policy to induce private companies, national or international, to participate in this new economic order.

As part of the Structural Adjustment Program it has been stated that it is necessary to develop the financial sector to support the changes in process.

Recently, the country has experienced a fast growing of the private banks, which albeit some limitations, are becoming a very important part of the financial sector and the export promotion program.

In this particular environment the AIR Program was designed and implemented. The AIR Project "consists of the establishment of a rediscount facility at the Central Bank of Costa Rica to provide credits through Costa Rican private banks for on-lending to new and existent private business seeking to establish, expand or upgrade their facilities for the production of non-traditional exports" 2/. The project established a dollar facility, housed in the BCCR, for term lending to the Costa Rican agricultural and industrial sectors. The private banks would make dollar

2/ Project Loan and Grant Agreement, August 28, 1986, Article II.

subloans and the sub-borrowers would pay either in dollars or colones at the prevailing exchange rate on the day of repayment. In addition, some grant funds were provided for training and technical assistance in development lending, technical assessment of subproject and evaluation 3/.

Under such perspective, the specific objectives of the project were stated as follows 4/:

- To deepen the Costa Rican financial market by increasing the availability of dollars for term lending for production of non-traditional exports;
- To assist the Costa Rican private banks in improving their development lending capabilities;
- To strengthen the Costa Rican private banks by channeling project resources through them and creating competition among the banks by making the resources available on a first-come-first-served basis;
- To increase employment opportunities through increased export production.

This project therefore not only seeks increasing export production and employment opportunities, but also improvement of the private banks lending operations.

3/ Op. cit.

4/ See Project Loan and Grant Agreement, Annex I.

This study was performed at the request of Costa Rica AID/OPS by a group of independent consultants. Field investigation was conducted during the last half of December, 1990 and January, 1991.

The objective of the study, as stated in the scope of work and terms of reference, is to measure the impact of the AIR Project in compliance with the Loan Agreement objectives, stated above.

The study comprises an overall evaluation of the AIR funds' use, including "triangulation" and deobligation of resources; and an individual assessment of participating banks. It includes also an analysis of the economic and social impact of the facility on the national economy as well as individual assessment of a representative percentage of sub-borrowers. Conclusions and recommendations are presented and an Action Plan is proposed. Financial and economic information is presented as an Statistical Annex.

III. AIR FUNDS UTILIZATION

A- OVERALL EVALUATION OF THE AIR PROJECT

Agreement of August 1986 between the Central Bank of Costa Rica and AID, got off at a very slow start. No disbursements were made in the first twenty one months until May 1988. The pace of utilization was slow; through 1988 only one bank, Banco de COFISA, with a fairly long track record in project lending had used these funds. While project funds were not necessarily for development lending, all sub-loans made in 1988 (5) were to new projects. Indeed, of the 31 sub-borrowers that utilized the first round of the reduced funding (from \$20 to \$7.65 MM) only 9 can be deemed to have been strictly non project ventures; that is, well established borrowers with a solid profitable track record, that probably may have obtained funding from other sources.

After mid 1989, when the "triangulation" with Banco Internacional de Costa Rica (BICSA) and the Private Investment Corporation (PIC) had been put into place, the pace of utilization quickened considerably; so much so that by the termination of the project funding, September 1990, there was a backlog of subloans that could not be funded.

The slow start and the later fast utilization were due to a combination of factors:

- 1) The initial greater availability of long term funding in colones via the Central Bank resulted in borrowers preference to borrow in colones, even at considerably higher rates of interest.

- 2) Most banks had reached their limits in the amount they could borrow from the Central Bank, the only channel through which these funds were originally available. When funds became available in mid '89, without impinging on the banks' availability at the Central Bank (see section E on triangulation), utilization rose dramatically, to the point that leads us to conclude that if the project had been in effect for an additional six months beyond the September 30, 1990 deadline, all of the \$20 million originally allocated to it would have been used up.
- 3) The initial failure of prospective borrowers to understand, and to a good extent, of the ICIs to explain to the borrowers the advantage of funding in dollars, at a much lower rate of interest, but with a clause that enabled them to repay in colones, at the official exchange rate of the day of repayment. The memories of the major devaluations at the beginning of the 80's were, and still are, quite vivid in the minds of many prospective borrowers. Even in retrospect, we believe that despite the steeper mini devaluations of the last six months, and the higher rate of interest when funding is available, that borrowing in dollars would have been an attractive alternative to a producer of foreign exchange.

This is borne out by the present backlog of probable AIR fund borrowers (\$14.9 MM to 43 borrowers).
- 4) The reluctance of borrowers to incur and of the ICIs to push loans in dollar, as opposed to colones, was also a function of the preponderance of start ups and relatively small companies among

the 47 loans made with the AIR funding so far. Without a well established track record producing dollars, borrowers and lenders were afraid to incur foreign exchange obligations.

B- PROJECT CONTRIBUTION TO ITS STATED OBJECTIVES

Apart from some past instances of AID funding having been made available directly to the Costa Rica Private Financial Sector (such as COFISA, BANEX and PIC and strictly for development lending) the AIR funding represented the first time that U. S. dollar funds had been made available solely to the Costa Rica private financial sector, on a competitive basis, with the onus on it (i.e. without the direct supervision of the Central Bank as to the quality of the sub-borrowers) to ensure credit worthiness and compliance with given parameters and sound loan practices.

Problems and constraints were expected to appear and have appeared in the first round of utilization. However, the project still has 21 of the 25 years of its life to run. Over its initial four years, many constraints and problems have been solved and the project has gained considerably better acceptance; even though it has been reduced in size, we believe it has made a definitely positive economic contribution and fulfilled its stated objectives.

1) Deepening of the Costa Rican Financial Market

While alternative sources of long term funding in colones have been

irregularly available through the Development Funds Department of the Central Bank, this institution as a matter of principle, reviews extensively every application for funds by the ICIs and almost always there is a considerable going back and forth between the Central Bank and the ICI before funds are disbursed. At times, it is a process that takes several weeks and on occasion even months. The loan agreement between Central Bank and AID specifically stated that the Central Bank would not review the ultimate borrower in depth.

That ten, out of 15 Costa Rican active private banks utilized AIR funding in the first round of utilizations in the first four of the twenty-five years of this project life, attests that the private banks are slowly but steadily maturing. The project must be seen in the light of the Costa Rican private banking context where private banks are a relative recent phenomenon. In the past ten years these banks have emerged practically from nothing and now account for about 25% of the colones banking deposits, versus 75% of the big four state banks. Only until 1964 these banks subsisted solely on very short term lending and banking services. Their funding is very restricted with no hard core of demand deposits (which is restricted to the state banks) and hardly any deposits over one year.

2) Assisting C. R. Private Banks improve their term lending capabilities

While the degree of professionalism in evaluating, packaging and monitoring term loans they put on the books, varies considerably from

bank to bank, we found that most banks (see section IV on the individual banks) did in depth analysis of their term borrowers. Some banks set up credit controls and periodic visits to firms with regular write ups on the borrower's periodic compliance. Considerable improvement still lies ahead, but, overall, most banks have made a good faith effort.

Several banks have established an account officer system, which assigns responsibility to credit officers for the whole lending process. This concept is still quite new in Costa Rica and its apparently slow evolution must be viewed in the context of both the newness of the Costa Rican private banking system and of its still limited size. But the principle that credit is better given by a credit professional than by a lawyer or a dentist or a tailor or a doctor (of which most boards of directors that decide on credits are composed) is slowly but surely taking hold in Costa Rica. So, despite its reduced amount, the AIR project, by forcing the private banks to do their homework, has contributed to this process.

3) Strengthening the Private Banks by channelling term resources through them and fostering competition

Despite the reduced amount, AIR funding represented over 5% of the total portfolio of 4 banks.

More important, however, is the percentage of the private bank's term portfolio represented by the AIR funding which for three banks represented at least 30% of the total long term portfolio.

Conversely, we also saw instances of increased cooperation among

private banks in at least one loan that was syndicated between two banks as one of them had exhausted its availability of funds access to the Central Bank.

In our interviews, we came across at least three banks that stated their readiness to make loans immediately as more funds became available.

4) - Increase private sector employment opportunity

We estimate that AIR funding assisted in creating, directly and indirectly, at least 2,500 new jobs. While this number is unavoidably difficult to quantify precisely in relation to what would have happened to these jobs in the absence of AIR funding, we believe it is safe to assert that even though, some of these jobs in the AIR funded loans would have happened anyway, AIR funding was instrumental in bringing about the majority of them. (See Section V).

5) Increase foreign exchange earnings

In 1989, for the first time in Costa Rican history, earnings from non-traditional exports surpassed earning from traditional exports. (See table I-9)

For 1990, we estimate that over \$20 million of additional foreign exchange were produced by AIR project funds.

The direct contribution of AIR funded borrowers is however more important for the years to come since out of the 31 borrowers funded, 19 represent new projects that are, as of now, still in the preoperative stage.

C- IMPACT, PROBLEMS AND POTENTIAL

The most striking aspect of the implementation of the AIR project so far, is the preponderance of new projects. Nineteen represent financing to new ventures, as opposed to financing expansions of existing enterprises (twelve).

The second important aspect is the sectorial distribution of the 31 borrowers corresponding 9 to agriculture, 3 to agroindustry, 13 to industry and 9 to services.

Thirdly, taking the figures provided by the sub-borrowers, 13 of the total 31 show a loss or are still in the preoperative phase.

Overall, we do not assess that the credit risk, while being perceptibly higher than a strictly commercial portfolio should be, is as severe as may appear from these figures. Several borrowers have strong guarantors and/or have strong tangible support.

Most borrowers are small to medium size companies. We believe this is due to:

- 1) the availability of alternative (colones) long term funds until 1989;
- 2) large local companies' reluctance to incur the devaluation risk; and
- 3) the lack of aggressiveness on the part of the banks in selling these funds.

With foreign exchange additional earnings of \$30 million estimated from this funding and around 2.800 jobs projected for 1991, we can safely conclude that the project has been overall successful.

Given the risk utilization of funds in the final months prior to the

project termination date (9-3-90) and the backlog of potential borrowers that could not be accommodated (see Table I-1) plus the banks becoming alive to the possibility of using these funds, we believe the original \$19.65 MM allocated would have been used up within six to nine extra months at the most after the deadline.

Following the amendments brought about by mid 1989 the project has worked quite smoothly. The triangulation, despite its apparent cumbersome features, has now been considerably polished and should be as useful for the future, so long as the Central Bank has limits imposed on the banking system access to its rediscount lines, of which AIR is one.

Triangulation has also served in fostering increased cooperation within the private banking system.

D- KEY ISSUES

1) First and foremost, the BCCR must be convinced to release the prohibition it had imposed on recycling the reflows from the AIR funding. We understand, \$2 million of AIR funds have been repaid into the BCCR and are now "frozen".

This freeze has been imposed as part of a general clamp down on credit to reduce demand and inflation. Of course, under the terms of the loan agreement, the Central Bank must make these reflows available to the private financial sector or incur an event of default, meaning the entire \$7.65 MM, twenty five year loan could be called by AID and be immediately due and payable.

While inflation has accelerated considerably over the past six months, from 15 to quite possibly 35% p.a. at present, causing the Central Bank to clamp down hard on credit in its efforts to reduce it, we believe AIR reflows should be released as soon as possible. Reasons:

- i) funds are specifically to be lent to producers of foreign exchange the country badly needs;
 - ii) the inflationary impact, even before the foreign exchange is produced, is negligible, especially when funds are required to finance the acquisition of machinery overseas. The foreign exchange payoff in tourism is very fast.
 - iii) these funds have a multiplier effect on the economy since they generate new investments from overseas. We believe that, while the overall magnitudes would be hard to quantify, a significant portion of these new investments from overseas would possibly not have come in if it had not been for complementary local financing (See Cariari Magneticos and Coskoa, whose promoters had considered other countries before deciding on Costa Rica).
 - iv) the most telling argument of all, these funds directly increase the productivity of the country; it is by producing more that wealth is created.
- 2) We found that only one month commitment by the Central Bank, in reserving the AIR funds to the some private banks, may be short, especially when the financing is for long term projects. We, therefore, believe that while for working capital loans it can be left at one month, for project requiring a longer term the commitment could be extended to

six months.

The practice of committing funds for extended periods is prevalent in the USA and in Europe. It gives a borrower assurance of funding to carry on his investment plans in an orderly fashion without forcing upon him funds he does not need right away; besides, it is seldom a good credit practice to give a borrower, or leave with him, funds at a time he does not need them.

The parameters for committing funds for, say up to six months, could include:

- i) that the ICI has committed the funds to a specific borrower;
- ii) the borrower pays the ICI a commitment fee on the unutilized portion of the committed funds of, say 1.5% p.a., which the ICI will split 50/50 with the Central Bank.
- iii) if at the end of the six months period the funds, or part of the funds, have not been taken down, the borrower must pay the ICI an additional flat 2%.

Of course, broad conditions must be specified, to which a prospective borrower must adhere, if he is to keep a right to access these funds.

This should obviate the practice of some banks in disbursing funds, then having a borrower buy short term investment in colones yielding considerably less (when taking devaluation into account) than he has to pay on his US\$ obligation.

E- TRIANGULATION

Next to the prospective borrower's initial aversion to taking on the foreign exchange risk, as a factor in the slow initial utilization of the AIR project funding, a major obstacle was the provision of Article 63 of the Banking Regulation. This provision, essentially, limits an ICI's access to Central Bank funding (to which AIR funding belongs) to 50% of an ICI portfolio funded from sources other than the Central Bank.

In Costa Rica, and specially for private ICI's that are precluded from taking in demand deposits, which give a hard core of permanent funds, long term funds (beyond one year) are difficult to obtain. So, funding from the Central Bank, that provides both long term and a secure source of funds, is utilized to the utmost by private ICIs with access to it.

