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COUNTRY PAPERS

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1. "Guarantee and Development Fund for Agriculture, Livestock and Poultry" by Jorge Uriza Salgado.
2. "Credit Among Small Farmers: The Case of the Puebla Project of Mexico" by Heliodoro Diaz Cisneros.
3. "The Supervised Credit Program in El Salvadore: 1961 to the Present" by Richardo A. Vasquez, Gustavo Solis and David E. Weisenborn.
4. "The National Bank of Honduras" by Reinaldo W. Santos.
5. "The Rural Credit Program of the National Bank of Nicaragua: Report on Credit to the Small Farmer in Nicaragua" by Carlos Rene Ramirez.

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COUNTRY PROGRAM

MEXICO

FONDO DE GARANTIA Y FOMENTO

PARA LA AGRICULTURA, GANADERIA Y AVICULTURA

(Guarantee and Development Fund
for Agriculture, Livestock, and Poultry)

by:
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Mexico
December, 1972

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SUMMARY

The Fondo de Garantía y Fomento para la Agricultura, Ganadería y Avicultura 1/ was founded in December, 1956, in order to promote the participation of private banks in financing crop, livestock, and poultry production activities.

To promote such participation Fondo, acting as a fiduciary from the Bank of Mexico (Banco de México, S.A.), discounts to private credit institutions up to 90 % of the value of credits given to farmers. Under these conditions, Fondo's activities are second-level operations, as it assists producers indirectly through private banks (and, more recently, official banks).

During the first years, Fondo's operations were sustained by its own resources. Financing programs with foreign resources for long-term credits were started in 1962.

The ALPRO-AID 2/ Program was begun in 1962, with a loan from the government of the United States to Mexico in the amount of 20 million dollars to finance small farmers. An additional 21.5 million dollar loan was obtained in August, 1965. Therefore, there were a total of 41.5 million dollars available for this program.

The ALPRO-IDB 3/ Program was established in 1968, with a 20 million dollar loan from IDB. The program was increased with a second loan from IDB for an additional 32 million dollars in 1971.

With the AID and IDB resources, the ALPRO Program was then established, for discounting credits to small producers through private credit institutions. The Fondo retained the right to make these discounts using funds from either of the two sources.

1/ From now on referred to as Fondo.
2/ Alliance for Progress -- Agency for International Development.
3/ Alliance for Progress -- Interamerican Development Bank

The IBRD 4/ Program started with a 25 million dollar loan in 1965. A second IBRD loan of 65 million dollars was obtained in 1969. A third IBRD loan of 75 million dollars was obtained subsequently. All the resources from these IBRD loans are to be used to improve and augment rural infraestructure, and to promote technological advances in agricultural production. Credits are given to medium-sized individual producers and to groups by means of credit societies.

Table 1 summarizes the number and type of beneficiaries who have received credit from the ALPRO Programs operated by Fondo.

In general, credits discounted by Fondo to private credit institutions have produced successful results, as is shown in the evaluations made for the ALPRO credits during the 1963-66 period. This is due to the mechanisms of selection of subjects of credit, the evaluation or study of credit applications, and the feasibility and profitability studies for the investment projects to be financed.

For this same reason, and due to the financing mechanism of discounts to commercial and official banks, there is a 100 % recovery of the funds involved in these discounts. However, given the increasing volume of credit operated through the different Fondo programs, the requirements of technical personnel to make studies before the credit is given are also growing.

The most important innovations adopted in the Fondo are the establishedment of two new programs oriented to smaller farm producers.

The first of these is the "Immediate Action Program for Agricultural Credit". Its main objective is to increase the long and short term financing available to farmers in conjunction with the organization and training of producers and the formulation of credit plans containing technically and economically feasible specific projects, with emphasis on employment creation in zones with critical social and economic situations.

4/ International Bank for Reconstruction and Development.

Table 1. NUMBER AND TYPE OF BENEFICIARIES IN THE AEPRO CREDIT PROGRAMS MANAGED BY THE FONDO.

MEXICO: 1963-1971

YEAR	PRIVATE OWNERS			EJIDO FARMERS.		
	AID	IDB	SUM	AID	IDB	SUM
1963	389	-	389	314	-	314
1964	3460	-	3460	3832	-	3832
1965	4480	-	4480	3799	-	3799
1966	4925	-	4925	691	-	691
1967	2906	-	2906	3509	-	3509
1968	1573	1346	2919	3187	1387	4574
1969	470	2185	2655	1706	2853	4559
1970	147	2719	2866	1601	3459	5060
1971	1361	2208	3569	651	482	1133
TOTAL	19711	8458	28169	19340	8181	27521

Long - term credits.
One dollar = 12.5 pesos.

The second program is the Special Fund of Technical Assistance and Guarantee for Agricultural Credits, whose main objective is to promote and support economically the establishment of a technical assistance and supervision service required for agricultural production loans supplied by participating institutions. This Special Fund also has a system to guarantee the partial recovery of farm credits from commercial banks.

Small farmers constitute about 80 % of the total of all farmers in Mexico, but their contribution to total agricultural production is less than 50 %. They enjoy very limited access to technical assistance and, in general, to the practical results of the agricultural research. Foreign aid in the form of low rates of interest loans, specifically assigned to rural development plans among small farm producers, would produce a greater social impact if it were oriented in greater proportions towards marginal farmers, short and long-term, and consumption credits. These credit programs should be parallel to government investment in rural infraestructure.

I. INTRODUCTION

The Fondo is managed in trusteeship by the Bank of Mexico and its funds are derived from national sources and foreign loans. These funds are for long term agricultural credits (up to 61 % of the total investment), through a system of discounts to private banks up to 90 % of the amount of the loans extended to farm producers.

The foreign funds come from AID, IDB, and IBRD. All of these foreign funds are managed by the Fondo, and are for long-term credits.

The national system of agricultural credit in Mexico is integrated by:

a) Official and private credit institutions.

b) Auxiliary organizations such as credit unions, ejido credit societies, and agricultural credit societies.

c) Industrial and commercial firms such as those selling fertilizer and insecticides, cotton mills, packing plants, equipment and machinery firms, etc.

Within the institutional sector, the private or commercial bank system is composed of deposits, savings, financial and fiduciary banks. The official system has financial institutions and banks created by the government with specific ends.

The Bank of Mexico, which is the Central Bank, plays the role of coordinating and regulating all credit institutions.

Table 2 presents the relationship between the ALPRO-AID Program and the total portfolio of Fondo and the commercial banks for the period 1963-1970. As can be seen, the proportion of ALPRO-AID financing increased during the first two years, and then decreased.

Table 2. Relationship between the ALPRO-AID Program and the total portfolio of Fondo and the Comercial Banks.

YEAR	FONDO'S PORTFOLIO BALANCES a	ALPRO-AID PROGRAM b	% b/a	MEXICO'S PORTFOLIO BALANCES c	% b/c
1963	207.7	18.2	9.0	8237	0.22
1964	365.5	119.9	32.8	9318	1.28
1965	520.3	161.1	31.0	10635	1.51
1966	751.7	151.5	20.1	12688	1.19
1967	783.5	132.3	16.9	14025	0.94
1968	1140.8	74.9	6.6	15355	0.49
1969	1225.7	33.6	2.7	16188	0.21
1970	1310.6	14.4	1.1	---	--

II. PROGRAM CHARACTERISTICS

II. PROGRAM CHARACTERISTICS

II. A. BACKGROUND

II. A.1. Historical Summary

The Fondo de Garantia y Fomento para la Agricultura, Ganaderi. y Avicultura was created by law on December 31, 1954 and started its operations in 1956.

As a part of the activities of the Fondo, credit studies or evaluatic were made as a requirement to grant a credit. The activities of the Fondo were divided into four types: a) Promotion, b) Credit studies c) Supervisi and d) Technical Assistance.

External resources for medium and long term loans began to be used in 1962. A first loan from AID of 20 million dollars was made to fina ejido farmers and small private farmery. Four years later a second loan 21.5 millions dollars was obtained from the same Agency.

At the same time short term loans were intensified using domestic funds.

The Special Farm Financing Fund was created to allocate resourc from the IBRD. A first loan of 25 million dollars obtained from this bank to finance programs to develop livestock, crop production agriculture, ar commercial rural industries.

Once the resources from the first loan from the IBRD were applie a second loan for 65 million dollars was approved to begin two sub-proje one to develop beef production in the Southeast and the Huastecas region, and the other for agricultural development to be operated in the rest of th country. The bank provided a third loan, for 75 million dollars in 1971 wh is now in operation.

Through the Special Fund a first loan from the IDB was agreed in 1968. This loan, for 20 million dollars was to continue the program relat with the Alliance for Progress. Then, second loan of another 20 million dollars, was obtained from the same institution.

Area convered in the country. The Fondo operates in almost all the country through its regional and local agencies ("residencias").