An innovative, though apparently cumbersome at first, scheme that would bypass this limitation was introduced in mid '88, two years after the approval of the AIR project.

In practice the "triangulation" turned out to be a "quadrangulation" between the Central Bank and the ICIs since it brought in two more institution between them; that is BANCO INTERNACIONAL DE COSTA RICA (BICSA) and the PRIVATE INVESTMENT CORPORATION (PIC).

BICSA functions and is, legally, a private bank even though is a subsidiary of the four state banks. An attempt was made to have the funds channeled from the C.B. to the ICIs through BICSA alone. The latter, however was unwilling to take on the private banking sector as a credit risk and to administer all the subloans that it expected would be made.

BICSA was, however, willing to take PIC as a credit risk and channelling all subloans through it. PIC is a development/merchant bank set up under the aegis of AID and is owned by some of the country's most prestigious companies, private banks and two international development banks (C.D.C., D.E.G.). At \$11.35 MM, PIC's net worth is over twice that of the largest private Costa Rican bank.

The triangulation scheme had another advantage. It not only allowed ICIs access to secure long term funding without impinging on the ICIs limit to the funding at the Central Bank; such triangulated funding represented an increase in the ICIs own funding and, consequently, increased the amount the ICIs had available at the Central Bank by 50% of the amount so triangulated.

The scheme received a good reception and marked a substantial increase in the utilization of AIR funding.

Simply put, an ICI that desired to triangulate would apply to PIC to fund a particular loan. On the basis of PIC's assessment of the creditworthiness of the ICI, PIC would fund it from funds it obtained from BICSA, which funds BICSA obtained from the Central Bank.

For acting as intermediaries, BICSA and PIC earn a commission/spread of 1.5 and 2% p.a., respectively.

According to senior officers of both BICSA and PIC the triangulation mechanism has, after considerable problems, functioned quite smoothly; both stated their willingness to resume that procedure whenever a qualifying ICI requested it. It must be recalled that from the moment the triangulation was approved and the first loan was disbursed under this

mechanism, it took almost five months.

Initial problems and still latent difficulties in the mechanism refer mostly to what may be called "force of habit" by both BICSA and PIC. Both reviewed the ultimate borrower, sometimes in detail, when either BICSA or PIC, did not feel comfortable with a particular ICI.

This "force of habit" has, in one instance, gone as far as BICSA demanding that the tangible support taken by an ICI be endorsed to PIC and by PIC to BICSA, after considerable going back and forth.

We believe that taking collateral by a triangulation intermediary goes against the philosophy of the AIR project; that is, providing funds speedily and at the criterion of the ICI. If either BICSA or PIC does not feel comfortable with a given ICI, then it is up to them not to intermediate with it.

The temptation, or "force of habit", by both BICSA and PIC to at least take one hard look at the final borrower, remain, we sense, strong. We think that if it is necessary to use the triangulation again, this temptation should be overcome just as it has by the Central Bank for direct funding of the ICIs under this program.

While manifestly cumbersome (to get the funds from AID to the final borrower we have six tiers: AID, CB, BICSA, PIC, ICI and finally the credit taker) the scheme must be viewed in the Costa Rican context. The Central Bank has established a funding limit to the resources the ICIs obtain from it. Considering the great scarcity of funds of all tenors and the uncertainty, the 50% limits per qualifying ICI's seems defensible. In the absence of such a limit, we can envision the great majority of ICIs funding

themselves solely or mostly at the Central Bank.

An obvious way to streamline the mechanism might be that of eliminating either PIC or BICSA from the mechanism.

While triangulating via BICSA alone would seem the most expeditious way, we doubt that in practice that could be achieved. After all, BICSA is the child of the State Banks, and we doubt it would be willing to take the credit risk vis a vis the private bank, especially for the longer term. PIC, we believe, is the obvious alternative. To do so, however, it would have to be eligible to access the Central Bank directly. Given its stature and importance in development financing, a way could be found.

F- REDUCTION OF AIR FACILITY'S AMOUNT FROM \$19.65 MILLION TO \$7.65 MILLION

1. Background

A Project agreement between the Central Bank of Costa Rica (BCCR) and the Agency for International Development (USAID) was signed on August 28, 1986 to establish a rediscount facility at the BCCR, for US\$19.65 million. It was open to all qualifying Costa Rican private banks for on-lending to private enterprises seeking to expand or improve their facilities for the production of non-traditional exports to third markets. The Project also had a training and technical assistance grant component of \$350,000.

The goal of the project is: 1) to stimulate growth in the agricultural and industrial sectors of Costa Rica by providing long-term

credit to businesses for non-traditional exports, resulting in increased levels of employment and foreign exchange earning, and 2) to capitalize a facility in the Central Bank as a permanent source of long-term dollar credit.

The facility was created to fill a gap in the country's capital market as term dollars were scarce. Previous AID-funded dollar credit projects were being drawn down and no new resources from other donors, with a similar purpose, were anticipated in the near future. Analysis taking these and other resources into account had shown more than adequate demand for the proposed facility 5/.

However, these expectations turned out to be high. The AIR Project moved very slowly. In September 1987 the first disbursement of US\$670,000 was made into the Advance Account of the Central Bank, based on their estimated loan requests from the ICI's, and in May 1988, twenty one months after the signing of the Loan Agreement, the first subloan of \$120,000 was disbursed. By the end of 1988 only \$1,012,000 were disbursed for subloans, despite the sustained efforts by AID to increase utilization of AIR funds.

2. Reasons for slow utilization of AIR Funds

Several reasons have been alleged for slow disbursement of funds, including:

5/ Agency for International Development. Project Authorization (1986).

- legal complications and administrative delays at the BCCR held up disbursements for a year (Loan agreement was signed in August 28, 1986 and preceding conditions were met until June 9, 1987).
- changing economic conditions; colon devalued 17.5% in 1987 and 14.9% in 1988, which in the mind of prospective borrowers, made dollar highly risky and unattractive. Exporters favored borrowing in colones because of the obvious advantages of having liabilities in a soft currency when a devaluation occurs;
- demand for AIR funds turned out to be weak, as substantial term colon resources became available through the BCCR;
- banks preferred to handle loans in local currency;
- lack of awareness of the Project among the business community since some banks were showing little interest to promote it.
- limitations under Article 63. Local currency borrowing was preferred by local banks and companies, accelerating the rate at which private banks reached their ceilings on access to BCCR funds 6/.

6/ Basically, Article 63 limits the BCCR total credit exposure to any bank to 50% of that Bank's portfolio funded from sources other than from the BCCR.

3. Demand Study for Dollar Term Finance for Non-traditional Exports. September 1988

Aware of the constraints mentioned above, AID contracted in June 1988 a Demand Study which was completed in September 1988 (Garrett Report).

The following are the main recommendations of the Garrett Report to increase demand of Project funds; most of which were accepted and implemented:

- Allow borrowers to use AIR funds for purchase of land or real state to be used for export or tourist oriented projects.
- Allow "triangulation" of AIR funds by the offshore subsidiaries of private banks or by Banco Internacional de Costa Rica (BICSA).
- Allow AIR funds to be used short-term, for working capital, purchase of materials, etc.
- Enable "financieras" to act as intermediaries.
- Companies supplying components or raw materials to exporters located in free zones should qualify for AIR funds.
- Establish a complementary credit line in colones, to be used parallel to AIR funds, by the same borrowers.
- Through the Central Bank, convert AIR funds to colones. An arrangement could be made whereby the Central Bank assumes the exchange risk.
- Allow financing of more than 70% of qualifying projects.
- Allow financing of projects to export non traditional products to the Central American Common Market.

- Increase the spread for the intermediating banks.

4. AID amendments to the Project Agreement

To increase the demand for Project funds, and taking into account most of the recommendations of the Garrett Report, the Project Agreement was made less restrictive through the following amendments:

- to authorize the financing of tourism, free zone projects and exports to Central American countries (September 30, 1988).
- to authorize a "triangulation" arrangement which would permit ICI's to access project funds indirectly, from one or more financial institutions without being obstructed by the BCCR's Article 63 limits (February 1988).

Other amendments included:

- Allow working capital financing.
- Allow private "financieras" to participate in the project (only private banks were eligible).
- Raise the maximum loan size from \$350,000 to \$500,000.
- Reduce the maximum rate that could be charged to the final borrower by 1% (LIBOR + 2%) and reducing likewise the cost of funds to the ICI's from 1.5% to 2.5% below LIBOR, without reducing the spread for the ICI's.

5. Results

After these amendments were introduced, particularly the "triangulation" process, AIR funds became more attractive and the private

banks' borrowing capacity was increased by nearly \$5 million within one year. As of May 1990, approximately \$6.3 million (32% of total) had been channelled through 10 private banks.

AID, however, considered that the amendments implemented fostered little improvement in the disbursement rate. Therefore, in June 1989, AID decided to deobligate \$11.99 MM of the Project's Loan portion, reducing the loan from \$19.65 MM to \$7.65 MM and extending the completion date to September 30, 1990.

Furthermore, it was recommended to deobligate the training and technical assistance grant portion of \$350,000, which had not been used, for some legal difficulties at Central Bank level.

6. Key Issues

In evaluating the impact of the AIR funds on the private financial intermediaries several issues should be addressed.

Was there real demand for dollar term financing at the time the Project was designed and launched?

Banking officers interviewed consider that in mid 1986 there was sufficient demand for resources. However the main constraint to use AIR funds was that in 1986 considerable alternative long term colones funding through the C.B. became available.

Costa Rica entrepreneurs preferred, at the time of the launching of the project, to assume obligation in colones rather than in dollars, due to the availability of resources in colones and to negative experiences with term dollar indebtedness in the past. While this reluctance still lingers,

circumstances have changed.

Had these considerations been taken into account when the Project was designed, difficulties in disbursing funds could have been foreseen, and therefore a longer period of time to achieve full disbursement of funds could have been allowed.

Was there real justification to deobligate the facility by \$11,995,000?

In spite of the slow demand for AIR funds during the first two years, it is evident that the "triangulation" scheme served to accelerate disbursement of funds during the third year. Therefore, to deobligate US\$11.9 million at that time seems to have been premature, since the "triangulation" mechanism was being consolidated.

The main spur to the utilization of AIR funds were: a) triangulation and b) the increasing scarcity of colones term funds.

In the opinion of the Central Bank's Manager, the main problem of AIR Project to channel funds was the perceived high exchange risk by the final user.

Conditions should have been reviewed at an earlier stage of the Program, perhaps by end 1986 or early 1987. Suggestions such as the ones proposed by the Garrett Report, to establish a complementary credit line in colones to be used parallel to AIR funds, by the same borrowers, or convert Air funds to colones, could have been studied and recommended prior to deobligating more than half of the allocated funds.

Private bankers and the Central Bank concur that the demand for AIR funds is high. FODEIN (Central Bank Department for Development Funds)

told us that BCCR contracted a US\$17 million loan with CABEL (Central American Bank for Economic Integration) for the financing of industrial projects. An IDB US\$45 million loan for agricultural credit was moving slowly though.

The cost of the AIR resources (maximum LIBOR + 2 points), now 9,25%, in U.S. dollars, is quite attractive, when compared to the prevailing interest rates in colones ranging to an effective 45-48%.

G- DEOBLIGATION OF THE US\$350.000 GRANT COMPONENT

Training and technical assistance grant funds of \$350.000 needed to be deobligated because they were not used, due to some legal impediments found after the agreement was signed. The grant funds would be provided for project evaluation, training, and technical assistance to private lenders not familiar with this type of term lending.

It is unfortunate that these funds could not be used for the purpose called by the Project. Some of the bankers were unaware of its existence, and others could have proposed ways to access these funds which certainly would have improved the lending capacity of their staff. Anyway, it should be mentioned that the banks have other possibilities for training such as Cinde, and that some of them do their own preparation of their people.

In any case, this deobligation didn't affect the final results of the Program.

**IV. GENERAL PERFORMANCE EVALUATION OF INDIVIDUAL BANKS'
AIR SUBLOAN PORTFOLIO**

A- BANCO DE COFISA

Background

Banco de COFISA was the first and most active bank in utilizing AIR funding which it took directly from the C.B. (no triangulation) with \$1.61 MM committed, of which \$1.47 MM were outstanding as of January 15, 1991. Although AIR funded loans represented 28% of the bank's total portfolio (by far the highest percentage of any ICI), AIR lending made up 6% of the total COFISA GROUP portfolio. Banco de COFISA started disbursements in May 88. Of the seven sub-borrowers, four are in agribusiness, one is in industry and two in services. Four are start ups. AIR funded loans were instrumental in assisting in the creation of 508 new jobs and generating \$9.83 MM of foreign exchange earnings.

Compliance

Of all the private banks, COFISA has the longest and broadest expertise in making development loans, and, apart from feeling comfortable in this field of lending, it actually thought it could only make development loans with AIR funding. So, except for two loans whose development nature may be arguable, five, of the seven, are definitely not commercial ones. Five borrowers are still losing money. Given this strong development slant of the AIR portfolio to borrowers engaged solely in

exporting, it can safely be stated that AIR funding achieved its objective with COFISA.

A company that is owned by the owners of Banco de COFISA has a 20% ownership in a borrower partly funded with AIR funds. This is in line with development/merchant bank activities and project lending.

Credit Administration and Controls

There is an embryonic account officer system in which individual borrowers are assigned to specific credit officers; however, account officers do not have any credit authority. Indeed, management only has a \$10,000 credit limit with anything over that going to the board. COFISA has an extensive analysis section for its loans with projections for its term lending and sensitivity analysis for most term loans. In the loans we looked at, however, presentations were somewhat limited as far as the prose section in explaining major components of the numbers that showed unusual magnitudes. Banco de COFISA reserves for loan losses at \$85,000 amount to 1.5% of its loan portfolio.

Doubtful/Stagnant debtors

Only one loan with a remaining \$40,000 balance was 30 days past due.

All loans, except one paying LIBOR, are paying the maximum allowed, LIBOR + 2% p.a.

COFISA included AIR funding in its permanent advertising campaign.

Assessment

COFISA has taken the most aggressive and best advantage of AIR funding and has now one of the largest pipeline of potential AIR loan (five potential borrowers for \$1.5 MM).

We also believe that Banco de COFISA's initial AIR portfolio was strongly development oriented, considering the commercial source of funds represented by the AIR project. If and when this source of funding becomes available again, we understand COFISA will veer more to commercial banking propositions.

B- BANCO GERMANO

Background

With total commitments of \$1.56 MM in AIR loans (to four borrowers), Germano was the third (of ten) bank in total utilization of AIR funding with current outstanding of \$1.12 MM. AIR funded loans represented 13% of its total portfolio, the second highest percentage, with two borrowers triangulated with PIC. It started disbursing in October 89, soon after the triangulation was introduced. Of the four borrowers, one is in industry and one in agribusiness, both in existence for several years but with a very major expansion plan. The remaining two, represented the same venture, melon cultivation and export, that were start ups, but belong to the strong Grupo Ganadero. These loans are expected to produce foreign exchange earnings of at least \$2.8 MM with an additional 355 jobs.

Compliance

Credit accommodations to the two companies belonging to the same group was given to get around the \$500,000 limit imposed per borrower since the two companies act as one in assets utilization, production and sale. The total amount so lent was \$738,000. One of the two borrowers, however, prepaid its obligation for \$458,000 so the "theoretical" excess is now academic. It should be mentioned, however, that the loan agreement establishes the limits to one company, not to a group of companies. Anyway, there is a provision that the limit could be exceeded with prior AID consent. AID was not requested to concur in this.

A loan for \$376,000 to an agricultural borrower with a stated \$242,000 net worth, total debt of \$681,000 and accounts receivable, mostly from affiliated companies, representing 19 months of sales, is definitely not a commercial proposition.

Germano has feasibility studies done by outside consultants for these loans but no in house analysis. Credit decision are rubber stamped at the board level upon recommendation by the manager. There is no account officer system in place and the credit officer corp is composed of new recruits. The follow up system is "ad hoc". While borrowers "appear" defensible from a credit standpoint (sponsors -Grupo Ganadero- long established garment industry and a 10 year established agribusiness company), the bank's own organization, as far as having learned and taken advantage of the AID funding is concerned, leaves one with the impression of a good amount of confusion.

Banco Germano has reserves for bad loans, at \$420,000, amount to

4% of the portfolio.

Assessment

Banco Germano states it has at least three potential borrowers for \$1 MM of AIR funds. We believe that the unconventional organization (or disorganization) of the bank may well prove unwieldy if more loans like the ones described are put on the books.

The Bank senior officers could well benefit from intensive courses in credit and bank management.

C- BANCO CONTINENTAL

Background

Continental has only one AIR funded borrower for \$90,000 which it has syndicated with Banco Federado as it did not have any more room under its borrowing limit with the Central Bank. Although Continental is one of the smallest private banks, this loan represents still less than 1% of its total portfolio. The borrower is in reality Continental customer even though Federado participated with \$261,000 versus Continental \$ 90,000.

Compliance

The loan is to a well capitalized US computer manufacturer that is transferring most of its assembly operation from Korea to Costa Rica. Although the total amount committed by the two banks, \$411,000 is relatively small in relation to the total cost of the project (over \$4 MM).

the US company had considered another country before deciding on Costa Rica. The availability of AIR funds may well have been a factor in its choosing Costa Rica as a location for its assembly plant.

Continental is a well organized, conservative bank with a very low loan delinquency. It, also, thought wrongly that AIR funding was solely for project lending and, in addition, was not aware of the possibility of triangulation (even though it was widely explained in seminars), thus avoiding the ceiling on its borrowing at the Central Bank (see Section III.E on triangulation).

Credit Administration

From the one loan we looked at, the credit file was well organized with follow up memos on periodic visits to the borrower. There was a well documented credit presentation with projection and sensitivity analysis.

Assessment

Continental has considerable experience in syndicating in Costa Rica and in development lending. Its conscientious follow up system appears professional and the bank could make good use of a long term rediscount facility with the onus on it to package and follow up on its loans. Its Head of Credit states that they could found at least three borrowers for \$500,000 if such funds became available again.

D- BANCO DE COMERCIO

Background

Comercio, also, believed wrongly, that AIR funding was solely for project financing and that its access to these funds had to be triangulated through PIC. For that reason, not having had the expertise of a bank like CDFISA in development lending, it only has one minor AIR funded loan on the books for \$150,000 representing about 0.5% of its portfolio.

The loan is to an "ecological" hotel that just took in its first guests. It has created 10 new jobs and is expected to generate \$250,000 in foreign exchange earnings for this coming year.

Compliance - Credit Administration

The loan complies with the parameters stated in the amended reglamento. Comercio has a well established account officer system with a core of credit professionals, although credit decisions are made at credit committee and board level. In the case of the AIR funded loan, it definitely appear that there was an enormous amount of analysis for a \$150,000 loan with, we think, an unwieldy amount of going back and forth with the triangulating parties (PIC and BICSA) with the latter demanding that Comercio take additional support.

On the other hand, Comercio's officers manifested to us they look to it as a learning experience and stated their interest in working, directly, with the Central Bank in booking more such loans, if and when funds become available. Comercio would have at least three potential borrowers

in the pipeline for a total of \$500,000.

We think the loan it booked to be on the weak, though passable side for a development loan.

Assessment

We believe Comercio to be eager and well organized to take on more term lending and to be capable of handling them on its own. Though small, its participation in the AIR project appears to have been a good learning experience.

E- BANCO FEDERADO

Background

Though new on the financial scene, Federado has made a creditable effort in utilizing AIR funding with total committed funds of \$670,000 to three borrowers representing 7% of its total portfolio. It started utilization in November 1989 with no triangulation. It still had plenty of room left before reaching its ceiling with the Central Bank. The loans are distributed one each to agriculture, industry and tourism.

The borrowers are all start ups although one is a subsidiary of a well established US firm that is transferring most of its assembly operations from Korea to Costa Rica. These loans are expected to be instrumental in generating 660 new jobs and in producing \$4.32 MM in foreign exchange earnings in 1990.

Compliance

The three loans granted were all long term; of these, only one has one year grace period. A loan with \$70,000 outstanding is not expected to produce any foreign exchange in the near future as the implementation of the project is running considerably behind schedule. The loan was to a new venture to produce tropical plants for export.

One loan is syndicated with Banco Continental; this is the only borrower under the AIR project that has been syndicated and is a good example of cooperation among private commercial banks as had been advocated in the project paper. It must be stated, however, that Federado was called in to accommodate this borrower by Continental which had reached its borrowing ceiling at the Central Bank and apparently it did not inquire that it could, after all, triangulate with PIC, thus not needing to syndicate the loans.

Credit Administration

Federado has a well established account officer system with in depth in house financial analysis and proper periodic follow up visits with memos to the files. The Credit Committee, composed of Senior Credit officers has, by Costa Rican standards, an adequate credit limit of \$100,000 with anything over that going to the Board.

Individual credit officers, however, have no limits as of yet. Federado has set up reserves for bad loans amounting to 7.5% of its current portfolio. These comparatively high reserves are dictated by some doubtful assets the bank had to take on its books from its parents

(Fedecredito), not by doubtful loans it made itself.

Assessment

Despite writing on the books all development loans with AIR funding, Federado can still be termed a conservative bank, perhaps the most conservative among the private banks. All AIR loans are backed by good support and/or strong guarantors, with no losses expected. Senior credit officers state they would have at least three potential borrowers of AIR funds for a total of \$500,000.

F- BANCO COOPERATIVO

Background

Bancoop, also, has just one AIR funded loan to a fern producer with \$172,000 originally committed of which \$120,000 is currently outstanding. The loan was to a new project which is way behind schedule.

Against \$250,000 foreign exchange it had been expected to generate, it barely sold \$40,000 during the first six months of the present fiscal year. It has however, generated the 77 new jobs that had been anticipated. Outstanding represents a negligible percentage of the bank's loan portfolio.

Compliance

The AIR borrower is a company belonging to the same owners of American Flowers, a pioneer and a leader company in flower cultivation and exports in Costa Rica and now a successful enterprise. In fact, the

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borrower can be considered as a subsidiary of American Flowers and it is strongly supported by it.

For that reason, although the subsidiary firm may be showing a weak financial condition in the first six months of operation, the company is up to date in its payments. The loan is guaranteed by American Flowers and, in addition, it has real estate support valued at \$1 MM versus \$120,000 outstanding.

Credit Administration

Bancoop has a well developed account officer system in place with its own analysis, cash flow projections and in many cases, for term loans, sensitivity analysis.

Bancoop has had access to long term funding sources for years, and has a well developed analytical and follow up capability.

Assessment

Bancoop could well utilize the triangulation and would, according to a senior credit officer, use almost immediately \$500,000 of AIR funding for two borrowers. The triangulation would come in very handy right now since Bancoop is prevented, for a few more months, from using the facility at the Central Bank due to some problems with part of its portfolio, relating to its loans to Cocoa Producer. While the amount involved does not undermine its financial soundness, the Central Bank prohibition precludes Bancoop from temporarily sourcing funds at the Central Bank.

G- BANCO INTERNACIONAL DE COSTA RICA (BICSA)

Background

While it is a subsidiary of the four state banks, BICSA, is considered, and is, legally, a private bank. As a sub of the State Banks, however, it has no major funding problems in colones, while in US\$ it has, for its size, access to almost all the dollars it needs since it is affiliated to BICSA, Panama and Miami, which have adequate dollar funding.

BICSA committed two loans totalling \$110,000, a negligible percentage of its portfolio of which \$100,000 was prepaid as the borrower was bought out.

Both loans were to industry and while one for \$14,000 still outstanding was to a new company, a sub of a Los Angeles garment manufacturer, with an adequate net worth and already very profitable, can safely be said to have been commercial loans.

Credit Administration and Assessment

BICSA has a considerably more streamlined organization than its parent banks though not quite so agile as most strictly private banks. According to its Head of Credit, it would now utilize at least \$300,000 of AIR funding to two borrowers if such funds were available.

H- BANCO BANEX

Background

BANEX was granted a total of US\$ 681.000 of AIR resources for term lending, amount which represents 9% of the total AIR funds disbursed and 2% of the Bank's loan portfolio. The outstanding balance as of December 1990 was US\$482.000.

Between December 1988 and February 1990, BANEX financed five projects in the agroindustry, industry and tourism sectors. These loans financed expansions of existing projects, and were instrumental in assisting in the generation of US\$ 1,75 million in non-traditional exports and 180 new jobs. Furthermore, four loans were triangulated through PIC.

Compliance

Of the five loans granted, one did not comply with AID procurement policies on Project expenditures, as goods acquired (sewing machines) were from improper source of origin. BANEX had to prepaid US\$93.843, and refinanced the borrower reducing the outstanding of AIR funding by that amount.

Doubtful/Stagnant debtors

Another AIR loan was constituted into an OPAB (short-term investment) for six months to be used as guarantee to a "bridge" loan of \$119.071 given by BANEX to the sub-borrower to solve liquidity problems. This OPAB was released after exports of \$65.500 were made in mid-1990

to cancel partially the bridge loan. The AIR loan was then disbursed. As of January 1991, this company is 90 days past due with the AIR loan, and 240 days past due with another BANEX loan.

BANEX keeps a loan loss provision of \$350,000, which represents 1% of total portfolio.

Credit Control and Administration

BANEX has twelve credit officers and analysts who are in charge of project analysis and administration. Credit proposal involves analysis, cash flow projections, and, in some cases, sensitivity analysis. The approval process consists of a Credit Subcommittee, a Credit Committee and the Board of Directors. For each loan there is appropriate documentation including History of the Loan, Financial Reports for the last three years and Contracts. The Bank has adequate computer reports to control the Subloan Portfolio.

Interest rate and spread

The interest rate charged was LIBOR (6 months) plus 2 percentage points, the maximum allowed by the Reglamento. BANEX receives a spread of 4.5%.

Assessment

It can be said that the five loans granted served well the Project objectives as far as increasing the availability of dollar term funds to finance projects resulting in an increase of foreign exchange earnings and

jobs created. Credit Officials report having acquired some expertise in development lending, although BANEX had acquired capability in term lending during the last 10 years. We found BANEX to be one of the best organized banks in the national financial sector.

Senior credit officers state they would have about seventeen potential borrowers of AIR funds for a total of \$8.5 MM.

I- BANCO INTERFIN

Background

INTERFIN was granted a total of US\$1.92 MM of AIR resources for term lending, representing 25% of the total AIR funds disbursed and 4.46% of total Bank's loan portfolio. The outstanding balance as of December 1990 is US\$1.5 MM.

Between August 1989 and January 1990, INTERFIN financed six projects in the following sectors: agroindustry (1), industry (4) and tourism (1). Of these, four were expansion of existing projects and two were new projects. The loans generated \$8.9 million in non-traditional exports and 910 new jobs. All loans were triangulated through PIC.

Compliance

An AID internal report (August 1990) found that the Project "had generally not accomplished its stated goal of stimulating the non-traditional export sector of Costa Rica's economy" as these funds were basically intended for development lending, meaning that the end

result is to make credit available to businesses which would have had trouble obtaining adequate finance in the absence of the AID project. This premise was used on one of the loans made by Banco Interfin of \$500.000.

We believe that AIR funds were intended for commercial lending, as these are market-rate loans for which the Banks earn a spread of 4.5% plus a 1% commission. Therefore, it is our opinion that the \$500.000 loan granted for a new industrial project, which in 1990 generated \$240.000 in foreign exchange and 475 new jobs, did comply with and accomplished the main Project objectives.

There are no arrears in AIR loan payments. On the contrary, one borrower has prepaid voluntarily part of its outstanding balance. Sub-borrowers are exporters of goods and services. INTERFIN maintains provisions for loan losses of \$382.514, which represent 0,8% of total loan portfolio.