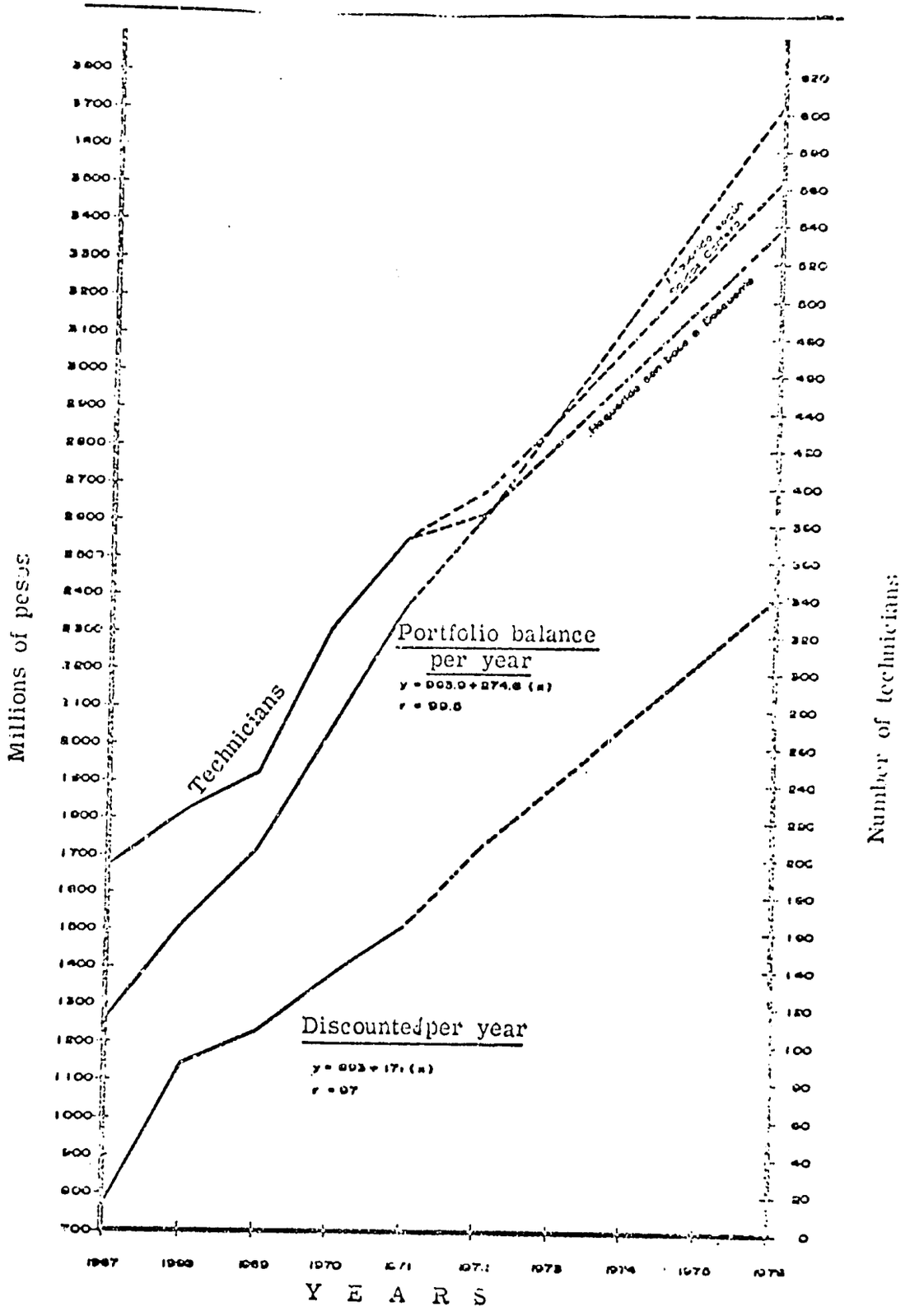
Plans for future growth. It has been considered the possibility to apply for other international loans and to use more domestic funds to finance the development of agricultural programs in Mexico.

These Funds are to be applied in two programs: one to continue the Projets sustained with previous loans and another to finance ejido farmers and farm producers. The projected area of influence of this last program covers zones of the dry tropics, mountain and arid zones in the South, West, and Central parts of the country, respectively. Supplemented with investments in rural infraestructure.

Modifications in the form of granting credit to ejido farmers are planned in these programs. The modifications consist mainly in the opening of credit lines for ejidos in which all ejido farmers are included and not only small groups belonging to credit associations or individual ejido farmers. The basis of this idea is to consider the ejido as an integral production unit and thus to extend the credit to alternative production activities and to all ejido farmers.

Next chartshows the projections of Fond's requirements of technical personnel during the next five years.

Projections on the technical personnel requirements until 1975, based con discounted total and portfolio balances



II. A. 2 Relation to National Credit System

To have an idea about the role of Fondo in the national credit system, the sources of credit in Mexico were classified above in three sectors: Institutional sources, auxiliary organizations and industrial and commercial businesses.

All these sources can also be classified as official or private institutions.

1. 1) Official institutions

a) Banco Nacional de Crédito Agrícola y Ganadero, S.A. (BANGRICOLA). This national bank gives credit for crop and livestock production to farm owners (as compared to ejido farmers who do not own any land). Created in 1926 to finance small farmers, has now six regional banks, 41 agencies, and 25 branches. 36,354 farmer were served in 1969, half of them were organized in 802 local credit societies and 1919 solidary groups; the other half were individual borrowers. The total of the associated farmers and most of the non-associated are small-farmers. 966 millions of pesos for short-term credits and 49 millions of pesos for long-term credits were operated in 1971. This raised operations to the level reached in 1966 (the level had been contracted by one third in 1969).

b) Banco Nacional de Crédito Ejidal, S.A. de C.V.. (BANJIDAL) Founded in 1935 to give credit to ejido farmers, has now 28 agencies, three braches, and three subsidiary agrarian banks with 46 agencies. It served 249,428 ejido farmers in 1969. For 1969, the amount lent reached the level of 1203 millions of pesos for short-term credit, and 285 millions of pesos for long-term credit. This increased the previous levels by 28% and 96% for the short and long-term credits, respectively. The two previous institutions receive funds from the Federal Goverment.

c) Banco Nacional Agropecuario, S.A. System. (BANAGRO). It was founded in 1965 and operates with ejido farmers and small-owner farmers. It is a national banking system with tendency to

descentralization, having at present seven regional banks, 17 a - gencies and two affiliated banks. 69 500 farmers were served in 1971. From these, 52 027 are ejido farmers, and 17 523 small - farmers. Short-term credits for 1 048 millions of pesos and long-term credits for 250 millions were given in 1971.

d). Financiera Nacional Azucarera, S. A.
Founded in 1943 to operate with sugar mills that, on their turn, gi ve loans to sugar cane producers. In 1969 this institution served - 87 158 sugar cane producers, from which 72 745 were ejido farmers and 14 413 small farmers. A credit for 196 millions of pesos - was given in 1970 for normal short-term loans.

e). Unión Nacional de Productores de Azúcar.
This is a national union of sugar producers. It controls selling and distribution of sugar production. Through the sugar mills, the u - nion gives some short-term credits to plant sugar cane.

f). Banco Nacional de Comercio Exterior, S. A. (BANCOMEXT)
This is a bank of foreign trade that provided some resources to BAN JIDAL and to BANGRICOLA by an amount of 1 712 millions of pesos - in 1970. From this, 600 millions were granted to the former and - 1 112 millions to the latter. It is important to note that these figures are 96% bigger than those for BANGRICOLA and 20% bigger than the figures for BANJIDAL in 1969.

Due to the transfer of two of its branches to BANAGRO the - operations of BANCOMEXT diminished in the years so that in 1970 - the credits to agriculture from this bank were only one tenth of those for 1966.

g). Fondo.
The Fondo finances with its resources the private banks, so that - they can give credit to the credit unions, individual farmers societies or credit groups of ejido farmers. The Fondo lends also thro - ugh official banks. These operations (with official banks) are increasing.

h). Nacional Financiera (NAFINSA)
This official company supports the development of the industry by investing in stocks of industrial firms and providing long-term credits. Sometimes the company provides funds, directly or indirectly, to establish agricultural industries and in this conexion it finances agricultural production.

i). National Bank of Cooperative Development.
This is not very important bank in relation to agricultural credit because the associations registered according to the Law of Cooperatives are a very small fraction of the structure of agricultural credit.

1.2) Private institutions of credit.

There are four types:

a)Deposit Banks. - There are 106 with 1 778 offices in the country.

b)Saving Banks. - There are 122 banks with 1 790 localities (including the saving departaments of the deposit banks).

c)Financing Companies. - There exist 92 with a total of 39 officies in the country.

Private banks and financing societies lend money for agricultural production to independent farmers and credit unions. They also make commercial loans to farmers or for the trade of agricultural products.

d)The Credit Unions. - They are organizations of farmers owners that lend money to their associates. The credit are given from own capital or resource obtained from private or national (official) banks. According to the Law, these associations are auxiliary organizations

of credit. There are several in the country, the most important located in the Irrigation District in the Pacific Coast.

The tables 3-5 summarize the credits to agriculture by the banking system from 1966 to 1971.

It is important to note a 49% increase in the different credit operations during the last five years. The highest increment ocurred in credit to livestock (61% versus a 38% for crop production). This was due to the strong emphasis given to livestock credit by deposit banks and financing - companies.

Despite the bigger increase in credit given by financing companies and other private credit institutions as compared with the corresponding - for deposit banks, these have kept their growth importance for they have - continued providing 70% from the total financing to agriculture.

The private commercial banks must follow the rules stated by "Secretatía de Hacienda y Crédito Público" (Ministry of Finance), the Bank - of Mexico, and the National Banking Commission.

In general, the private commercial banks operate agricultural credit only with associations and individuals with success and whose econo - mic stability and payment capacity are high.

Until 1955, the private banks were not very interested in financing fixed capital investments in agriculture. The Fondo has helped to change - this situation through a stimulating policy towards private banks.

II.A.3 Activities With Other Programs

To improve as much as possible the utilization of the resources - operated by the Fondo and avoid competitive situations among their financing plans, several programs were established.

1) Programa de Fondo de Garantía (PFG). Totally financed with internal resources, specifically from the federal goverment, i.e. with the original fideicommissum; this program covers mainly short-term credits, parallel to the long-term financing with resources from the other programs.

With these resources, the Fondo discounts promissory notes from credit operations made directly with agricultural producers or with the in-

Table 3. CREDIT TO AGRICULTURE FROM THE BANK SYSTEM.

(Portfolio balances as of December 31, in millions of pesos)(1)

TYPE OF INSTITUTION	1966	1967	1968	1969	1970	1971
CROP AND LIVESTOCK PRODUCTION						
T O T A L	11 213.3	12 439.9	13 515.3	15 409.6	17 696.0	20 890.6
Savings and Deposit	2 624.4	2 847.8	3 057.4	3 191.1	3 633.8	3 847.7
Financing	972.1	1 025.9	950.7	1 019.9	1 258.3	1 545.6
Other Commercial(2)	290.6	345.5	353.4	355.9	426.9	357.7
National Banks	5 966.6	6 688.5	7 408.8	8 800.0	9 998.7	12 263.4
Fondo	1 057.6	1 270.1	1 520.3	1 717.1	2 068.7	2 394.8
Rediscount Granted.(3)	302.0	262.1	224.7	325.6	309.6	454.4
CROP PRODUCTION						
T O T A L	8 188.8	8 985.2	9 730.2	11 108.4	12 570.2	14 960.1
Savings and Deposit	1 416.6	1 555.9	1 645.0	1 674.1	1 819.8	1 943.7
Financing	391.9	411.6	373.0	409.4	509.2	572.6
Other Commercial(2)	218.7	262.2	282.0	274.3	348.9	274.6
National Banks	5 440.0	5 974.7	6 559.0	7 716.5	8 734.9	10 837.9
Fondo	468.8	584.1	679.1	729.5	1 030.3	1 077.6
Rediscount Granted.(3)	252.8	196.3	192.1	304.6	127.1	254.1
LIVESTOCK PRODUCTION						
T O T A L	3 024.5	3 454.7	3 785.1	4 301.2	5 125.8	5 910.9
Savings and Deposit	1 207.8	1 291.9	1 412.4	1 517.0	1 814.0	1 931.0
Financing	580.2	614.3	577.7	610.5	749.1	973.0
Other Commercial(2)	71.9	82.9	71.4	81.6	78.0	63.0
National Banks	526.6	713.8	849.8	1 083.5	1 263.8	1 425.9
Fondo	588.8	686.0	841.2	987.6	1 038.4	1 317.2
Rediscount Granted.(3)	49.2	65.8	32.6	21.0	182.5	180.7

Source: Bank of Mexico.