Credit Control and Administration

Six credit officers and three assistants are in charge of total loan portfolio. Credit analysis involves cash flow projections and sensitivity analysis. The execution process consist of: the Credit Officer presents credit proposal; the Executive Committee recommends; and the Board of Directors approves. For each loan there is appropriate documentation, including History of the Loan, Financial Reports and Contracts. The Bank has adequate computer reports to control the Subloan Portfolio.

Interest Rate and Spread

LIBOR (6 months) plus 2 points and a spread of 4.5. A loan term for working capital was 7 years instead of 2 years specified by Reglamento.

Assessment

The six loans granted served well the Project objectives of increasing foreign exchange earnings and new jobs. Two new projects (industry and tourism) gave credit officers opportunity to improve their credit analysis and monitoring expertise, although INTERFIN had acquired capability in term lending in the past years. Present demand for AIR resources is high, as there is no availability of various sources of funds like in the past. This demand is estimated at \$1 million with 4 borrowers. We found INTERFIN to be a very dynamic private financial institution.

J- BANCO DE FOMENTO AGRICOLA (BFA)

Background

BFA was granted a total of US\$670.000 of AIR resources for term lending, representing 0,03% of portfolio and 9% of AIR Funds. The outstanding balance as of December 1990 is equal to the amount granted.

During the period January 1989-June 1990, Banco de Fomento Agrícola made six loans two of which were triangulated through PIC, to finance three new projects in the agricultural and industrial sectors. Two projects generated US\$ 35.000 in foreign exchange and the third one is projecting to export US\$1.1 million in 1991. All three projects generated

49 new jobs.

Compliance

BFA complied with the terms of the Project Agreement with respect to the six loans granted.

Doubtful/Stagnant debtors

One loan for \$86,000 is 300 days past due. This situation is mainly due to problems with a trader in USA and to the fact that the company has been unable to export, and therefore it does not generate foreign exchange earnings. BFA keeps provision for loan losses in the amount of \$230,000, which represents around 0,01% of the total portfolio.

Credit Control and Administration

Seven credit officers are in charge of project analysis and administration. Credit proposal involves analysis, and cash flow projections. The approval process consist of: a Credit Officer who recommends, the Credit Committee approves and the "Sección Formalización y Cobro" executes. For each loan there is appropriate documentation including History of the Loan, Financial Reports and Contracts. The Bank keeps adequate computer reports for control of Subloan Portfolio.

Interest Rate and Spread

LIBOR (6 months) plus 2 points. Banco Fomento Agrícola receives a

spread of 4.5 percentage points.

The promotion of AIR funds was done directly by the credit officers to actual and potential clients.

Assessment

Except for the company that is not exporting, the other two firms are complying with the objectives of the Project regarding actual and projected foreign exchange and jobs generated. Bank's capability of development lending existed before AIR funds; improvement was acquired in the specific products.

Bank officers estimate pipeline of two loans at \$500,000.

V. ECONOMIC IMPACT OF THE AIR PROJECT

A- INTRODUCTION

As it was stated before, a new type of development model for Costa Rica, based on exports of non-traditional products to markets outside Central America, started to develop in the country from 1982 onwards. The government at that time began to introduce several economic policy changes in order to encourage exporters and other businessmen to join the new strategy of development.

The stability and confidence that the new model created in the country changed in part the people's attitude and attracted also foreign investors, which qualify the strategy as successful. Some of the recent published data shows that from 1980 to 1988 the percentage of new exporters to total exports increased from 16.4% to 35.2% (7), and also these new exports, which represent 10.98% of 1982 GNP, grew to 28.37% of 1988 GNP (8).

(7) Segura, Olman, The Accesion of Costa Rica to the GATT. Thesis for the M. Sc. in Economics, University of London, 2MWC. England, September, 1990.

(8) Corrales, Jorge y Monge, Ricardo. Exportaciones no tradicionales en Costa Rica. Econefin. 1990.

The outstanding internal policy instruments for this model becoming a success are flexible exchange rate, tariff reforms, creation of export incentives, positive interest rates, creation of Free Zones, credit for new exporting projects, and several institutional reforms to help exporters and introduce a new technology.

As Table I-9 shows, there was not only recovery of total exports and traditional exports, but also the non-traditional exports have been growing impressively, representing more than 50% of total exports in the last 3 years.

This outstanding performance on exports was produced, in spite of external barriers, such as the highly protected markets in developed countries, including many non-tariff barriers that particularly affected non-traditional exports. But of course, it is important to recognize that besides the national effort and government commitment to the new model, there was an important opportunity created by the Caribbean Basin Initiative (CBI) and capital flows in loans from international agencies which helped the country to start the new project. Without these facilities, is very likely that no investor or businessman would take the risk of start or expand existing projects.

If we consciously study how much represent those capital flows, and particularly the AIR loan to the total project costs, or total credit disbursed during these last years, it may be identified as a very small amount; however, it is important to stress that due to the scarce capital available in the country, especially for medium and long-term lending, these quantities become an essential inflow to support this model and its

successful performance.

Table I-10 shows the non-traditional exports by economic sector, maquila and tourism from 1987 to 1990. It is important to notice here that each one of the sectors grew consistently each year, sustaining the economic recovery that the country began since the new model started.

As pointed out before, the AIR loans of course helped in this process. Credit at this stage, contrary to what some people believe, is very important because now is when all the adjustment process from the old to the new model is already in operation, and it is necessary to proceed with inflows of capital that allow the country to continue its economic growth.

Table I-11 reviews the behavior of each sector of non-traditional products. From 1987 to 1989 each sector increased their weight in the total non-traditional exports, except industry. Several internal and external reasons, which are not the object of study here, may be the cause of this conduct. But it is important to observe that this is the sector which received less percentage of the total AIR loans (approximately 20%); however, from 1988 to 1989 when most of AIR loans were disbursed, the industrial exports grew 1.77%.

B- THE IMPACT OF THE AIR PROJECT

It is virtually impossible to quantify accurately the positive effects that these particular funds contributed to the national economy, since many loans can not be appointed to specific activities in the companies.

For instance, some were made for working capital, which include the company as a total; others for increasing the plant capacity or to develop general infrastructure, that can not be identified with any particular product.

However, in order to have a close approximation of the particular impact of the project, the basic information was gathered from two different sources. First, we checked the figures that the banks have in the AIR different files and discussed them with the credit officers. (This is shown as table I-1). Second, we visited 20 projects and talked directly with top managers or with the owners.

Eventhough the sample chosen was not at random, these field visits gave a very good idea of the reality of the different projects and somehow permitted to ponder the general figures from the banks.

In Table I-13 the results of these visits are shown. Note that the sample represents 65% of the total companies and 82% of the total loan amount, which is a very high coverage.

To obtain the figures shown in this report we took the data from the banks and adjusted and complemented them with the information gathered in the field visits. The projections for 1991 was done based on the results obtained in the field visits, generalizing for the total companies participating in the project.

To gather all this information we used the questionnaires shown in Annex III.

1) Exports

From the evaluation of both sets of information, it can roughly

be established that with the AIR loan for 1990 a total amount of \$20 to \$24 million was exported, which represents something close to 2,5% of the total non-traditional exports. According to the results of the sample, for 1991 it is expected an increase in exports of 50% for the projects financed with this loan, which clearly will elevate the participation in the total non-traditional exports.

2) **Jobs and people supported**

With respect to the jobs generated by the projects (permanent and temporary), the same information permits to estimate an amount between 2.400 and 2.600 for 1990, which represents almost 10% of the yearly estimated new jobs created and around 5.5% of total jobs of non-traditional exports with Export Contracts in 1989 (see table I-12, the employment information for 1990 is not available yet). For 1991, the companies visited estimate an increase of near 15% in employment. Part of this employment are new jobs created; part are already created with the loan.

These figures mean that the people supported by the loan are around 10.000 in 1990 and an estimated 11.500 for 1991.

The total salaries paid in 1990 is close to CR \$30 million and the increase expected for 1991 is near 30%, which will be the result of employment and salaries increment. This amount does not include social charges.

3) Costa Rican Value Added

In general, a high use of national raw material and a high value added was observed. In projects belonging to agricultural, agroindustrial and tourism the value added is over 85%, projects related with industry are usually over 35%; maquila companies, of course, show smaller percentages of value added.

C- SUMMARY

The figures presented above show that the AIR loan represents a modest amount of the nation's totals. However, it has to be considered that the total amount of the loan is also modest compared with the total credit, that the projects are very new, that some companies are just starting and that the Central Bank will have to reflow the recuperations. Of course, on long term basis the impact will be larger.

At this point it is important to consider that:

- the majority of the companies are successful,
- only 5 of them have arrears,
- just a few of them have difficulties with their markets,
- the majority are either exporting non-traditional goods to non-traditional markets or selling tourist services,
- 22 loans are already generating foreign exchange earnings and 6 will start this year,
- the average salary on a monthly basis, with no social charges is around CR ₡13.000,

- the increase in employment due to AIR funds is significant,
- the regional effects of some companies established are further better than expected,
- some of the successful projects have encouraged other small farmers or businessmen to start up new projects with their advice, assistance and support.
- many of the projects financed are new ones that will improve the local capacity to generate exports and foreign exchange in the future.
- with \$7.6 million, over \$20 million of exports have already been generated.

It is also very important to note that the results that we are looking now correspond to the first steps in a very long chain that is just starting. In effect, many of those projects are in the first stages; most of them will take, perhaps, one or two years to be completely developed. At that moment, the results will be multiplied.

It is also necessary to state that this is the beginning of a 25 year program and that the Central Bank already has recuperated principal payments which should start relending very soon. When this will happen, the results will be even better.

Some of the projects have problems related to trading difficulties in external markets. That is the case of Motores Rivera and Hotel Maguil.

In general, even though many of the projects are new ones, some are already consolidated and other projected cash-flows indicate very positive results.

VI. ANALYSIS OF THE PROJECTS VISITED

Site project visits were scheduled to evaluate individual performance of borrowers and AIR fund impact. A brief description of these visits is presented below.

A- MADRES DE FLORES, S. A.

Terms of the loan

This loan was granted by CDFISA Bank. Term payment is 6 years, including 2 of grace. The total amount was \$500,000.

General Information and Performance of the loan

Madres de Flores, S. A. is an agroexport enterprise which cultivated a variety of flowers until 1989. After they received the AIR loan in 1989, they started an expansion of their activity cultivating ferns for exporting to Europe. The enterprise began to increase their labor force to 27 persons in 1990, from which 7 are administrative personnel and the rest are field workers.

They are up to date with the loan, and though the company started just 3 years ago, in March 1987, they are growing in experience and compliance.

Perspectives

The AIR loan is definitively producing positive effects in the

enterprise, and it seems will continue in this way.

The company increased the foreign exchange earned; in fact fern exports was \$396.000 in 1990, the first year, exporting them. Flowers export also increased considerably.

Equally, they are expecting to reach \$1400 thousand in total exports in 1991, with approximately 130 workers; hence, using the 1990 proportion we may approach the effect in additional foreign exchange and permanent employment produce by the loan, in approximately \$854.000 and 65 persons respectively for 1991.

B- ZONA FRANCA METROPOLITANA

Terms of the loan

This company obtained 2 loans from Banco de COFISA. One of them was for an amount of \$150.000, with a rate of interest of Libor plus 2%, to be paid in 5 years with 3 years of grace. The other was a total of \$350.000, at a rate of Libor plus 3% in same conditions for payment.

General Information and Performance

This company, as its name indicates, is a free zone. It was established two years ago in a strategic place, close to an industrial area and the airport, with very good road communication.

The smallest loan was used for the construction of different areas that belong to the total infrastructure of the free zone, such as administrative offices, internal bus stop and a building for medical

services. The other loan was used for the building of a warehouse, where an American electronic company is located right now.

It is clear that the business is oriented to improve total exports of the country and that the loan helped in this direction. Nevertheless, it is very difficult to define the particular impact of this loan since it was used for general infrastructure.

Anyhow, it is possible to explain what is happening in the warehouse that was constructed. There, a "maquila" company is going: Reliability Incorporated from Houston, Texas. This is an electronic firm, that produces microchips for computers and sells them to USA, Ireland and Singapore. The direct employment of this company is almost 150 people and projected exports for 1991 is over \$360.000.

Perspective

The free zone is relatively new, but it doesn't mean that is a small project. On the contrary, it is a growing company with great expectations. As a matter of fact, they keep building warehouses, because the demand is increasing. It seems to be a very well planned company.

C- FINCA NABORI, S. A.

Terms of the loan

This loan was granted by COFISA Bank for 7 years including 2 of grace.

The total amount was \$105.000.

General Information and Performance of the loan

Finca Nabori, a company with 6 years experience exporting flowers to USA, received the AIR loan in November 1987. With the loan they expanded their production area in 4300 square meters approximately, made a well and bought an adjacent plot. All these made possible for the company to achieve and surpass the break-even point. We consider this case, as a typical one where if funds were not available at that time, they just go bankrupt. They needed to finish building a "flower nursery" in order to increase this exportable production and to reach the critical point, but without this capital they could not do it.

The company exported \$288.000 and \$210.000 in 1989 and 1990 respectively using 27 and 22 people in each one of those years. The expanded area demanded no less than five persons during 1989, however, they considered necessary to fire 5 people in 1990 due the cost they represent in their weak financial situation. In this respect, it is necessary to point out that the project still faces difficulties and liquidity problems since the flower (pomas) exporters were affected by the countervailing duty in the USA customs, and they needed to renounce to receive the Certificado de Abono Tributario (CATs) from the Costa Rican government, or on the contrary they could not export. This represents at least \$20.000 less for the company each year.

Perspectives

The projections for 1991 are to export at least \$250.000 with 23 workers, and to continue planting in the new plot which produces tropical

flowers nowadays. In the same way, the enterprise is already adjusted to costs changes that affected them, and restructured all their COFISA loans in May of 1990, with which they expect to work much better from now on.

D- COSTA RICA EXPEDITIONS

Terms of the loan

The loan was granted by COFISA for a total of \$150,000. Term payment is three years including one of grace.

General Information and Performance of the loan

Costa Rica Expeditions is an ecotourist enterprise, which has several types of adventures, tours and hotels all over the country. They received the AIR loan in the second semester of 1990, meaning that there was not a concrete additional foreign exchange effect from the loan investment during 1989 and 1990.

The company is performing very well its field and is paying regularly the obligation.

Perspective

For 1991 it is expected that Costa Rica Expeditions will switch from producing \$2.9 and \$3 million in 1989 and 1990 respectively, to \$3.5 million. From this \$3.5 million total, at least \$150,000 may be attributed to the loan, taking in account that they built six cabins in Tortuga Lodge and used some money finishing Hotel Monteverde.

The company expects to have 19 additional workers in 1991, from which at least 10 are due to the new investment; but also the construction generated 15 positions or more during 1990. It is important to underline that in this case the labor force employed is from very rural areas where underemployment and unemployment rates are the highest of the country.

E- PLASBANA

Terms of the loan

This loan was granted by Banco de Fomento Agrícola (B.F.A.) for an amount of \$500.000. Term of payment is 7 years including 2 years of grace. The rate of interest is Libor plus 2%.

General Information and Performance of the loan

This is a new company located in Limón, that just started its production during January of this year. It is dedicated to the production of plastic bags that are used in the export of bananas; it is an indirect exporter.

It is owned by Corporación Financiera de Productores de Banano, a group composed by banana producers.

In this sense, the company has a captive market.

The loan was used to buy machinery and to build the construction. So far, it has been attending the loan on time and with no problems.

Perspectives

It is expected that the area dedicated to produce banana will keep its growing for the next years. For this reason the market will absorb the totality of the plastic bags production.

PLASBANA executives feel they will need to expand the plant capacity in the near future.

The company is expecting to assemble for Standard Fruit Company and Uniban.

F- MOTORES RIVERA

Terms of the loan

This loan was granted by Banco de Fomento Agrícola. Term payment is 5 years, including 1 year of grace. The total amount was \$86.000.

General Information and Performance

This company is primarily dedicated to the production of fire extinguishers. In the past, the owners had been importing these extinguishers from the United States, for local use in Central and South American markets; the company was some type of representative of the American company with whom it had a long business relationship.

This circumstance made up the idea of producing the extinguishers in Costa Rica to export to the United States and the regular markets. In this way, the cost of production would be lower than in U. S. A. and the market would be assured. In fact, the American company was going to

participate in the investment.

The loan was requested for pre-operative expenses and to import some machinery. But something happened with the Americans, and the Costarricans not only lost their partner, but also lost the market.

The company has exported just a little to Guatemala and Ecuador; nothing to U. S. A. After they lost contact with their American partners, they have not done much about marketing in other countries and they are basically serving the internal market.

For that reason they are not attending the loan on time.

Perspectives

Under the described conditions, it is clear that this project may go bankrupt. If they do not find external markets, they will fall. The quality of the product is good, but that is not enough. Right now they are located in a free zone in Limón, which make the administrative supervision very difficult because of the distance from San José, where the owners spend the majority of their time. They are planning to move to some place near San José, but still keep the main problem unsolved.

6- TENERIA PRIMENCA, S. A.

Terms of the loan

This loan was granted by Banco BANEX. The term payment is 2 years, including 3 months of grace. The total amount was \$300.000 and the rate of interest was Libor plus 2%.

General Information and Performance of the loan

This company was established in July 1986, with the specific purpose of exporting processed leather. They have been growing during this period of time and have penetrated markets like U.S.A., Canada, Puerto Rico, Dominican Republic and Europe, particularly Portugal and Italy, where they have sold quite amount of their production (almost 30% one year). Just a small part of the production is sold internally (less than 5%).

The loan was used to buy different machines that would permit the company to do an additional process to obtain a better finish of the leather; doing so, they can charge additional \$0,60 to \$0,70 per square foot exported and will be able to compete in the markets they are serving.

They are attending the loan on time, and even though some of the machines were bought from European markets, the loan was used in correct manner and in accordance with the objectives of the AIR Project. It gives sufficient exports and employs a good amount of people who live in the near zone.

Perspectives

The company is ruled by someone who seems to have long experience in the field. They feel that the market is still growing and that due to the new quality of their product, they will have conditions to keep growing in exports.

They are real motivated with what they are doing, mentioned that the loan was of great help for them and would be interested in taking some

more of this type of credits, because of the conditions.

No doubt that this project will be successful in the near future.

H- HOTELERA R. M. DEL ATLANTICO, S. A.

Terms of the loan

This loan was granted by Banex Bank. The total amount was \$105.138, and the term payment is seven years including two of grace.

General Information and Performance of the loan

Hotelera R. M. del Atlántico started as small restaurant with four cabin hotel in the beautiful Pacific shore. Recently with the AIR loan the hotel built 7 cabins (French style), with green-areas, bar, swimming pool and other facilities.

The company received a total of \$81 and \$126 thousand during 1989 and 1990 respectively for its activity, and also increased the labor force employed in at least 9 people up to 1990.

It is also attending regularly their liabilities, included this loan.

Perspectives

The company expects to have a revenue of at least \$130.000 in 1991. Now, if we considered a 60% use of the new cabins during 1990, the estimate of additional foreign exchange attributed to the loan will be approximately \$60.000 in 1991. Total workers are also expected to increase to 13 during 1991, due the activities generated by the new

investment. Furthermore, in general the Hotel has been generating employment linked to tourism around the area because local small investors are developing business there.

**I- PRODUCTORA DE CERDOS DE LA ZONA ATLANTICA, S. A.
(PROCEA)**

Terms of the loan

This loan was granted by Banex Bank at the stipulated interest rate. Term payment is 5 years, including one of grace. The total amount was \$125.000.

General Information and Performance of the Loan

PROCEA is a "guanabana" exporting company, besides the production of hogs for the national market. They received the loan in February 1990 in order to finish financing fixed investments for the plantation, and solve liquidity problems.

This company is still carrying on a serious liquidity problem. The Air Loan is 90 days interest past due (\$3.645). Another loan of \$205.000 granted on August 1988 to PROCEA by BANEX International is 240 days past due (\$35.400). This situation is the result of various factors:

- a) The owners made additional investments to the guanabana plant with cash flows surplus;
- b) The size of the plant is 600-700 MT of pulp per year and the actual capacity utilized was 160 MT in 1990 and an estimated 340 MT in

1991, which means that the Plant is operating at around 27% - 50% of capacity;

- c) The level of exports of guanabana projected did not materialize due to fungus disease in the plantation. In 1990 the company exported \$70.000, which did not permit to achieve a projected superavit of \$109.000 after interest and taxes. Consequently, the project is not generating the income required to operate and service its debts.

On July 1990 BANEX restructured this loan. It is expected that between March and May of 1991 the company will export an estimated 350 TM valued at \$350.000 to Puerto Rico, through Goye Food, Inc., transaction that will permit PROCEA to clean its finances. Otherwise legal action will be taken, as expressed by BANEX Credit Manager.

Perspective

In 1990 they used no more than 50 people in the guanabana production with higher picks of 80 people in the harvesting time. For 1991 they expect to have no less than 50 people employed with similar seasonal or temporary number of workers.

Foreign currency generated by them may be totally attributed to the loan, since they really started to export after the loan was disbursed, and considering that without investing in a freezer unit the export would be impossible. However, it is important to stress that the whole project needed several years of research and a long selection process to obtain the best varieties of fruits and finally the trees need at least 30 month to produce commercial quantities.

The company is working actively making contacts with local producers with the purpose of buying production to increase the level of export volume. During 1988-1989 sales of guanabana were insignificant as the plantation was in the phase of development. During the period 1989 - 1990 it is expected that the activity of the guanabana will become more important.

J- HULES TECNICOS, S. A. (HULTEC)

Terms of the Loan

This loan was granted by Interfin Bank. Term payment is seven years including two of grace. The total amount was \$350.000

General Information and Performance of the Loan

Hules Técnicos, S. A. is an industry which imported computerized machinery to improve and increase the export production. This company was working for the national and Central American market before 1982, thereafter it was restructured to export to USA principally.

The amount of exports helped them in part to finance the transition period, but definitely the AIR loan received at the end of 1989, was clue to complete the restructuring of the company and to improve the quality of production.

Nowadays, the factory is working 360 days a year, with four shifts a day, and 480 workers, who generate approximately \$10 million a year, and the loan is attended on time.

Perspectives

The company is definitely an outstanding model to be imitated, and an excellent example of industrial companies restructured for exporting to extra regional markets. For 1991 they expect to have at least the same number of workers, and to export \$14 million. In 1991 the machinery will be working almost at full capacity.

K- HACIENDA ATIRRO, S. A.

Terms of the loan

This loan was granted by Interfin Bank. Term payment is six year including two of grace, and total amount was \$450.000.

General Information and Performance of the Loan

Hacienda Atirro, S. A. is an agroindustrial company which produces and industrializes coffee, sugar, cane and macadamia. Now, in the middle of these fields and a large jungle area they are building the "Hotel Casa Turire". This small hotel will have all facilities for ecotourists, without isolating them from their business, companies, or political life wherever they come from because of excellent communication (phone, fax, etc.).

Rivers, trails, forest, jungle, wild animals, and all the exotic vegetation could be enjoyed by tourists without giving up comfort, technology and facilities. This is a different concept of ecotourism, especially orientated to businessmen and politicians.

The loan is regularly attended and they are still in the grace period.

Perspectives

The hotel will start working in July 1991 with approximately 24 workers, and during 1990 generated at least 30 jobs in construction. It is also expected to generate \$180,000 approximately during 6 months in 1991. They already started a very selective promotion in the United States and some European countries.

L- CORPORACION COSKOA

Terms of the loan

This loan was conferred by Interfin Bank. Term payment is seven years including one of grace. Total loan was \$500,000.

General Information and Performance of the Loan

Corporación Coskoa is a company installed in Costa Rica with an exporting contract. They import all the raw and packing materials. The loan was mainly used to construct part of the building and to buy sewing machines.

The company owners affirmed to have enough capital to start up producing without the loan, but they also recognized it also helped them to finish the investment. They generated 440 jobs in 1990 and exported a total of \$900,000. The loan is attended sometimes in advance, but regularly on time.

Perspectives

The enterprise expects to increase the number of workers by 30 people in 1991, and total exports to \$1.400.000 the same year. This is a very good project which compliance very well with AID/AIR loans Project Agreement especially with the quantity of workers employed.

M- ADMINISTRACION GRUPO TRES, S.A.

Terms of the loan

This loan was granted by Federado Bank. The total amount was \$338.000.

General Information and Performance of loan

Administración Grupo Tres, S. A. is a variety of ecotourism/ecoadventure developed in Guanacaste, in the North part of the country. In the middle of vegetation and jungle, close to Cote Lake, they prepared all facilities for tourists who love rustic cabins or camping. During a week or more the tourists are busy with different adventures, but isolated from the rest of the civilization.

The project started last December 1990, and it produced only \$23.000; but it was good for just a month.

The construction demanded the work of at least 15 people during 1990 and the project itself needed 29 people since November; the same number will be kept in 1991. The company is well organized, in spite that the project is a start up. They have contracts with Canadian and other

foreign companies that supply them with tourists. The AIR loan was very well received and, it is very likely that without it, they would not have started the business. The loan is paid on time.

Perspectives

As pointed out before, the company is working very well. For 1991 they expect to have \$622,000 in revenue principally with people from Canada and Germany. They are also planning to expand their public relations and marketing program, which looks good for increasing their revenues.

N- HOTEL DE MONTAÑA MAGUIL, S. A.

Terms of the loan

This loan was conferred by Banco de Comercio. Term payment is 4 years including one of grace. Total loan was \$149,535.

General Information and Performance of the loan

Hotel de Montaña Maguil, S. A. is an ecotourist project, located in a very rural area named Guatuso.

With the AIR loan was expected to build 7 rooms, but finally with owner's funds there were built 10. The loan finally financed part of the hotel construction, a car, and the road of access to the hotel.

The loan is past due 250 days, and there are not expectatives in the short run for them to update it.

The company is carrying on serious liquidity problem, and in our opinion if they do not restructure the debt, or look for enterprise partners it is very likely that in short time they will go bankrupt. This problem was the result of the following factors:

- a) The building was finished and conditioned in September of 1990. The delays were due to problems between the banks with the triangulation procedures. When they finally disbursed the first part, it was already winter time and the access to Guatuso was almost impossible. The transport needed to be made by trucks to certain point, where everything needed to be stored until an ox cart or jeep came to finish the journey by several trips. The costs and the construction time obviously increased.
- b) An additional problem is that the foreign contact for supplying them with tourists failed to do it, and when they tried to contact other groups after September 1990, the companies were already committed to other firms or groups.

These problems could be detected and prevented by the Bank lender and the manager with more planning, better marketing and management in general; however, it seems they are learning and starting with this experience.

Perspectives

The company just produced \$2.000 in 1990 and for 1991 they expect \$622.000. These are very low amounts to rightly attend the Hotel and the company liabilities. They have 10 people working, but at this time there

are not fixed inflows of tourism to the project. The enterprise is definitely facing problems and need to improve its management.

0- GANADERA SAN JERONIMO / ALIMENTOS DE COSTA RICA

Banco Germano made two AIR funded loans, one to each company, triangulated them with PIC.

Both credit takers belong to the prominent Grupo Ganadero Industrial and were set up in 1969 to engage in the cultivation and export of melons to the USA. Though they are legally two separate entities, they are taken together for reason of our evaluation since, we understand from the Manager of Banco Germano, the main reason for the establishment of two, as opposed to just one company, was to get around the \$500,000 limit on one borrower set by the "reglamento". The combined total lent with AIR funds was \$738,000.