(1) Actual and expired portfolio

(2) Agricultural Credit Unions included.

(3) To credit institutions, private firms, national and foreign.

Table 4

DISTRIBUTION OF THE CREDIT PORTFOLIO GRANTED TO CROP PRODUCTION BY INSTITUTIONS AND COMMERCIAL CREDIT UNIONS

BALANCES IN PERCENTAGE

DATE	DEPOSITS	SAVINGS	FINANCIAL	HYPOTHECARY	CAPITALIZER	FIDUCIARY	SAVINGS UNIONS	& CREDIT UNIONS	TOTAL
1961 Jun.	54.03	7.64	37.87	0.16	0.20	0.10	-	-	100.00
Dec.	64.05	8.01	27.23	0.18	0.40	0.13	-	-	100.00
1962 Jun.	66.90	9.73	22.60	0.24	0.40	0.13	-	-	100.00
Dec.	61.88	8.49	28.57	0.19	0.38	0.49	-	-	100.00
1963 Jun.	55.24	6.01	38.35	0.06	0.20	0.13	0.01	-	100.00
Dec.	60.02	6.88	32.58	0.10	0.20	0.22	0.00	-	100.00
1964 Jun.	64.72	5.90	29.00	0.08	0.14	0.16	0.00	-	100.00
Dec.	56.65	11.32	26.27	0.17	0.15	0.72	0.01	4.71	100.00
1965 Jun.	56.77	10.56	27.38	0.27	0.16	0.71	0.01	4.14	100.00
Dec.	52.11	12.42	28.15	0.33	0.21	0.94	0.01	5.83	100.00
1966 Jun.	54.70	13.14	24.82	0.59	0.21	1.04	0.00	5.50	100.00
Dec.	51.30	12.74	27.44	0.70	0.25	1.12	0.00	6.45	100.00
1967 Jun.	60.62	7.21	20.43	0.84	0.30	1.53	0.00	9.07	100.00
Dec.	60.96	8.81	18.46	0.91	0.38	1.24	0.01	9.23	100.00
1968 Jun.	60.86	8.27	18.77	0.87	0.36	1.17	0.01	9.69	100.00
Dec.	67.09	4.44	16.22	0.95	0.41	0.43	0.00	10.46	100.00
1969 Jun.	61.28	8.70	18.28	0.77	0.38	0.66	0.01	9.92	100.00
Dec.	62.62	8.38	17.37	0.90	0.40	0.62	0.01	9.70	100.00
1970 Jun.	60.68	8.74	19.31	0.64	0.36	1.01	0.01	9.25	100.00

The portfolio of rediscounted credit is not included.
Present and expired portfolio of credit included.
Operations among banks not included.

Table 5

Distribution of the agricultural portfolio granted to livestock production by institutions and commercial credit unions.

Balances in Percentages

DATE	DEPOSITS	SAVINGS	FINANCIAL	HYPOTHECARY	CAPITALIZER	FIDUCIARY	SAVINGS & UNIONS	CREDIT UNIONS	TOTAL
1961 Jun.	63.43	10.71	25.36	0.16	0.19	0.15	-	-	100.00
Dec.	54.30	19.63	25.31	0.14	0.26	0.36	-	-	100.00
1962 Jun.	59.39	10.14	29.59	0.13	0.40	0.35	-	-	100.00
Dec.	59.45	9.59	30.42	0.06	0.37	0.11	-	-	100.00
1963 Jun.	56.84	11.88	30.71	0.07	0.34	0.14	0.02	-	100.00
Dec.	59.17	10.85	29.44	0.05	0.36	0.11	0.02	-	100.00
1964 Jun.	59.74	10.71	29.10	0.08	0.30	0.05	0.02	-	100.00
Dec.	59.47	9.82	27.93	0.12	0.31	0.20	0.02	2.13	100.00
1965 Jun.	57.78	10.14	28.81	0.14	0.37	0.23	0.01	2.52	100.00
Dec.	57.65	9.03	30.09	0.16	0.32	0.32	0.01	2.42	100.00
1966 Jun.	56.97	9.05	30.82	0.15	0.52	0.36	0.01	2.12	100.00
Dec.	56.79	8.15	31.19	0.25	0.63	0.67	0.01	2.31	100.00
1967 Jun.	56.46	9.26	30.14	0.26	0.55	1.01	0.01	2.31	100.00
Dec.	55.59	9.36	30.88	0.22	0.61	1.01	0.01	2.32	100.00
1968 Jun.	56.13	9.87	30.19	0.22	0.58	1.01	0.01	1.99	100.00
Dec.	62.51	6.01	28.02	0.25	0.59	0.51	-	2.11	100.00
1969 Jun.	58.12	10.19	28.00	0.26	0.60	0.64	0.01	2.18	100.00
Dec.	60.06	8.61	27.63	0.31	0.49	0.69	0.02	2.19	100.00
1970 Jun.	59.38	9.65	27.46	0.25	0.46	0.70	0.01	2.09	100.00

The portfolio of rediscounted credit is not included.
Present and expired portfolio of credit included.
Operations among banks not included.

tervention of credit unions or local societies by the commercial banks.

This program is designed to finance small and medium producers.

2) Rural rehabilitation and Improvement Program Within the Alliance for Progress Framework. (RRIP). This is a program of "supervised" credit [3] initiated with resources from AID and later with resources from the IDB. It operates only by discounting notes derived from long-term credit given by the commercial banks to small producers or ejido farmers with actual or potential capacity to pay their debts, improving productivity in their farms with the credit and technical assistance provided free of charge by the Fondo.

Since this is a special training program, it was necesary to make a careful selection of the subjects of credit according to a set of factors that can give an index of acceptability; examples are: that the producer gives personal attention to his farm; that the main part of his income be obtained from the farm; that his farm has the proper size so that he can cover his debt; his assets must no be very high, etc.

These indexes are obtained by means of the study and evaluation made by technical personnel from the Fondo after previous request from the given bank to the local agency from the Fondo or to the central office, once the bank has analyzed the application and determined whether the farmer is a subjet for this kind of credit.

There are other two important programs, besides the previous ones. These programs are the ALPRO- IDB and IBRD. In these programs opportunity was given for BANAGRO to participate.

Only medium and long-term credits are allowed if they are to be discounted with charge to this program by the Fondo, and the purpose is to improve agricultural and cattle exploitations or to the primary industrialization of the products.

It is a prerequisite that the applications must be studied and evaluated by technical personnel from Fondo or by anybody authorized by the fideicommissioner the contract is made. Given the authorized amount and objetive for the credits from this program, it can be seen that they are for medium and big producers, whether individual or collective. The Fondo's responsability for each one of these programs, and the relative importance is

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3/ The other programs are also supervised

a function of the volume of the available resources in each one of them. In the accomplishment of the four programs, investments with internal resources other than those provided by the government are usually made. These investments employ funds from commercial banks or from the producers-themselves to cover the difference with their investment plans.

Tables 5-I to 5-V contain in detail the operations performed by Fondo with charge to its four programs, during the period 1963-71.

Table 5-I FONDO DE GARANTIA Y FOMENTO PARA LA AGRICULTURA, GANADERIA Y AVICULTURA

DISCOUNTS PER PROGRAM AND TOTAL IN THOUSANDS OF PESOS

DISTRIBUTION AND GROWTH PER YEAR

YEAR	DISCOUNTED PAPER THOUSANDS PESOS					PER CENT DISTRIBUTION ON THE TOTAL OF EACH PROGRAM				
	IBRD	Domestic Funds	IDB	ALPRO	TOTAL	IBRD	Domestic Funds	IDB	ALPRO	TOTAL
TOTAL	2 523 651	4 978 142	343 319	768 513	8 683 625	100.0	100.0	100.0	100.0	100.0
1971	706 381	646 360	92 155	68 168	1 513 064	27.2	13.0	26.8	8.9	19.7
1970	636 784	612 781	111 452	12 977	1 373 994	24.6	12.3	32.5	1.7	17.9
1969	487 461	621 453	82 181	34 344	1 225 439	18.8	12.5	23.9	4.5	16.0
1968	393 606	614 638	57 531	75 322	1 141 097	15.2	12.3	16.8	9.8	14.9
1967	238 292	404 363	-	132 708	775 363	9.2	8.1	-	17.3	10.1
1966	129 795	466 958	-	152 372	749 125	5.0	9.4	-	19.8	9.8
1965	1 332	356 905	-	159 246	517 483	-	7.2	-	20.7	6.7
1964	-	244 202	-	117 138	361 340	-	4.9	-	17.3	4.9
1963	-	1 010 482	-	16 238	1 026 720	-	20.3	-	-	-

Table 5-II

FONDO DE GARANTIA Y FOMENTO PARA LA AGRICULTURA, GANADERIA Y AVICULTURA

NUMBER OF LOANS DISCOUNTED BY TYPE OF PROGRAM,

RATE OF INCREASE, AND PERCENTAGE DISTRIBUTION OVER YEARS OF OPERATION

- Number of Loans -

Years	Number of Loans					Percentage Distribution Within Each Program				
	IBRD	Domestic Funds	IBD	ALPRO	Total	IBRD	Domestic Funds	IBD	ALPRO	Total
Total	19 789	38 730	5 948	12 340	76 807	100.0	100.0	100.0	100.0	100.0
1971	4 980	7 714	1 366	942	15 002	25.2	19.9	23.0	7.6	19.5
1970	5 246	8 448	2 022	76	15 792	26.5	21.8	34.0	0.6	20.5
1969	4 788	8 145	1 535	440	14 908	24.2	21.0	25.8	3.6	19.4
1968	3 104	7 600	1 025	1 374	13 303	15.7	20.2	17.2	11.2	17.3
1967	1 357	6 623		2 051	10 031	6.8	17.1		16.6	13.1
1966	311			2 607	2 918	1.6			21.1	3.8
1965	3			2 656	2 659				21.5	3.5
1964				1 909	1 909				15.5	2.5
1963				285	285				2.3	0.4

FONDO DE GARANTIA Y FOMENTO PARA LA AGRICULTURA GANADERIA Y AVICULTURA

NUMBER OF BENEFICIARIES OF LOANS DISCOUNTED BY TYPE OF PROGRAM, RATE OF INCREASE, AND PERCENTAGE DISTRIBUTION OVER YEARS OF OPERATION

- Number of Beneficiaries -

Years	Number of Beneficiaries					Percentage Distribution Within Each Program				
	IBRD	Domestic Funds	IBD	ALPRO	Total	IBRD	Domestic Funds	IBD	ALPRO	Total
Total	37 158	66 755	16 642	39 060	159 615	100.0	100.0	100.0	100.0	100.0
1971	8 736	13 154	2 690	2 013	26 593	23.5	19.7	16.2	5.1	16.7
1970	8 857	14 753	6 179	1 753	31 542	23.3	22.1	37.1	4.5	19.8
1969	8 819	14 829	5 039	2 176	30 863	23.7	22.2	30.3	5.6	19.3
1968	5 732	14 003	2 734	4 760	27 229	15.4	21.0	16.4	12.2	17.1
1967	3 093	10 016		6 416	19 525	8.4	15.0		16.4	12.2
1966	1 918			5 617	7 535	5.2			14.4	4.7
1965	3			8 280	8 283				21.2	5.2
1964				7 342	7 342				18.8	4.6
1963				703	703				1.8	0.4

Table 5-IV

FONDO DE GARANTIA Y FOMENTO PARA LA AGRICULTURA, GANADERIA Y AVICULTURA

AVERAGE OF TOTAL DISCOUNTS PER CREDIT AND BENEFICIARIES BY EACH PROGRAM.