Banco Germano's legal lending limit would also have prevented it from giving \$738,000 to one borrower.

Both companies, we are told, share the same assets, produce the same product and have the same management. Additionally, they share the same collateral and area guaranteed by the Grupo Ganadero.

The first loan to Ganadera San Jerónimo, for \$456,000, granted in August 89 for one year was prepaid three months ahead of maturity as the parent had, then, an excess of cash. The second loan for \$280,000 was for five years including two of grace and is still outstanding.

As new ventures, the two companies taken together are still

showing a loss. As against combined projected sales of \$617,000 for 1990, they sold \$416,000 netting a loss of \$321,000. Through better production methods, they expect to maintain their workforce in 120 for 1991 and increase their sales to \$500,000. Given the strength of the promoters, we expect these goals to be attainable. The availability of AIR funding may well have been a factor in the setting up of these new ventures to engage in the production and export of this non traditional product, melons.

A note on the triangulation with PIC/BICSA. As the latter two institutions did not feel fully comfortable with Banco Germano as a credit risk, they insisted, and obtained that the tangible support given Banco Germano, be endorsed to PIC and by PIC to BICSA. According to Germano's Manager, PIC and BICSA agreed to triangulate only after getting this assignment and only after considerable time and negotiation. As we stated in the "Triangulation" section, this practice by a triangulating party goes against the philosophy of the AIR project and shouldn't be used in the future.

P- INDUSTRIAS LUTHMAR, S. A.

Terms of the loan

This loan was conferred by Germano Bank, for an amount of \$449,451. Term payment is 5 years including 2 of grace.

General Information and Performance of loan

Industrias Luthmar S. A. is a prosperous industrial company which used the AIR loan to expand their building, to buy some sewing machines and a truck. They are dedicated to produce textiles and baby's clothing.

They received the loan at the end of 1990; therefore, the effects of it will be perceived this year. The total people working there was 125 in 1989 and 150 in 1990, when they exported \$520,000 and \$2 million each year respectively. Their loan is paid up to date without problems.

The company expects to increase their total exports in \$500 thousand, using from 20 to 25 more people during this present year. Their exports are sold mainly to the Caribbean Islands, and there are not probabilities of risk in the project.

Q- AGRIMO S. A.**Terms of the loan**

This loan was granted by Germano Bank. Term of payment is 5 years including 2 of grace. The total loan was \$376,148.

General Information and Performance of the loan

Agrimo S. A. is a growing agroexport company. They export to USA and Europe products like "chayote, yuca, gengibre" (squash, yucca, ginger) and other.

With the AIR loan received on September 26, 1990 they are buying and installing a freezer unit which allows them to freeze and storage

products to export to Europe lowering the high risk of losses of product.

The loan is up to date and they are not having problems with any of their liabilities.

Perspectives

The company is planning to export approximately \$1 million during 1991, from which at least \$800,000 may be product of the new investment, using at least 70 more people. The loan also allows them to increase the possibility of buying products to export from approximately 30 small farmers and 3 packing plants in their neighborhood. These additional suppliers have a total of 400 people working and the packing plants have 65 employees.

Summarizing, Agrimo, S. A. is a prosperous company, that in spite of working with perishable products, is projecting and planning their performance very well and producing an important regional impact.

R- AMERICAN FLOWERS CORPORATION

Terms of the loan

This loan was conferred by Bancoop Bank. Term payment is six years including one of grace. The total amount was \$172,000.

General Information and Performance of the loan

American Flower Corporation is an agroexport company with long experience in this field. They have investments in other Central American

countries, growing flowers and ferns for export.

However, the AIR loan encouraged them to start another fern project in a new area in Costa Rica. This new project started ending 1988, but because ferns need at least 9 months after planted to be commercially exportable, the effects in additional foreign exchange began to be perceived in 1990, with approximately \$150,000.

The effect in labor force initiated since 1989 when workers started to prepare the land and construct the necessary nursery plant and other infrastructure. There are 30 people employed in 1989, and for 1990 and 1991 they are employing 31 workers.

Perspectives

American Flower Corp. is an experienced business, and there are not high probabilities of risk at all. They are planning to increase their exports in 1991 to \$200,000 and at least to keep their 31 employees in their new farm.

S- CARIARI MAGNETICOS

Terms of the loan

This loan term payment is six years including one of grace. This was a syndicated loan between Continental and Federado Banks. The total amount was \$344,000.

General Information and Performance of the loan

Cariari Magnéticos, S. A. expects to start working after July of 1991. They will assemble computer parts, using high technology and trained labor force in Heredia in the Central Valley.

The AIR loan was a clue to the investors because they perceived it as an additional stimulus compared with the ones available in other countries where they considered to move at first. The project is new and they are paying the loan on time.

Perspective

The Project Manager expects to start operation with 100 workers, and to finish the year with 300 or 350. In 1990 the warehouse construction used at least 20 people permanently.

During the first 6 months of operation in 1991 the total exports are projected in \$1 million, though the first full year is expected to produce \$3.5 million.

VII. SUMMARY AND CONCLUSIONS

1. Private banking in Costa Rica is a relatively recent event, evolving over the past decade in the context of the Structural Adjustment Program, which also involves the promotion of non-traditional exports. The AIR Project was designed to provide the private local banking system with very scarce, long-term, dollar funds to finance non-traditional exports.
2. As originally designed, the Project was restrictive, as to sectors, eligible expenditures, tenor and procurement. Furthermore, initial disbursements were slow due to the availability of alternative local currency sources of long-term funding at the Central Bank. As borrowers and lenders preferred colones, this availability caused the banks to reach their limits in their accessing to Central Banks funds (Article 63).
3. Later amendments were made amplifying the range of activities that could be financed, reducing the minimum tenor and maximum rate and introducing "triangulation", which obviated the restrictions of Article 63, and improved the access to AIR funds.
4. Subsequently, there was an appreciable drying up of the availability of local currency financing which made these funds more attractive.
5. Independent of whether or not long term local currency financing becomes again more easily available, we believe this project has helped to bring about a change in attitude on the part of the private banks as well as borrowers who produce foreign exchange. This is

principally due to the expertise that they have gained dealing with this project: both, banks and sub-borrowers, realized that as long as they produce foreign exchange, they will not find problems to repay the loans.

6. The deobligation was premature. We determined a potential backlog of around \$15 MM to 43 borrowers. If funds were to be available now, the program would likely be used more dynamically.
7. Even though many of the companies are new and the loans are relatively recent, the initial results in terms of the amount of exports, employment, people supported and value added, are quite significant in relation of the size of the AIR Project (\$7,6 million).
8. Individual analysis of banks shows some positive results in long-term loan evaluating capabilities, plus putting more assets on the books, banking cooperation (one syndication) as well as competition among them, particularly in latter months of the program.
9. Some companies did not comply with AID procurement policy. Of these, three were requested to return the amount borrowed of \$1.1 million.
10. As far as credit compliance, five companies are past due. The situation is critical for two of these companies that recognize failure in projected exports. Nevertheless, the bank were supposed to take risks under this project.
11. Some projects have problems related to marketing and management; however, both banks and borrowers have gained experience in lending

and taking credit in a competitive environment.

- 12. Considering the Project has been in existence for only four of the twenty five years of its life, the multiplier effect in the years to come will magnify its impact far beyond the results achieved so far.
- 13. Central Bank of Costa Rica complied with the terms of the Loan Agreement as far as conditions precedent. However, it has not complied fully with quarterly reporting requirements (Clause 6.1E Article VI of Loan Agreement) and more important, it has failed to make reflows available to the private banks (Clause 6.1B Article VI).
- 14. The Training and Technical Assistance Component was deobligated because some legal impediments found after the agreement was signed. Under these circumstances, it was not possible to propose a global program for all banks. We believe that such a program would upgrade banks' analysis capability, although it didn't affect the results of the program.
- 15. The majority of the companies financed with these funds, are successful. At the same time they have produced a significant amount of foreign exchange, employment and have developed high value added projects. And these are the first stages of a 25 years program; for this reason, the final results will be much better in the total period.

VIII. RECOMMENDATIONS

	Implementation date
1- The Central Bank should release the funds from the recuperations received from the ICIs. We understand almost \$2 million are now "frozen"	6-30-91
2- Central Bank should submit regularly the quarterly reports on the loan project progress	Immediate
3- If triangulation remains necessary, eliminate one of the intermediary institutions	9-30-91
4- For future channeling funds for private sector Central Bank should be avoided. Instead of it, funds could be managed through an acceptable private institution such as PIC or any other founded in the future	--
5- Quarterly Progress Report on individual borrowers' financial situation from Bank information and project site visits, if deemed necessary	6-30-91
6- A semi annual report on achievements of economic objectives (exports and employment generated)	6-30-91
7- All 31 projects should be visited once a year beginning with largest projects, following with medium and small size projects	As soon as possible

8- The attached "Project Monitoring Control Sheets" will enable assigned Mission staff to keep data update. AID/DPS Costa Rica must update, at least, the table "General Statistical Information of the AIR Project" (Table I-1 of this report) once every six months

on going

9- In future programs, before including funds for grants, the legal opinion of the Central Bank should be asked to prevent from impediments

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ANNEX I

STATISTICAL INFORMATION

ANNEX I**TABLES**

- I-1 - AIR Project: general statistical information
- I-2 - AIR Loans by company and economic sector
- I-3 - AIR Loan by economic sector
- I-4 - Loans to companies with 3 or less years of existence
- I-5 - Loan with 2 or less years of tenor
- I-6 - Project with losses
- I-7 - Project with negative net worth
- I-8 - Level of coverage by bank and borrower
- I-9 - Costa Rica: traditional and non-traditional exports, free zones and tourism
- I-10 - Costa Rica: Non-traditional exports by economic sector, maquila and tourism
- I-11 - Costa Rica: Non-traditional exports by economic sector, maquila and tourism-percentages
- I-12 - Costa Rica: employment in non-traditional products for 1989
- I-13 - Results of the interviews with the borrowers

TABLE 1-2
AIR LOANS BY COMPANY AND ECONOMIC SECTOR

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SECTOR	TOTAL BORROWERS	FINAL BORROWER	TOTAL (\$000)		AIR	(\$000)
			AIR COM.Y	PROJECT COST	LOAN Z T. COST	OUTSTAN DING
AGRICULTURE	9		2186	4797	46	1574
		ORNAM. TEMPISQUE	91	152	60	70
		FINCA NABORI	105	262	40	82
		C.R. FLOWER CORP.	172	450	38	120
		MADRES DE FLORES	500	1350	37	500
		FINCA BUNNY	120	276	43	62
		ALIMENTOS DE C.R. a/	280	1148	24	280
		RANCHO NUEVO	84	408	21	84
		GANAD.S.JERONIMO a/	458	1148	40	0
		AGRIMO	376	751	50	376
AGROINDUSTRY	3		322	1181	27	191
		PROCEA S.A.	125	816	15	125
		FINCA LINEA VIEJA	50	140	36	40
		INV. REALTYCO	147	225	65	26
INDUSTRY	13		3452	10676	32	2741
		FOSFOR. CONTINENT.	100	150	67	0
		SERV. GEN. OESTE	180	260	69	131
		EATON CONTROLES	200	500	40	78
		CIA. TEXTIL C.A.	275	525	52	183
		PLASBANA	500	850	59	500
		TENERIA PRIMENCA	300	945	32	128
		MANUF. J.P. NINA	149	392	38	129
		TEXTILES ESSEX	15	25	60	9
		INDUST. LUTHMAR	449	642	70	449
		CORP. COSKOA	500	1500	33	500
		MOTORES RIVERA	86	137	63	86
		CARIARI MAGNETIC. b/	348	4250	8	348
		HULES TECNICOS	350	500	70	200
SERVICES	6		1695	5880	29	1676
		HACIENDA ATIRRO	450	757	59	450
		HOTEL MAGIL S.A.	150	220	68	150
		C.R. EXPEDITION	150	1500	10	150
		Z.F. METROPOLIT.	500	2700	19	500
		HOTELERA R M	107	220	49	88
		ADMIN. GRUPO TRES	338	483	70	338
TOTALS	31		7655	22534	34	6182

NOTES:

a/: it is the same project
b/: syndicated loan : Continental/Federado

Source: Air Project: General Statistical Information

TABLE I-3
AIR LOANS BY ECONOMIC SECTOR

SECTOR	TOTAL BORROWERS	TOTAL (\$000)		AIR LOAN % T. COST	(\$000) OUTSTAN DING
		AIR COM.T	PROJECT COST		
AGRICULTURE	9	2186	4797	46	1574
AGROINDUSTRY	3	322	1181	27	191
INDUSTRY	13	3452	10676	32	2741
SERVICES	6	1695	5880	29	1676
TOTALS	31	7655	22534	34	6182