- THOUSANDS OF PESOS -

	AMOUNT PER CREDIT - THOUSANDS OF PESOS -					AVERAGE AMOUNT PER BENEFICIARY - THOUSANDS OF PESOS -				
	IBRD	Domestic Funds	IDB	ALPRO	TOTAL	IBRD	Domestic Funds	IDB	ALPRO	TOTAL
TOTAL:	131.1	128.5	57.7	62.3	113.0	69.8	74.6	20.6	19.7	54.4
1971	141.8	83.8	67.5	72.4	100.8	80.8	49.1	34.2	33.9	86.9
1970	121.4	72.5	55.1	170.7	87.0	71.9	41.5	18.0	7.4	43.6
1969	101.8	76.3	53.5	78.0	82.2	56.3	41.9	16.3	15.8	39.7
1968	126.8	78.8	56.1	54.8	85.8	68.7	43.9	21.0	15.8	41.9
1967	175.6	61.0		64.7		77.0	40.4		20.7	
1966	417.3			58.4		67.0			27.1	
1965	444.0			60.0		444.0			19.2	
1964				61.4					15.9	
1963				57.0					23.1	

Table 5-V

NORMAL FUNDS FOR LONG AND SHORT TERM CREDITS

YEAR	SHORT TERM	LONG TERM	TOTAL
	DISCOUNTS (THOUSANDS OF PESOS)		
TOTAL	2 762 059	137 536	2 899 595
1971	646 360		646 360
1970	610 037	2 744	612 781
1969	616 428	5 025	621 453
1968	587 662	26 976	614 638
1967	301 572	102 791	404 363
	NUMBER OF CREDITS		
TOTAL	37 632	1 098	38 730
1971	7 714		7 714
1970	8 441	7	8 448
1969	8 115	29	8 145
1968	7 559	241	7 800
1967	5 802	821	6 623
	NUMBER OF BENEFICIARIES		
TOTAL	63 939	2 715	66 655
1971	13 154		13 154
1970	14 203	550	14 753
1969	14 220	609	14 829
1968	13 607	396	14 003
1967	8 755	1 261	10 016
	AVERAGE DISCOUNTS PER CREDIT & - BENEFICIARY AVERAGE AMOUNT PER - CREDIT		
TOTAL	73.4	125.3	74.9
1971	83.8		83.8
1970	72.3	382.0	72.5
1969	75.9	175.3	76.3
1968	77.7	111.9	78.8
1967	52.0	125.2	61.0

II.A.4 Relation to Pre-existing Local Institutions

By decret, the Fondo was allowed to develop, through commercial credit institutions only, the following operations.

1) Guarantee to the private credit institutions the recuperation of loans to agriculture.

2) Discount to commercial credit institutions, if necessary, credit titles from agricultural loans.

3) Open credits and give loans to commercial credit institutions in order that these institutions themselves open credit to farmers.

4) Perform other operations described in the Operation Rules, whenever they are done through commercial credit institutions.

According to the described above, it may be considered that the activities from Fondo are not competitive with those performed with other agricultural credit institutions, but they rather support the agricultural financing from commercial banks.

Previous Institutions

According to Article 2o. from the Law that creates the Fondo, it obtained its sources mainly from the previous National Fund of Agricultural Guarantee, whose operations ceased as son as the actual Fondo began to work.

Therefore, Fondo was an original institution, as far as its means and objetives are concerned, that was imposed over a previous institution absorbing its resources and growing according to its own plans.

Staff

The technical and administrative staff was provided from Bank of México. After that, the Fondo has been demanding young professionals and also people with experience in agronomy and agricultural credit.

Since 1960, an annual trainning course was established for technical staff entering Fondo. This course given and organized by Center of Agricultural Economics (CEA) of the Postgraduate College at Chapingo, has as a main purpose to homogenize criteria and train the new people in the fields

of credit, farm management and project evaluation.

II.A.5 Agricultural Pattern and Potential.

Most of the credits given by private credit institutions and discounted by Fondo with charge to each one of the development programs, are not assigned to a zone or specific region of the country but to a given investment and to producers that need them and fulfill the established requisites on each program.

It is not possible to make a description of the agricultural situation for a specific area where resources from each one of the programs operated by Fondo are applied. What can be done is to describe the geographical dispersion of credits with charge to each program, according to local agencies from Fondo and other external offices. (Tables 6, 7). In relation to the type of farmers in each program, the available information refers to amount of credit, term, purpose, and kind. From such information some characteristics of the served farmers can be inferred. See II.D.3.

[illegible]

Discounts

[illegible]

- Millions of pesos -

	1963	1964	1965	1966	1967	1968	1969	1970	1971
States	16,238	117,130	159,246	152,172	132,709	75,322	34,444	12,977	68,160
Aguascalientes	-	81	930	593	2,707	1,060	363	147	1,417
Baja California	-	-	20	-	117	-	-	-	-
Baja California Sur	-	-	-	-	109	630	-	-	-
Campeche	-	63	130	301	578	261	2,692	-	353
Chiapas	279	7,192	8,440	6,311	5,296	5,627	679	225	12,017
Chihuahua	-	6,506	6,293	13,994	8,315	2,300	218	68	44
Coahuila	-	1,723	5,025	3,016	3,278	750	-	-	255
Colima	630	801	1,960	1,532	1,947	2,570	-	4	1,154
Distrito Federal	-	-	-	-	45	-	-	-	-
Durango	90	2,594	1,224	4,300	5,550	5,009	4,913	462	1,692
Guanajuato	210	4,046	5,629	3,607	3,322	3,050	1,218	13	6,213
Guerrero	-	219	256	2,621	1,000	166	7	-	346
Hidalgo	311	2,617	2,009	1,418	1,353	770	265	-	293
Jalisco	1,604	9,690	12,143	11,900	16,467	9,003	1,065	39	1,777
México	194	4,397	3,239	4,044	3,065	714	270	-	623
Michoacán	3,305	10,173	27,042	12,340	9,142	8,294	4,702	1,691	12,313
Morelos	-	1,038	538	1,512	142	45	-	-	60
Nayarit	-	54	265	-	324	132	337	145	1,559
Nuevo León	-	4,972	2,566	2,979	2,266	3,410	1,018	-	22
Oaxaca	167	3,171	2,930	1,945	2,312	1,513	4,034	1,440	1,723
Puebla	67	760	4,406	4,161	3,452	2,150	1,094	-	3,501
Querétaro	-	433	571	1,353	479	392	76	-	1,056
Quintana Roo	-	-	-	19	14	3,356	4,461	-	-
San Luis Potosí	2,250	6,162	8,550	10,732	10,329	3,340	409	6,973	1,675
Sinaloa	1,720	8,425	10,005	12,344	21,536	3,323	1,505	1,705	2,977
Sonora	1,622	4,117	5,328	5,915	3,653	1,047	347	28	11
Tabasco	-	1,976	3,547	306	402	895	70	-	3,934
Tamaulipas	176	12,423	5,298	4,634	4,201	1,195	280	-	3,365
Tlaxcala	-	-	166	86	-	45	-	-	603
Veracruz	3,043	21,693	42,477	36,725	15,217	6,906	2,515	23	8,050
Yucatán	-	771	527	2,065	1,118	2,099	9	-	274
Zacatecas	-	230	2,140	1,608	4,021	2,541	1,563	8	891
Agencies	16,238	117,130	159,246	152,172	132,709		34,444	12,977	68,160
Mexicali, B.C.	-	-	160	1,346	617		-	-	-
Chihuahua, Chih.	-	6,506	6,400	14,032	8,305		218	68	44
Hermosillo, Son.	1,622	4,116	4,421	4,282	2,055		340	7	11
Cd. Obregón, Son	-	-	800	282	200		-	22	-
Los Mochis, Sin.	-	1,123	5,700	7,500	8,915		1,565	901	2,255
Culiacán, Sin.	1,220	7,302	5,130	4,844	12,730		-	804	717
Zacatecas, Zac.	-	378	3,100	2,629	9,537		1,926	155	2,563
Guadalajara, Jal.	1,694	6,631	9,300	11,504	15,855		1,393	39	1,520
Tepic, Nay.	-	-	-	-	-		-	145	1,558
Colima, Col.	630	3,950	5,300	1,915	2,244		230	4	1,772
Celaya, Gto.	210	4,046	5,630	3,607	3,322		1,218	13	6,213
Morelia	3,305	10,003	22,200	12,333	9,026		4,525	1,691	11,999
Pachuca, Hgo.	-	-	-	-	-		-	-	223
Querétaro, Qro.	-	470	862	1,292	570		75	-	1,057
Tlaxcala, Tlax.	-	-	-	-	-		29	-	604
Toluca, Méx.	95	4,611	3,456	5,171	3,473		315	-	623
Cuernavaca, Mor.	-	1,320	800	3,533	1,275		7	-	413
Puebla, Pue.	68	814	5,111	4,559	3,637		1,148	-	3,501
Durango, Dgo.	90	1,917	1,100	1,107	1,094		2,265	462	1,309
Torreón, Coah.	-	799	300	3,555	4,924		2,647	-	545
Monterrey, N. L.	-	11,564	6,400	6,201	6,052		1,154	-	24
Matamoros, Tamps.	-	769	1,000	1,045	1,174		-	-	435
Tampico, Tamps.	4,706	26,025	40,842	37,253	19,612		2,452	7,001	5,664
Veracruz, Ver.	2,093	10,797	15,544	13,250	7,509		900	-	6,714
Oaxaca, Oax.	176	3,100	3,093	1,746	2,312		3,980	1,440	1,723
Tuxtla Gutiérrez, Chis.	279	6,706	8,160	6,311	5,693		679	225	7,052
Villahermosa, Tab.	-	2,444	4,000	537	1,013		814	-	6,872
Campeche, Camp.	-	-	-	-	-		-	-	353
Mérida, Yuc.	-	771	530	2,143	1,377		6,418	-	275

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Table 7

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Discounts
- Millions of pesos

IBD...

	1969	1970	1971	1972
States	57,631	82,101	111,452	82,155
Aguascalientes	1,325	2,472	2,002	2,635
Baja California	-	-	517	-
Baja California Sur	82	28	55	-
Campeche	-	1,735	671	413
Chiapas	1,277	4,192	12,116	5,212
Chihuahua	3,039	2,701	[illegible]	2,298
Coahuila	999	7,012	7,195	1,137
Colima	1,070	677	828	1,251
Durango	1,569	3,050	3,494	6,167
Guanajuato	2,240	4,947	5,712	6,599
Guerrero	344	625	1,144	1,320
Hidalgo	1,161	2,096	1,496	775
Jalisco	7,119	7,397	5,034	6,075
México	1,252	2,069	1,996	3,257
Michoacán	5,002	5,627	13,374	8,551
Morelos	110	45	268	172
Nayarit	517	1,096	4,165	1,497
Nuevo León	214	1,216	1,595	249
Oaxaca	615	1,563	1,266	2,970
Puebla	787	1,699	4,581	2,670
Querétaro	135	109	1,928	2,940
Quintana Roo	-	3,575	-	-
San Luis Potosí	8,020	2,515	2,389	1,353
Sinaloa	3,574	3,714	6,200	5,675
Sonora	1,201	2,220	1,177	1,090
Tabasco	874	1,756	5,623	4,555
Tamaulipas	800	2,078	3,249	8,638
Tlaxcala	-	117	103	82
Veracruz	5,043	9,472	14,363	10,083
Yucatán	359	102	2,596	910
Zacatecas	7,143	6,194	1,287	1,775
Agencies		82,101	111,452	82,155
Mexicali, B. C.		28	517	-
Chihuahua, Chih.		2,203	4,492	2,615
Hermosillo, Son.		2,220	1,092	1,817
Ciudad Obregón, Son.		-	115	63
Los Mochis, Sin.		2,837	4,964	4,236
Culiacán, Sin.		876	1,351	1,427
Zacatecas, Zac.		8,960	3,757	4,934
Guadalajara, Jal.		8,431	5,811	6,645
Tepic, Nay.		-	4,165	1,497
Colima, Col.		882	1,206	2,346
Celaya, Gto.		4,947	5,712	6,599
Morelia, Mich.		5,321	13,019	7,647
Pachuca, Hgo.		-	1,496	775
Querétaro, Qro.		258	1,928	2,940
Tlaxcala, Tlax.		99	103	82
Toluca, México.		2,591	1,934	3,273
Cuernavaca, Mor.		578	1,331	1,450
Puebla, Pue.		2,016	4,581	2,670
Durango, Dgo.		547	1,756	3,661
Torreón, Coah.		5,561	7,759	2,772
Monterrey, N. L.		5,220	2,669	906
Matamoros, Tamps.		835	1,147	1,639
Tampico, Tamps.		8,375	9,190	13,332
Veracruz, Ver.		6,143	9,124	4,[illegible]
Oaxaca, Oax.		1,547	1,247	2,[illegible]
Tuxtla Gutiérrez, Chis.		2,[illegible]	6,450	3,710
Villahermosa, Tab.		3,183	9,214	6,[illegible]
Campeche, Camp.		-	671	413
Mérida, Yuc.		4,[illegible]	2,[illegible]	[illegible]
Cancún, Q. Roo		-		

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II. B. OBJECTIVES

II.B. OBJETIVES

II.B.1 General Objetives

Since its beginnings, the Fondo has had the following objetives.

1. Promote a bigger participation from commercial credit institutions in the agricultural financing. However, its operations have spread to national banks recently.

2. Provide financing resources to farm producers, including credits to livestock and poultry activities, always through other banks.

3. To increase the supply of agricultural commodities and support the balance of payments by means of a decrease in imports of agricultural products or the production of commodities to export.

4. To improve the level of living of the population in agriculture; as a consequence, the Fondo had as original and main purpose to promote a bigger participation of the commercial credit institutions in financing agriculture, animal husbandry and poultry.

The operations with commercial institutions are regulated by the Operation Rules with Private Credit Institutions. These rules establish that the only operations the Fondo may perform are: a) guarantee operations to recuperate credits; b) discount operations; c) grant loans and only when such operations increase the production of basic food or exportation products, as approved by the Technical Committee.

Therefore, the Fondo's first objetive was to promote the participation of the commercial banks in agricultural credit. The final objetive is to increase production in the agricultural sector, mainly from median and small producers in such a way as to improve income distribution.

Apart from the fact that Fondo operates now with the official bank, the original objetives have suffered no change. Instead, the operations have been made more efficient by modifying the operation norms, the discount interest rates, and others.

The objetives of Fondo's programs, and the policy to promote the operations of private banks in zones where there is a defficiency in credit availability, correspond to Mexico's national policy priorities in relation to agricultural credit.

Apparent Objetives

In order to improve its operations, the Fondo has made some modifications on its Operation Rules.

In general terms, they are the following. The ends of the ALPRO Program made necessary the formulation of special dispositions to select the subjects of credit. The following measures were taken:

1) The Fondo was obliged to decrease one point in the rate of discount for all operations made through the credit, and these unions could provide own resources in proportions between 10 to 20% of the total financing, reducing an additional point for each 10% of self-contribution.

In these conditions, the reduction of points in the favor of the unions would be applied as follows:

(i) One point for their intervention in the operations;
(ii) Two points when, in addition to their intervention, they provide one ten percent of the financing; and

(iii) Three points when, in addition to their intervention, they provide a 20% of their own resources.

2) The discount rates charged by Fondo (with domestic resources) to the credit institutions were fixed in 5, 6, and 7% a year for operations derived from financings to crop and livestock production. The rates of discount are to be applied with base in the percentages provided by commercial banks from their own resources and which could be for 10, 20, and 30% of the total credits given.

The rates of discount in the operations performed with charge to ALPRO are still 3% to the commercial banks with a maximum rate of interest for the producer of 7% a year (the previous rate was 6%).

The proportion of discount in this Program is 90% from the total of credit operated. In the financings from Fondo with domestic resources, the maximum rates of interest to producer continued being 10 and 12% for long and short-term credits, respectively. These percentages include salaries, commissions, and any other expenditure made by the institutions or credit unions to supervise and apply the credits. A credit contract model between the banks and the unions was formulated. This solved, as much as possible, the problems presented in the operations made with original resources from Fondo. Modifications in the discount rates in the ALPRO Program were introduced in 1968 in order to make it compatible with the operation of a new credit obtained by the Mexican government from the

IDB and whose management was granted to the Bank of Mexico within the Trust named Special Fund for Agricultural Financings; the actual rates are 7% for the producer, and 4% for commercial banks. By agreement from the Fondo's Technical Committee, the amount of the loans was decreased from $2 000 000 pesos to $ 150 000 for each farmer, in 1968. Only in exceptional cases this amount can be increased to $250 000 pesos. The experiences obtained by Fondo in credit programs for small farm producers, have caused a transformation in operation so as to accomplish its original objetives.

II.B.2 Loan Terms

a) Objetives

The objetives of the loans with charge to each of the institutions' programs, have been clearly defined in order to avoid duplicity and competitiveness among them; such goals are described in the operation rules of each program.

The loans of the Fondo's. Program should be given to the producers, for direct investment. Exceptionally, and when dealing with long term credits, it may be assigned up to 25% of its total import in paying liabilities from loans received by the producer, within the year prior to the date of the contract in which the credit is signed. No liabilities are accepted in other programs.

The purpose of the credits from ALPRO's Program is the economic improvement of small farm producers, whose farms are potentially able to increase their production with a small investment recoverable in a medium or long term, and under the supervision and technical help provided by Fondo.

The trust credits of the Special Fund for Agricultural Financing will be assigned to the increase and development of the fixed or semi-fixed actives of financed farms; i.e., only in long-term loans, the producer investing the total of the credit in one or more of the types of inversion referred to in the Bulletin No. 1548/65. These loans should be given by the private bank to agricultural producers, directly or with the participation of producers associations, such as credit unions, local societies of agricultural credit, and others.

The credits granted with charge to each of the programs should be invested by the beneficiaries, according to the purposes established and under the authorized investment concepts. To this end, there exists for each one of the programs the respective regulation by law as follows:

The Fondo's Program will provide preferential attention to applications suggesting operation plans that facilitate the economic development for zones having the suitable conditions for producing the established articles, and where the financing is defficient.

Within the "Basic Criteria" (herewith referred to as Operation Rules), which have been directing the granting of crop and livestock credits from the ALPRO's programs, it is stated:

Sixth Criterion: After consulting the Fondo's technicians, the Fondo will inform the private credit institutions, the land area and cattle that

considers appropriate to fix as a maximum in each of the program's stages for each state or agricultural region in the country, as well as the amount of loans to be granted to each producer. The fiduciarian will informe about the general agricultural programs, by states, regions or agricultural localities, setting the kind of long-term investments which considers most convenient for improving and developing the productive capacity of lands and cattle; such as those expressed as follows:

a) Small irrigation projects; installation and improvement of pump irrigation systems, wells, and others.

b) Drainage and land leveling; also improvements to avoid loses of water by infiltration.

c) Short-run investments to improve soil fertility with organic nutrients and chemicals.

d) Diversification of enterprises through the establishment of livestock activities, fruit trees, legumes, and other crops to give producers more stability and security.

e) Adquisition of machinery and agricultural equipment.

In case of a persistent surplus in the production of some crops, credit will not be granted. According to the investment conceps from ALPRO-IDB Program, investments to facilitate or improve agricultural production for which there is a deficit in internal consumption will be given credit. Same for products whose internal demand increases with the growth in population and national income level, and for exports.

Preference will be given to investments that increase or improve production capacity in the farms, such as:

(i) Development and improvement of livestock;

(ii) Development of crop production in general;

(iii) Development of fruit tree exploitations.