Source: Air Project: General Statistical Information

TABLE # I-4
LOANS TO COMPANIES WITH 3 OR LESS YEARS OF EXISTENCE

FINAL BORROWER	SECTOR	YRS	PURPOSE	TOTAL (\$000)		TENDR		(\$000)			Z C.R V.ADD
				AIR COM.T	PROJECT COST	YRS	GR	FOR.EXCH PROJ	JOBS P R		
ALIMENTOS DE C.R. b/	Agriculture	1	Building/machin.	280	1148 b/	5	2	1430 b/	b/	b/	90
GAMAD.S.JERONIMO b/	Agriculture	1	Working capital	458	1148 b/	1	0	1430 b/	230 b/	120 b/	90
HOTEL MAGIL S.A.	Services	1	Building/Work.Cap.	150	220	4	1	250	10	10	80
PLASBANA	Industry	1	Machinery	500	850	7	2	0	80	25	35
ADMIN. GRUPO TRES	Services	1	Equipment	338	483	7	0	700	35	35	70
HACIENDA ATIRRO	Services	1	Cabin/rest	450	757	6	2	0	25	35	70
CARIARI MAGNETIC. a/	Industry	1	Factory building	348	4250	6	1	3500	600	30	77
ORNAM. TEMPISQUE	Agriculture	1	Mach/Land prepar.	91	152	5	0	n.a.	25	25	80
TEXTILES ESSEX	Industry	2	Machinery	15	25	2	0	800	25	25	90
RANCHO NUEVO	Agriculture	2	Seed/plantation	84	408	7	3	87	40	15	80
MDTORES RIVERA	Industry	2	Pre-operat/machin.	86	137	5	1	25	9	9	25
CORP. COSKOA	Industry	2	Plant construc	500	1500	7	1	850	500	475	20
FINCA BUNNY	Agriculture	3	Fern cultivation	120	276	5	1,5	312	20	8	100
Z.F. METROPOLIT.	Services	3	Building expans.	500	2700	5	3	1200	30	30	70
FINCA LINEA VIEJA	Agroindustry	3	Palm cultivation	50	140	6	2	220	5	5	90
MANUF. J.P. NINA	Industry	3	M.K./plant expans	149	392	5	1/2	800	150	125	35
MADRES DE FLORES	Agriculture	3	fern/construct.	500	1350	6	2	100	70	100	95
TOTALS				4619	15936			11704	1854	1072	

NOTES:

n.a.: not available

a/: syndicated loan: Continental/Federado plus \$100,000 Bank of America Stand-By

b/: this is the same project

Source: Air Project: General Statistical Information

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TABLE # 1-5
LOANS WITH TWO OR LESS YEARS OF TENOR

FINAL BORROWER	SECTOR	PURPOSE	TOTAL (\$000)		AIR	TENOR	(\$000)		Z C.R	
			AIR	PROJECT	LOAN		FOR.EXCH	JOBS		
			CON.T	COST	Z T.	YRS	PROJ.	P	R	V.ADD
GANAD.S.JERONIMO	Agriculture	Working capital	458	1148	40	1	1430	230	120	90
FOSFOR. CONTINENT.	Industry	Working capital	100	150	67	2	200	20	20	60
CIA. TEXTIL C.A.	Industry	Work capital	275	525	52	2	2100	50	50	70
EATON CONTROLES	Industry	Working capital	200	300	40	2	50	15	10	40
TEXTILES ESSEX	Industry	Machinery	15	25	60	2	800	25	25	90
TENERIA PRINENCA	Industry	Machin/plant expan	300	945	32	2	700	25	26	60
TOTALS			1348	3293	41		5280	365	251	

Source: Air Project: General Statistical Information

TABLE # I-6
PROJECTS WITH LOSSES

FINAL BORROWER	SECTOR	PURPOSE	TOTAL (\$000)		TENOR		F. EXCH. (\$000)		JOBS		Z C.R V.ADD
			AIR COM.T	PROJECT COST	YRS	GR	PRGJ	P	R		
MADRES DE FLORES	Agriculture	fern/construct.	500	1350	6	2	100	70	100	95	
ALIMENTOS DE C.R. CORP. COSKOA	Agriculture Industry	Building/machin. Plant construc	280 500	1148 1500	5 7	2 1	1430 850	230 500	120 475	90 20	
Z.F. METROPOLIT. RANCHO NUEVO	Services Agriculture	Building expans. Seed/plantation	500 84	2700 408	5 7	3 3	1200 87	30 40	30 15	70 80	
C.R. FLOWER CORP. MANUF. J.P. NINA	Agriculture Industry	Fern cultivation M.K./plant expans	172 149	450 392	6 5	1 1/2	250 800	77 150	77 125	90 35	
FINCA NABORI FINCA LINEA VIEJA	Agriculture Agroindustry	Plant expansion Palm cultivation	105 50	262 140	7 6	2 2	500 220	55 5	22 5	95 90	
TENERIA PRIMENCA FINCA BUNNY	Industry Agriculture	Machin/plant expan Fern cultivation	300 120	945 276	2 5	1/4 1,5	700 312	25 20	26 8	60 100	
NOTORES RIVERA HOTELERA R N	Industry Services	Pre-operat/machin. Cabins/pool	86 107	137 220	5 7	1 2	25 200	9 10	9 14	25 80	
TOTALS			2953	9928			6674	1221	1026		

Source: Air Project: General Statistical Information

TABLE 8 I-7
PROJECTS WITH NEGATIVE NET WORTH

FINAL BORROWER	SECTOR	PURPOSE	TOTAL (\$000)		TENOR		(\$000)		JOBS		% C.R V.ADD
			AIR COM.T	PROJECT COST	YRS	GR	F.EXCH. PROJ	P	R		
C.R. FLOWER CORP.	Agriculture	Fern cultivation	172	450	6	1	250	77	77	90	
ALIMENTOS DE C.R.	Agriculture	Building/machin.	280	1148	5	2	1430	230	120	90	
MADRES DE FLORES	Agriculture	fern/construct.	500	1350	6	2	100	70	100	95	
FINCA MABORI	Agriculture	Plant expansion	105	262	7	2	500	55	22	95	
MANUF. J.P. NINA	Industry	W.K./plant expans	149	392	5	1/2	800	150	125	35	
NOTORES RIVERA	Industry	Pre-operat/machin.	86	137	5	1	25	9	9	25	
TOTALS			1292	3739			3105	591	453		

Source: Air Project: General Statistical Information

BANK	FINAL BORROWER	SECTOR	TOTAL (\$000)			T.S./A.C. (%)	OUTS/A.C. (%)
			AIR COM. T	OUTSTAN DING	TANGIBLE SUPPORT		
C O F I S A			1605	1465	1925	120	91
	FINCA BUNNY	Agriculture	120	62	75	63	52
	FINCA LINER VIEJA	Agroindustry	50	40	60	120	80
	FINCA NABORI	Agriculture	105	82	180	171	78
	MADRES DE FLORES	Agriculture	500	500	770	154	100
	SERV. GEN. DESTE	Industry	180	131	90	50	73
	Z.F. METROPOLIT.	Services	500	500	550	110	100
	C.R. EXPEDITION	Services	150	150	200	133	100
C O N T I N E N T A L			87	87	230	264	100
	CARIARI MAGNETIC.	a/Industry	87	87	230 a/	264	100
B I C S A			115	9	149	130	8
	FOSFOR. CONTINENT.	Industry	100	0	125	125	0
	TEXTILES ESSEX	Industry	15	9	24	160	60
C O M E R C I O			150	150	100	67	100
	HOTEL MAGIL S.A.	Services	150	150	100	67	100
G E R M A N O			1563	1105	1927	123	71
	GANAD.S.JERONIMO	Agriculture	458	0	1208 b/	264	0
	ALIMENTOS DE C.R.	Agriculture	280	280	b/		100
	INDUST. LUTHMAR	Industry	449	449	319	71	100
	AGRINO	Agriculture	376	376	400	106	100
F E D E R A D O			690	669	600	87	97
	ORNAM. TEMPISQUE	Agriculture	91	70	220	242	77
	CARIARI MAGNETIC.	a/Industry	261	261	a/		100
	ADMIN. GRUPO TRES	Services	338	338	380	112	100
B A N C O O P			172	120	1000	581	70
	C.R. FLOWER CORP.	Agriculture	172	120	1000	581	70
F O M E N T O			670	670	819	122	100
	PLASBANA	Industry	500	500	650	130	100
	RANCHO NUEVO	Agriculture	84	84	83	99	100
	MOTORES RIVERA	Industry	86	86	86	100	100
B A N E X			681	470	775	114	69,
	PROCEA S.A.	Agroindustry	125	125	125	100	100
	TENERIA PRIMENCA	Industry	300	128	300	100	43
	HOTELERA R M	Services	107	88	100	93	82
	MANUF. J.P. NINA	Industry	149	129	250	168	87
I N T E R F I N			1922	1437	1922	100	75
	CIA. TEXTIL C.A.	Industry	275	183	275	100	67
	HACIENDA ATIRRO	Services	450	450	450	100	100
	HULES TECNICOS	Industry	350	200	350	100	57
	EATON CONTROLES	Industry	200	78	200	100	39
	CORP. COSKOR	Industry	500	500	500	100	100
	INV. REALTYCO	Agroindustry	147	26	147	100.	18
TOTALS			7655	6182	9447	123	81

NOTES:

a/: syndicated loan: Continental/Federado plus \$100,000 Bank of America Stand-By
 b/: this is the same project

Source: Air Project: General Statistical Information

TABLE I-9

COSTA RICA: TRADITIONAL AND NON-TRADITIONAL EXPORTS, FREE ZONES AND TOURISM

- million of dollars -

YEAR	TRADITIONAL A	NON-TRADITIONAL B	FREE ZONES C	TOURISM D	TOTAL E	B+C+D/EX100
1985	594	368	-	118	1,080	45.0
1986	722	403	7	139	1,265	42.9
1987	678	487	20	136	1,321	48.7
1988	671	573	41	170	1,455	53.9
1989	707	729	77	207	1,720	58.9
* 1990	510	580	72	152	1,314	61.2

* Data to September

** "Maquila" included.

Source: Dirección General de Estadística y Censos, Corporación de Zonas Francas and Banco Central de Costa Rica.

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TABLE I-10

COSTA RICA: NON-TRADITIONAL EXPORTS BY ECONOMIC SECTOR, MAQUILA AND TOURISM

- thousand of dollars -

SECTOR	1987	1988	1989	1990 *
Agropecuaria	78,221	110,020	131,511	116,334
Agro-industry	33,477	45,588	56,808	38,295
Industry	331,344	356,995	466,145	366,363
Maquila	44,193	60,555	74,855	59,060
Tourism	136,300	170,000	206,600	152,000
TOTAL	623,535	743,158	935,919	732,052

* Data to september.

Source: CEMPRO and Dirección General de Estadística y Censos.

TABLE I-11

COSTA RICA: NON-TRADITIONAL EXPORTS BY ECONOMIC SECTOR, MAQUILA AND TOURISM

- PERCENTAGES -

SECTOR	1987	1988	1989	1987 / 1989
Agropecuaria	12.54	14.80	14.05	1.51
Agro-industry	5.37	6.13	6.07	0.70
Industry	53.14	48.04	49.81	3.33
Maquila	7.09	8.15	8.00	0.91
Tourism	21.86	22.88	22.07	0.21
TOTAL	100.00	100.00	100.00	6.66

TABLE No. I-12

Costa Rica: Employment in non-traditional products for 1989(*)

Sector	Amount
Agropecuary	16425
Industrial	32404
Agroindustrial	1608
TOTAL	50437

(*) Companies with Export Contract

Source: CENPRO

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TABLE B I-13
RESULTS OF THE INTERVIEWS WITH THE BORROWERS (SAMPLE)

BANK	FINL. BORROWER	ACTIVITY	SECTOR	(0000) LOAN AMOUNT	(0000) E X P O R T S			MARKETS	(0000) ADDITIONAL FOR/EACH.			PERM. Y EMPLOY			TEMPOR. EMPLOY			TOTAL EMPLOY.			X NATION. RPH PPT.	(U.S. dollars) SALARIES/RANGES			PEOPLE SUPPORTED		
					89	90	91		89	90	91	89	90	91	89	90	91	89	90	91		89	90	91			
					---	---	---		---	---	---	---	---	---	---	---	---	---	---	---		---	---	---	---	---	
C O P I S A																											
	MPORES DE FLORES	Fern exports	Agriculture	500	0	644	1400	Germany/Netherlands	0	396	624	43	92	130	0	0	0	60	92	130	90	0	300	400	250	360	520
	Z. F. METROPOLIT. w/	Indust. free zone	Industry	500	0	+238	2280	U.S.A./Europe/Asia	0	238	2280	0	90	140	0	0	0	0	90	140	3	0	1200	3000	0	360	380
	FINCA NABORI	Flower export	Agriculture	100	228	210	230	U.S.A.	96	42	10	27	22	23	0	0	0	27	22	23	60	374	463	300	108	88	92
	C.R. EXPEDIT	Ecology tourism	Services	150	2900	3000	3000	U.S.A./Canada/Europe	0	0	180	51	63	69	5	6	4	56	71	78	80	900	1400	1800	224	284	300
B. F. A.																											
	PLASVANA	Plastic Indust.	Industry	500	0	0	200	U.S.A./Europe	0	0	200	0	0	20	0	0	0	0	0	20	30	0	0	3600	0	0	100
	MOTORES RIVERA	Fire extinguisher	Industry	86	42	23	0	C.R./Ecuador	42	23	0	7	2	2	0	1	1	7	3	3	2	126	60	0	28	12	12
B R A N E X																											
	TENER. PRINENCA	Leather process	Industry	300	N.R.	3600	9100	U.S.A./Europe/Canada	N.R.	1000	1100	N.R.	190	140	0	36	0	186	140	40	N.R.	3800	4180	N.R.	744	860	
	MOTELERA R.M.	Tourism	Services	107	81	126	130	Canada/U.S.A.	10	37	44	14	23	27	0	0	0	14	23	27	90	0	300	600	56	92	108
	PRIOZA	Guatemala	Agriindustry	120	0	84	169	Puerto Rico	0	84	169	0	90	90	0	30	30	0	90	90	90	0	975	975	0	320	320
I N T E R F I N																											
	MILES TECHICOS	Rubber packing	Industry	300	N.R.	10000	14000	U.S.A.	0	4200	8000	460	480	480	0	0	0	460	480	480	40	N.R.	2000	2000	1840	1920	1920
	MOL. ATIRAO	Tourism	Services	400	0	0	180	U.S.A./Europe	0	0	180	0	0	34	0	30	5	0	30	39	90	0	0	680	0	120	136
	CORP. COSCOR	Textile	Industry	500	0	300	1400	U.S.A./Europe	0	300	1400	0	440	470	0	0	0	0	440	470	12	0	8000	8300	0	1760	1880
F E D E R A D O																											
	MON. GRUPO TRES	Ecological hotel	Services	338	0	23	622	Canada/Germany	0	23	622	0	29	29	5	10	0	5	44	29	90	N.R.	490	490	20	176	116
C O M E R C I O																											
	HOTEL MAGUI	Ecological hotel	Services	190	0	2	63	U.S.A.	0	2	63	0	3	10	0	3	0	0	12	10	90	0	300	300	0	48	40
G E R R A N D																											
	BRAND. S. JERONIMO w/	Maize export	Agriculture	408	0	416	500	U.S.A.	0	416	500	0	120	120	0	0	0	0	120	120	98	0	1647	2000	0	480	480
	IND. LUTIPAR	Cement manufact.	Industry	449	350	2000	2000	Caribbean	0	0	500	125	150	180	0	0	0	125	150	180	50	0	3000	3000	300	600	600
	ARRINO S.A.	Vegetable export	Agriindustry	376	52	879	1000	U.S.A./England	0	0	800	90	180	200	0	0	50	90	230	300	90	1688	4298	3000	360	520	1200
B R A N C O P																											
	AMERIC. FLOMER	Fern export	Agriculture	172	122	148	200	Germany/Japan	3	48	40	319	300	300	0	0	0	319	300	300	70	N.R.	6200	6908	1276	1400	1400
C O N T I N E N T A L / F E D E R A D O																											
	ORIENTAL MAGNETIC. w/	Comput. manuf.	Industry	344	0	0	1000	U.S.A.	0	0	1100	0	0	200	0	20	0	0	20	200	20	0	0	5000	0	80	800
TOTALS				3960	3946	22293	34044		81	7401	10962	1158	2246	2704	10	197	92	1168	2443	2796		3088	30320	48823	4672	5772	11184