Under this program, credits are not given for these products: coffee, banana, cacao, sugar. Also excluded are credits to finance: (1) general and administration expenditures, (2) working capital, (3) adquisition of land, (4) debts.

II.B.2.b

Date of Payment.

The dates of payment for loans given by Fondo must correspond to the requirements of the crops or investments that are financed. The term of credit amortization will be fixed by the institutions according to the productivity of investments and the economic capacity of the farm. The institutions will be able to grant grace periods from one to three years to start the amortization of the principal whenever the investments are to buy cattle for the first time, establish fruit trees exploitations and others where incomes are not perceived during the first years.

Interests must be payed, on due time, in terms no longer than one year.

Under the ALPRO Program, partially financed with resources from the IDB Loan No. 298/SF-ME the following is specified:

The terms for long-term credits given by the banks may fluctuate between two and fifteen years, and they must be fixed in function of the productivity and payment capacity of the farm in such a way that the amortization of long-term credits can be facilitated. The producer must be left with a reasonable margin to cover his needs of living and also in such a way that the terms do not exceed the maximum established by law. The Special Fund will impose the banks terms similiar to those the banks have given to farmers. These can become grace periods to facilitate the payment of capital if necessary and accoding to the General Rule and the Law of Banks.

The Fondo will grant to commercial credit institutions the terms corresponding to the long-term credits given by the latter.

Tables 8-11 in part II.D.3 contain, by period, amount and number, the loans discounted by the Fondo with charge to programs ALPRO and IDB during the years from 1963 to 1971.

II. C. ORGANIZATION

II.C. ORGANIZATION

II.C.1 General Structure

From the point of view of financing, the Fondo is constituted by five trusteeship funds:

1. Fondo de Garantía
2. Fondo Especial para Financiamientos Agropecuarios (FEFA)
3. Fondo de Rehabilitación para Agricultores de la Comarca Lagunera
4. Fondo Forestal
5. Seguro Agrícola Integral Mutualista

In terms of operations, the first two programs are the most important, and they are the only ones described here.

1.- The Fondo de Garantía has two component programs: a) Fondo Normal financed from own resources, and b) ALPRO Program, financed from resources of AID.

2.- FEFA is constituted also by two programs:
a) ALPRO-IDB, financed with resources from IDB; and
b) BIRF, financed with resources from IBRD.

Each one of these trusteeship funds has its own technical committee that approves and manages the operations. However, the similarity of the operations of the two funds (Fondos) permits the handling of both programs as a single unit.

The Fondo is operated and handled administratively by the following structure:

A. A technical committee for each fund that establishes its credit policy.

B. A central office with directive administrative body.

C. Branch offices for program development, supervision and technical assistance.

The structure and organization of each one of the organisms of Fondo is described below. An organigram is also provided.

A. Technical Committees.

1. The technical committee of the Fondo is composed of nine property members and nine substitutes that represent the following organisms:

Ministry of Finance and Public Credit

Ministry of Agriculture

Bank of Mexico

National Bank of Foreign Trade

National Insurance Company

Bankers Association

Representatives of farmers appointed by the Government.

This committee is empowered to: a) authorize credit operation of farmers or group of farmers on the basis of the studies formulated by the technicians of the branch or regional offices; and b) fix the interest rate and fees that are going to be charged for each credit operation.

2. The technical committee of the second fund (FEFA) is constituted by six members and six substitutes. Two members are appointed by the Ministry of Finance and Public Credit, two from the Bank of Mexico, one from the Ministry of Agriculture, and one from the National Bank of Agriculture.

B. Central Office.

In this office the Directive and Administrative Body of the Fondo is located. The Directive Body is formed by a director that at the same time is the fiduciary delegate, and two sub-directors. One sub-director for Technical and Assistance Services is in charge of the agricultural and rural industry, technical aspects as well as of the technical control of the branch offices (Residencias) and the department of publications and technical advice. The other sub-director for Administrative Services is in charge of the accounting and statistical departments. There is also a Planning and Operating Department that reports directly to the Director.

C. Branch Offices. (State and Regional)

These offices are in charge of developing programs, making studies or evaluations, supervising programs, and assisting farmers in obtaining credit from private and official banks. They are located in most of the states of the Mexican Republic. They can discount credits to private and official banks up to a certain amount after they are sent to the Central office to be approved.

II.C.2 Local Structure

The branch offices or Residences of the Fondo at the state or region level are in charge of the following activities.

A. Program development

B. [illegible] studies or technical evaluations

C. [illegible]

D. Technical assistance

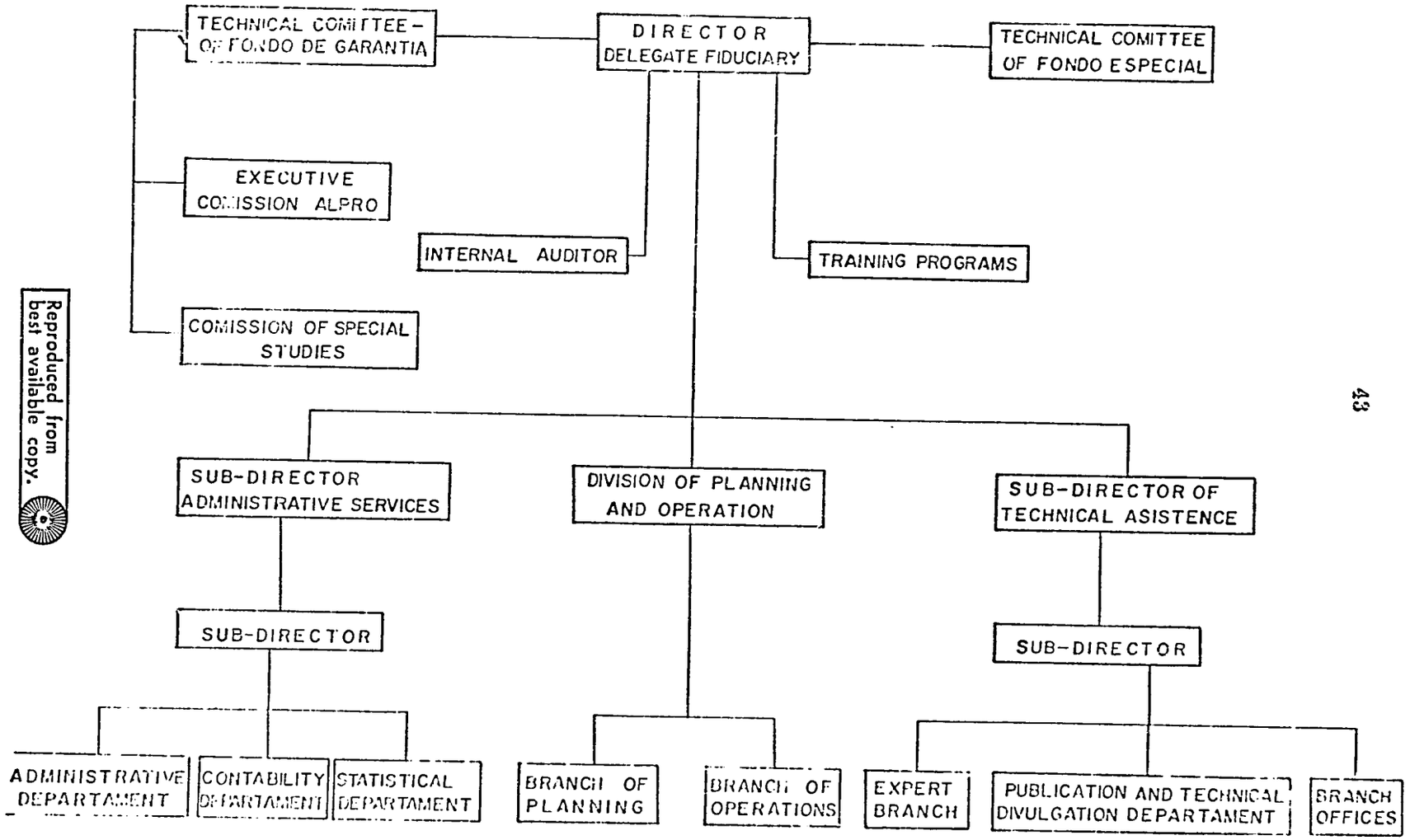
REGIONAL AND STATE BRACH OFFICES AND AGENCIES OF THE FONDO

FOREIGN OFFICES

REGION	STATE	AGENCY
NORTHWEST		
Tampico, Tamps.	Tampico, Tamps.	Cd. Mante, Tamps.
		Cd. Valle, S. L. P.
		Cd. Victoria, Tamps.
		Tuxpan, Ver.
	Monterrey, N. L.	Montemorelos, N. L.
	Matamoros, Tamps.	
	Veracruz, Ver.	Mtz. de la Torre, Ver.
		Poza Rica, Ver.
NORTH		
Torreón, Coah.	Torreón, Coah.	
	Durango, Dgo.	
	Chihuahua, Chih.	Nuevo Casas Grandes, Chih.
		Parral, Chih.
		Cd. Juárez, Chih.
	Saltillo, Coah.	Sabinas, Coah.
NORTHEAST		
Hermosillo, Son.	Hermosillo, Son.	Caborca, Son.
	Cd. Obregón, Son.	Navojoa, Son.
	Los Mochis, Sin.	Guamúchil, Sin.
	Culiacán, Sin.	La Paz, B. C.
		Mazatlán, Sin.
	Mexicali, B. C.	
WEST		
Guadalajara, Jal.	Guadalajara, Jal.	Autlán, Jal.
		Cd. Guzmán, Jal.
		Lagos de Moreno, Jal.
	Colima, Col.	
	Tepic, Nay.	
	Zacatecas, Zac.	Aguascalientes, Ags.
		San Luis Potosí, S. L. P.
	Celaya, Gto.	
	Querétaro, Qro.	
	Morelia, Mich.	Apatzingán, Mich.
		Zamora, Mich.

REGION	STATE	AGENCY
SOUTH		
Puebla, Pue.	Puebla, Pue.	
	Tlaxcala, Tlax.	
	Oaxaca, Oax.	Matías Romero, Oax.
	Toluca, Mex.	Texcoco, Mex.
	Cuernavaca, Mor.	Altamirano, Gro.
		Coyuca de Benítez, Gro.
		Chilpancingo, Gro.
		Iguala, Gro.
		Ometepec, Gro.
		Pentatlán, Gro.
	Pachuca, Hgo.	
SOUTHEAST		
Villahermosa, Tab.	Villahermosa, Ta	Emiliano Zapata, Tab.
		Teapa, Tab.
	Acayuca, Ver.	Las Choapas, Ver.
		San Andrés Tuxtla, Ver.
	Tuxtla Gutiérrez, is.	Tapachula, Chis.
		San Cristóbal de las Casas, Chis.
	Campeche, Cam	
	Mérida, Yuc.	Tizimín, Yuc.
	Chetumal, Q.R.	

ORGANIGRAM OF THE FONDO AT THE DEPARTAMENT LEVEL.



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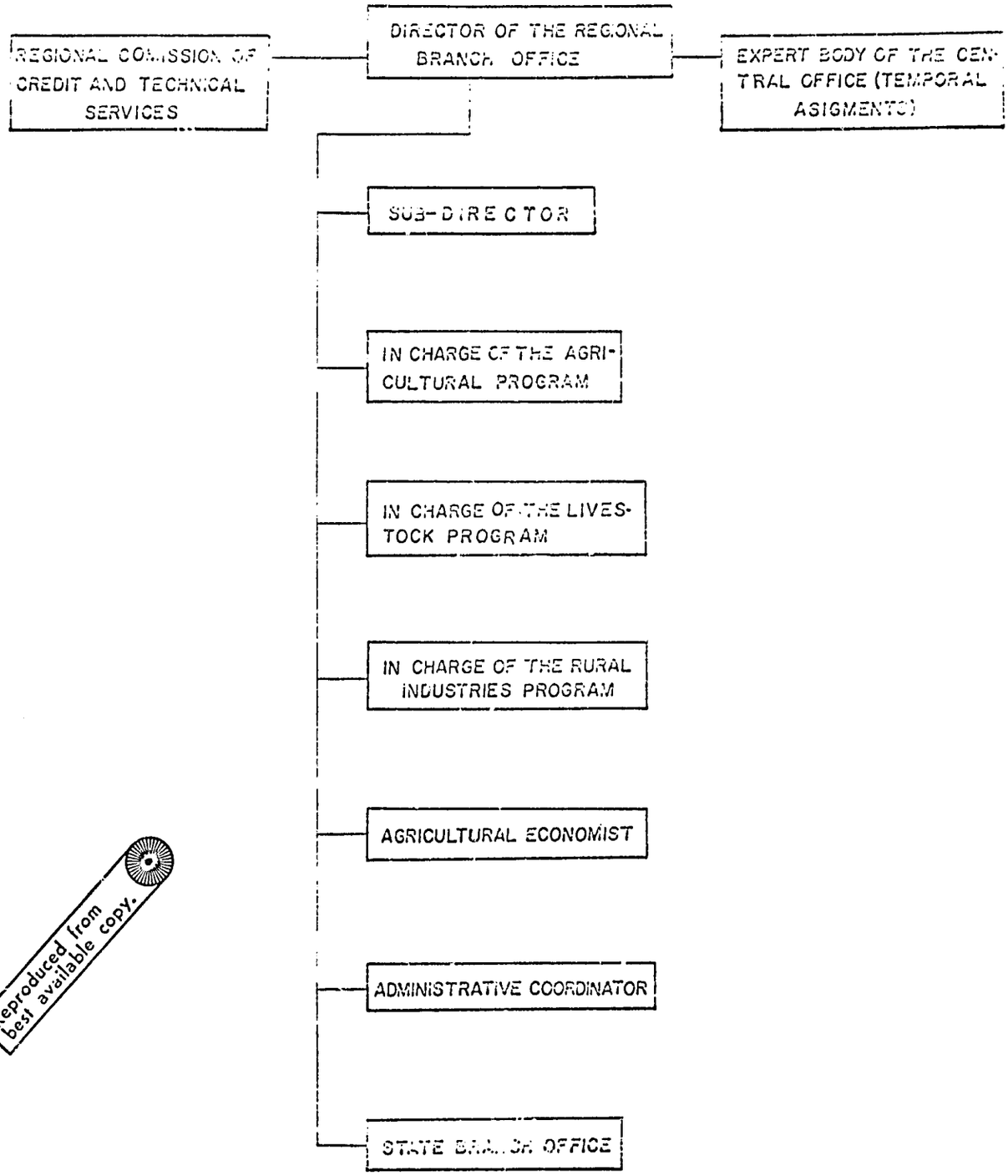
ORGANIZATION OF THE REGIONAL BRANCH OFFICES OF THE FONDO.



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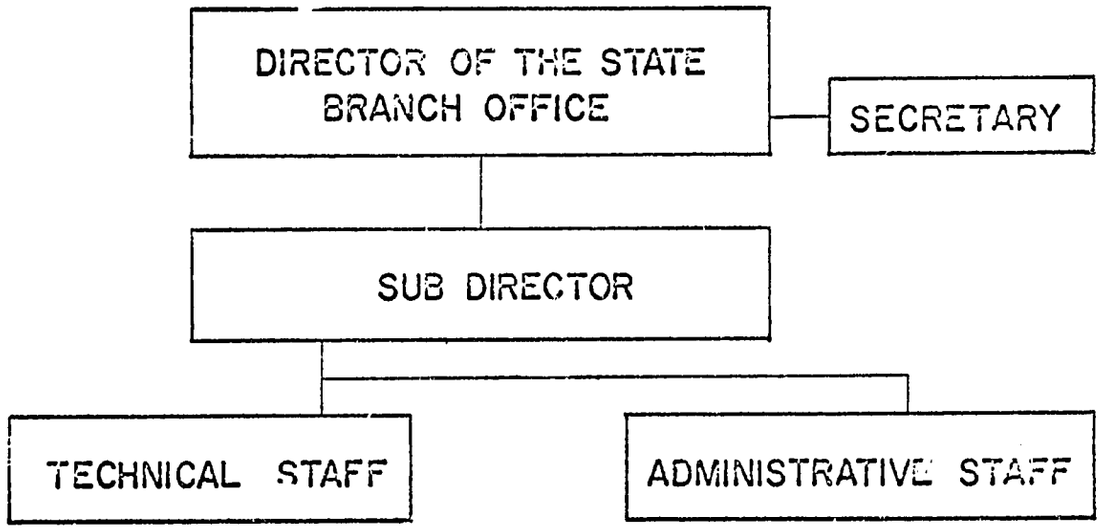
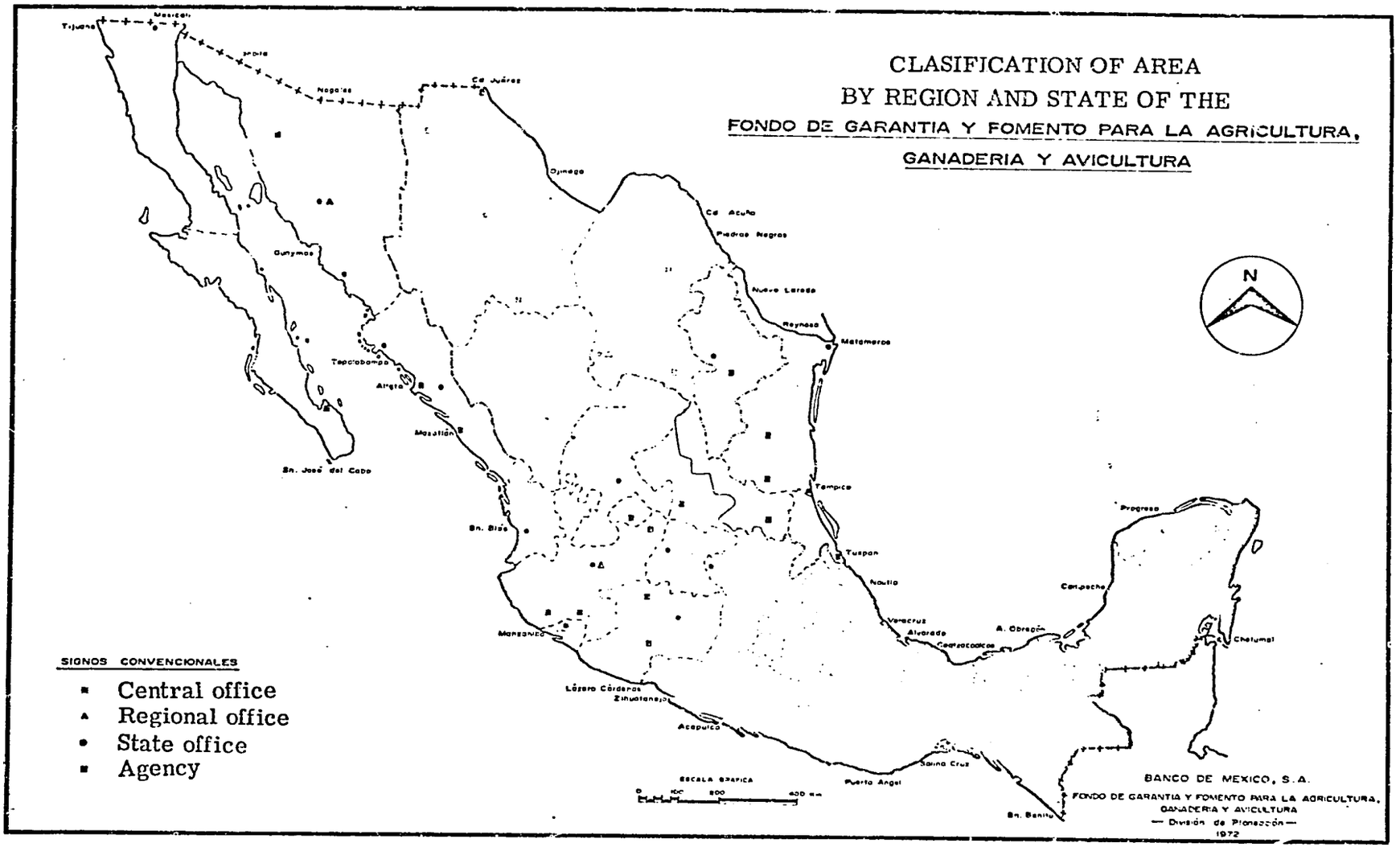
ORGANIZATION OF THE STATE BRANCH OFFICES OF THE FONDO




CLASIFICATION OF AREA
BY REGION AND STATE OF THE
FONDO DE GARANTIA Y FOMENTO PARA LA AGRICULTURA,
GANADERIA Y AVICULTURA
N
SIGNOS CONVENCIONALES
Central office
Regional office
State office
Agency
Tijuana
Mexicali
Nogales
Cd Juárez
Durango
Cd Acuña
Piedras Negras
Nuevo Laredo
Reynosa
Matamoros
Guaymas
Tepic
Tepochobampo
Alegre
Mazatlán
Sn. José del Cabo
Sn. Blas
Tampico
Tuxpan
Nautla
Veracruz
Alvarado
Coatzacoalcos
A. Obregón
Progreso
Campeche
Chetumal
Manzanillo
Lázaro Cárdenas
Zihuatanejo
Acapulco
Salina Cruz
Puerto Angel
Sn. Benito
ESCALA GRAFICA
0 100 200 400 km
BANCO DE MEXICO, S.A.
FONDO DE GARANTIA Y FOMENTO PARA LA AGRICULTURA,
GANADERIA Y AVICULTURA
— División de Planeación —
1972

A. Program development These are carried out by the technicians of the branch offices in all parts of the State to let farmers and bank officials know about the livestock and crop production credits that can be granted by credit institutions and discounted with the Fondo respectively. The program development with the credit institutions is made to show the productivity of credits discounted with the Fondo, the procedures to follow in these discounts and to assist in the selection of the subjects of credits that have productivity and capacity of payment.