SAMPLE LOANS AS % OF TOTAL AIR 82,
COMPANIES VISITED AS % OF TOTAL COMPANIES 65,

NOTES:
a/: monthly average
b/: it is the same project with Aliante de Costa Rica
c/: syndicated loan
d/: 4 for each employment
e/: correspond to the specific project located in the building constructed with the loan
N.R.: not available

Source: Personal interview with company's representatives

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ANEX II

LIST OF INTERVIEWERS

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BANKS

LIST OF INTERVIEWERS

CENTRAL BANK OF COSTA RICA

Oscar Salazar Montero
William Ulate

Deputy Director, Financial Department
Head, National Operations Section

BANCO BANEX

Oscar Rodríguez
Gabriela Flores
Fernando Alvarado
Héctor Hernández

General Manager
Deputy Credit Manager
Credit Officer
Credit Officer

BANCO INTERFIN

Luis Liberman
Ana Lucía Córdoba
Carlos Ortiz
Helga Céspedes
Rashid Alice
Gerardo Abarca

General Manager
Deputy Credit Manager
Credit Officer
Credit Officer
Credit Officer
Credit Officer

BANCO FOMENTO AGRICOLA

Francisco Lay
Jorge Osborne
Eugenia Arguedas
Miguel Monge

Deputy Manager
Deputy Credit Manager
Credit Officer
Credit Officer

BANCO CONTINENTAL

Ramón Luis Châves
Luis F. Araya H.

Credit Director
Credit Officer

BANCO INTERNACIONAL DE COSTA RICA

José Barón Soto	General Manager
Juan Carlos Hernández	Head of Credit
Javier Espinoza	Loan Officer

BANCO DEL COMERCIO

Javier Filloy Esna	Assistant General Manager
Edgar Soto Romero	Credit Head
Adolfo Arévalo H.	Credit Officer

BANCO GERMANO

José Angel Rodríguez	Manager
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BANCO FEDERADO

Saúl Weisleder	General Manager
Alfonso Jiménez	Credit Head
Jorge Saborío	Credit Executive
Oscar Mora	Credit Executive

BANCO DE COFISA

William Phelps	General Manager
Fernando Quirós	Credit Head
Gonzalo Echeverría	Account Executive

BANCO COOPERATIVO

Federico Herrero	General Manager
Marco Salazar	Assistant General Manager
Manuel Guevara	Credit Head
Mariano Rodríguez	Account Executive

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PRIVATE INVESTMENT CORPORATION

William Hayden	General Manager
Luis Alberto Brenes	Operations Officer
Jorge Soto-Pereira	Controller
Lucy Villalobos	Deputy Project Manager

CENTRO PROMOCION EXPORTACIONES (CENPRO)

Sandra Avila	Economic Studies Department
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BORROWERS

LIST OF INTERVIEWERS

**GANADERIA SAN JERONIMO
ALIMENTOS DE COSTA RICA (GRUPO GANADERO)**

J. Joaquín Valenciano Z. Assistant Treasurer

INDUSTRIA LUTHMAR

Alvaro Quesada C. Vice President

PLASBANA

Diego Escarriola A. General Manager

ZONA FRANCA METROPOLITANA

Hildebrando Flores Financial Manager Assistant
Don Crain General Manager Reliability Inc.
Héctor Valenciano General Manager Assistant Reliability
Inc.

MOTORES RIVERA

Guillermo Rivera President
Henry Gómez Administrative Manager

TENERIA PRIMENCA

José Luis Roldán Financial Manager

PLANTA MADRES DE FLORES

Rodolfo Salgado President

HOTEL MAGUIL, S. A.

Manuel Emilio Montero President

AMERICAN FLOWERS CORP.

Michael Thomas Office Manager

CARIARI MAGNETICS, S.A.

Ignacio Zamora Project Manager

FINCAS NABORI, S.A.

Lic. Carlos Torres President

COSTA RICA EXPEDITIONS

Lic. Michell Stuart Kaye President

HOTELERA R. M. DEL ATLANTICO, S.A.

René Masuelle President
José Rodríguez Accounter

PROCEA

Gerald Simon President
Juan Méndez Vargas Partner

HACIENDA ATIRRO, S. A.

Lic. Mario Rojas President

ADMINISTRATION GRUPO TRES, S. A.

Jaime Flaque President
Guiselle Avila Accounter

AGRIMO, S.A.

Carlos Morales
Luis Morales

President
Manager

HULES TECNICOS, S. A.

Ing. Alvaro Gutiérrez

Financial - Manager

INDUSTRIAS COSKOA

J. K. Lee

President

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INNER III

QUESTIONNAIRES UTILIZED

Guía de Evaluación de los préstamos otorgados a los Bancos Privados para su repase a empresas nuevas y existentes que tengan contemplados proyectos de expansión para incrementar exportaciones no tradicionales a terceros mercados, dentro del Convenio de Prestamo entre el BCCR y la AID para la Reactivación Agrícola e Industrial (AIR PROJECT)

1. NOMBRE DEL BANCO: _____

Dirección _____

No. préstamos otorgados con fondos del AIR Project _____

Monto Total: US\$ _____

2. CALIDAD DE LA CARTERA

- Logró el Banco acceso oportuno y suficiente a los recursos de la Línea de Redescuento del BCCR? _____

- Qué métodos de promoción para estos recursos usó el Banco? _____

- Se otorgaron los préstamos dentro de los parámetros establecidos en el Convenio BCCR/AID? _____

- Actividad Económica de los Préstamos:

- Agricultura: Flores ()
- Plantas Ornamentales ()
- Piñas ()
- Fresas ()
- Yuca ()
- Chayote ()
- Otros _____

Agroindustria: Productos aliment. ()

- Industria: Plásticos ()
- Metalmecánica ()
- Electrónica ()

Servicios: Turismo ()

- Qué tipo de análisis se usó para aprobar el préstamo? _____

-Cuál ha sido el desenvolvimiento del préstamo? _____

- Existe metodología de seguimiento del préstamo? _____
- Cuál es el perfil de recuperación de los préstamos? _____
- Si hay problemas con alguno de los préstamos, existe un plan de acción, incluyendo su reestructuración? _____
- Cómo se caracterizan los préstamos malos? _____
- Existen reservas para Posibles Perdidas en estos Préstamos? _____
- Qué porcentaje de la cartera total del Banco son los recursos del AID? _____
- Cual es la diferencia de parámetros entre un préstamo con fondos de AID y otro con recursos propios del Banco? _____
- Mejoró la capacidad del Banco de prestar para proyectos de desarrollo? _____
- Se fortaleció el Banco por los recursos canalizados por la Facilidad? _____

3. DETALLE DE LOS PRESTAMOS

Nombre de la Empresa: _____

Dirección de las oficinas principales _____

Teléfono _____

Principales actividades _____

Años de dedicarse la empresa a las actividades actuales _____

El Capital de la empresa es: Costarricense ()
 Extranjero ()
 Mixto ()

Total de empleados con que cuenta la empresa:

Ejecutivos () Administrativos () Operativos ()

Se mantiene durante el año la misma cantidad de personal operativo o se dan variaciones estacionales ? _____

Se espera que la inversión promueva la creación de nuevos empleos? _____

4. Objetivo del Crédito:

Compra Maquinaria _____

Capital de Trabajo _____

Materias primas nac. _____

Materias primas imp. _____

Otros (detallar) _____

5. Condiciones del Préstamo

Monto del Préstamo solicitado _____

En US\$ _____ En Colones _____

Si monto solicitado excedió límite máximo de US\$500.000 se justificó plenamente? _____

Porcentaje del costo del proyecto (máx. 70%) _____

Tasa de Interés _____

Plazo (incluyendo periodo de gracia) _____

6. El prestatario presentó perfil de proyecto y flujo de caja?

Demostró el impacto que esperaba (en términos de calidad, productividad, generación de empleo, generación de divisas) del crédito que solicitaba?

Qué respaldo tangible se aportó? _____

7. Del valor total de las ventas, cuál o cuáles son los principales bienes y/o servicios que produce la empresa?

a. _____ d. _____
b. _____ e. _____
c. _____ f. _____

8. Teniendo en cuenta las paradas para reparaciones, el mantenimiento normal, las fiestas, etc. cuál es la producción máxima que se puede esperar de la instalación existente (sin incluir el proyecto financiado con este préstamo)?

9. Cuando la empresa solicitó el crédito dedicaba su producción para vender:

1. () Mercado nacional
2. () Exportación (especificar principal destino) _____
3. () Ambos (Qué porcentaje de la producción exportaba?) _____

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10. El empresario demostró que tenía mercado fuera del MCCA para el aumento en ventas, consecuencia de la expansión de la empresa por el crédito solicitado? Sí () No ()

11. Cuál(es) son las principales ventajas de la empresa en el mercado internacional?

- Precio ()
- Calidad del producto ()
- Forma de pago ()
- Crédito ()
- Publicidad ()
- Otro _____

12. Perspectivas del prestatario a 3 años. _____

13. COMENTARIOS

FORMAT TO ANALYZE THE CHARACTERISTICS OF THE ICI'S SUBLOAN PORTFOLIO (AIR PROJECT)

1. Name of Bank _____

2. Total Facility's Amount Granted US\$ _____ Colones _____

3. Facility's Amount as a percentage of total Loan Portfolio _____

4. No. of Loans granted _____

5. Ceiling of Individual Subloans _____

6. Type of Economic Activity (by product) _____

- Agriculture: flowers ()
- ornamental plants ()
- pineapple ()
- strawberries ()
- mango ()
- papaya ()
- yuca ()
- chayotes ()
- other _____

Agroindustrial: food processed products

- Industry: plastics ()
- metalmehanic ()
- electronic ()

- Services: tourism ()
- software ()

7. Purpose of loan _____

8. Maturity (including grace period) _____

9. Interest Rate _____

10. Form of Payment _____

11. Outstanding Balance _____

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12. Earnings from subloans _____
13. Arrears _____
14. Provision for Loan Losses: Amount _____ % _____
15. Documentation to be available:
- History of Loan
 - Balance Sheet (last 3 years)
 - Profit and Loss Account (last 3 years)
 - Annual Reports
16. Recording: Contracts, etc.
17. Execution of the Transaction (who recommends, who approves who executes _____)
18. Special Transactions (above ceiling, different purpose, etc) _____
19. Credit Control
- Two main lines of control are to distinguished:
- a) the control of whether the transaction complies with the terms of the AID/BCCR Loan Agreement, and can be executed,
 - b) the control of the compliance of client obligations.
- For control of Subloan Portfolio, computer reports showing:
- outstandings report
 - principal payment report
 - transactions
 - M/T loan status report
20. Doubtful/Stagnant Debtors (Problem Loans) _____
- _____
- _____
- 21/ Problems with foreign exchange risk _____
- _____
22. Credit Assessment
- client reputation
 - balance sheet
 - profit/loss account
 - performance of subborrower

GUIA DE VISITA A EMPRESAS

Fecha: _____

Quién hizo la visita?: _____

Nombre de la empresa: _____

Entrevistado: _____ Posición: _____

Propietario(s) principal(es)/nacionalidad _____

Banco prestatario: _____

1. Objeto del préstamo (incluir proyecciones esperadas): _____

2. Qué % representa el préstamo del capital de la empresa? _____

3. Tipo de proyecto: _____

4. Tipo(s) producto(s) (incluye cod. NAUCA) _____

5. Valor exportaciones/producto	Valor ventas/producto			
	Total	Préstamo	Total	Préstamo
1989			1989	
1990			1990	
1991*			1991*	

6. Mercados de destino/producto (detallar %) _____

7.	Empleo permanente		Empleo temporal		Total	
	Total	Prést.	Total	Prést.	Tot	Pre
	1989		1989		1989	
	1990		1990		1990	
	1991*		1991*		1991*	

8. Salarios pagados

	Total	Préstamo
1989		
1990		
1991*		

9. Uso de materias primas nacionales (%)

1989
 1990
 1991*

10. Tomaría otro préstamo como este? (Razones) _____

11. Fecha de desembolso del préstamo a la empresa. (d/m/a) _____

12. Qué clase de estudio presentó con la solicitud? _____

13. Comentarios (impacto regional): _____

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