The promotion with private and ejido farmers are made individually or in group. In these promotions the concepts of investments that can be financed, the rate of interest, the term of the loan and the maximum amount that can be loaned by applicant are explained.

B. Technical evaluations The studies of credit or technical evaluations carried out by the technicians of the Fondo are made whenever there is an application of a long term agricultural credit, to estimate the productive and payment capacity of the farm. If the credit is going to be given from ALPRO 1/ funds the first objective is to determine if the prospect of credit fill out the requirements that are foresight in the operation rules of the Fondo.

a) That the applicant be personally dedicated to the exploitations of its plot of land.

b) That its main source of income be from the operation of the farm.

c) That the land area must not be greater that the one indicated in the Agrarian Federal Law.

d) That the investment program be necessary and permits the improvement of the farm and the producer.

e) That the credit must not be larger than $150 000 pesos. However it can reach up to $250 000 if it is recommended by the technical committee.

1/ ALPRO-AID and ALPRO-IDB.

In these studies of credit or evaluations, the technicians must see the whole plot of land, identificate type and quality of the soil, its productivity, the kinds of crops that can be planted, the equipment, constructions and installations of the farm, justify together with the farmer the concepts of investments, calculate the gross income and the expenses for the period of the loan. Once the net income after crop expenses is calculated, the family expenses and other debts are substracted. The results gives the capacity of payment that determines the terms and forms of payment of the credit obtained. In the case of investments for livestock concepts, the evaluation must consider the amount of cattle available at the present and at the future, the projections of increment and the program of amortization of the credit obtained.

C. Inspections The supervision of the credit discounted from the Fondo is carried out at two levels: at the farm, and at the credit institution granting the credit.

a) At the farm level.- In this case, the technician of the Branch Office of the Fondo is obliged to supervise at the farm level that the whole amount of credit be invested in the concepts that were contracted with the credit institution. After that, the technician makes other visits to follow the development of the investment and the productive process. If there are some problems that put in danger the recuperation of the loans, the technician could recommend to the credit institution to rescue partial or totally the loan, or defer the terms of payment.

b) At the institution level.- Analyze the credit contract to see if there are no anomalies in the term and forms of payment. That the rate of interest is the correct one, that there are no other charges beside the ones that were contracted. That the documents which are going to be discounted with the Fondo are correct and have the correct signatures of both sides, and that the contract follows the norms and rules established by the Technical Committee.

D. Technical assistance This assistance is provided at the farm and institution level.

a) At the farm level.- In the case of an ALPRO credit program, the farmer is helped to formulate the credit application and to see if the kind of investment that he is proposing is adequate with the kind of resource that he owns. Once the evaluation is made, it is known if the small farmer is a credit prospect and if he could pay the credit that he is asking for. If together with the ALPRO credit he asks for a complementary credit for crop or livestock production, he could be assisted in the technical aspects from the people from the Fondo in the amount of modern inputs that he can use in order to increase the productivity, crop rotation, management of livestock, and other aspects.

b) At the institution level.- The credit institution is assisted in the formulation of long term credit programs for farmers and cattlemen. The way to apply for lines of credit from the Fondo to be used for discounting purposes, the formulations of the ministrations of funds for crops and livestock, and to make the contracts and documents for discounting in accordance to the norms and rules of the Fondo.

In the appendix to this work a program of credits that could be granted to farmers and discounted with the Fondo is attached.

II - D BENEFICIARIES

II.D. BENEFICIARIES

II.D.1 Selection Criteria

None of the financing programs for small and medium farmers that are operated by the Fondo may be considered as just pilot programs, given the credit quantities that are normally managed in each program and the widespread distribution of them throughout the country.

The Fondo does not operate directly with the producers, but it makes loans through the private banks which must select the subjects of credit in accordance with the operating rules of each program.

The ALPRO program is defined so that the small producers must satisfy the following requisites in order to be elegible for banks credit.

a) Be proprietors of agricultural operations that own a land area no greater than the maximum one indicated in the Agrarian Federal Law and to be personally dedicated to their operations, this being their main source of income.

b) If the subject of credit is an ejido farmer, he must be able to show either the respective parcel title or a document in which he can prove his legal rights to work the land.

c) That the assets of the farming operations of small private farmers and ejido farmers do not exceed of five hundred thousand pesos ($500 000) and the gross annual income of the applicants must not be greater than one hundred thousand pesos ($100 000).

d) Groups of mutual financial responsability formed by small farmers or ejidatarios will receive preference in this program. Preference will also be given to banks that apply for Special Fund credits to be channeled to small farmers and ejido farmers.

To stimulate the productivity of the operations of the small farmers and ejido farmers, attempts will be made to organize groups in order to form economic-sized operation units, to facilitate the securing of services in order to decrease the costs of production, and to make more efficient the productive process. Also, in this way the group would be able to apply for larger amounts of credit that will be prorated among the members.

Among the general characteristics which must be satisfied by small farmers in order to be considered elegible for credit-- characteristics which also serve as a basic criteria for the allocation of the resources of the ALPRO Program-- are the following:

1. "The long and medium term credits for the improvement of the agricultural unit that will be financed under the ALPRO Program could be extended only to small farmers who personally work their land and who by the improvement of their farms, could increase the agricultural productivity of their lands and thus obtain greater income from those lands.

2. "The Fondo, on the basis of recommendations made by their technicians, will determine the maximum area subject of financing and the maximum loan value to be extended to farmers elegible for participation in the program.

"The ejido farmer considered elegible for the ALPRO credit program are the following:

a) "All the ejido farmers that usufruct their agrarian rights even though do not have the respective parcel title, and the ones that have the legal position of their plot by a correspondent certificate of agrarian rights.

b) "Ejido farmers without a certificate of agrarian rights may be elegible for ALPRO credit if they previously fulfill the following requisites:

(i) "In case that the ejido farmers have already attempted to obtain their parcel title from the agrarian authorities, must inform the private bank, at the same time that they make their credit application, regarding the state that holds the records of the attempts; and they must make a written promise that they will continue pursuing the attempts.

(ii) "The ejido farmers which have not made any attempt to obtain those titles must enclose with their credit applications a written irrevocable promise to carry out the necessary procedures in order to obtain them, and that will be immediately initiated.

The amount of the ALPRO credit that could be furnished to a producer is not subject to any constraint, but each credit application must be previously studies and evaluated to the fiduciary's satisfaction by an agricultural technician chosen by the institution, with the approval of the Fondo, and paid by it. The technician will study, without any cost to the producer, the characteristics of the farm and the operation, and the producer will be advised in order to adjust his credit application to embrace the improvements that are recommended and are more suitable to improve his operation.

II.D.2 Graduation Policy

According to the economic results that the beneficiaries of credit obtain in their operations, they may be classified as solvents or insolvents.

In the group of the insolvents are included the creditors that do not fulfill the conditions and terms of payment of the financing either because of factors beyond their control or because of their own mismanagement.

In the group of solvent creditors are included those that only maintain their solvency through the years and, in addition, capitalize their savings in such a manner to increase constantly their assets and their productivity.

A large part of the first group of creditors might change their degree of solvency if they could incorporate in their farming practices a higher level of accumulated experience and technical recommendations. The above implies not only the intensification of the services but also the modernization of means and systems of communication for the training of small farmers and ejido farmers.

Adequate financing of the production activities of the beneficiaries constitutes an important means to improve the volume and level of income of the producers. Once this is carried out successfully, it generally occurs that the producers do not have the need to apply for long term credit in subsequent periods.

In the programs that are operated by the Fondo, there are cases in which the creditor receives financing for various years, sometimes as a member of a group and other times as an individual. In this last case, some beneficiaries have received individual credits given for different purposes, as well as complementary credits for crop and livestock production.

The solvent beneficiaries that capitalize part of their profits may get out of a financing with the ALPRO program, but in subsequent operations are financed with a different program.

The system of selection criteria to choose the subjects of credit of the ALPRO program puts in evidence the necessity of having financing programs for capacitation, that could be named "supervised credit for the marginal producers with or without potential production.

While in the ALPRO program the recuperation of the loans is practically safe, in a supervised credit program exists a risk of no recuperation that jointly with the costs of capacitation and technical assistance must constitute the social cost of development of that sector of producers. This by itself justifies an adequate development program to conditions and necessities of all those marginal producers.

II.D.3 Number and Types

The description of number and types for the ALPRO Program's beneficiaries can be found in Tables 8 and 9.

Table 8

S L FU R AG TUPA ANCI

DISCOUNTED PAPER

ALPPO

-Thousands of pesos-

Categories	1963 Number	1963 $	1964 Number	1964 $	1965 Number	1965 $	1966 Number	1966 $	1967 Number	1967 $	1968 Number	1968 $	1969 Number	1969 $	1970 Number	1970 $	1971 Number	1971 $
Subsections		16 238		117 138		159 246		152 372		132 708		75 322		34 344		12 977		68 168
Crop production		3 059		33 051		63 949		57 100		43 346		19 707		10 104		10 047		25 244
Beekeeping		-		207		205		277		44		160		136		13		235
Poultry production		-		400		534		783		365		410		-		-		99
Pig production		225		2 891		4 532		4 729		6 002		4 540		1 087		793		2 549
Livestock production		12 954		80 590		89 910		89 361		61 511		50 481		23 017		2 124		40 147
Agricultural industries		-		-		100		60		1 440		18		-		-		4
Total number of beneficiaries	703	16 238	7 342	117 138	8 280	159 246	5 017	152 372	6 416	132 708	4 700	75 322	2 176	34 344	1 753	12 977	2 013	68 168
I. Farmers	352	14 325	3 460	105 960	4 480	132 365	4 925	143 065	2 906	105 368	1 573	57 240	470	17 014	147	5 157	1 351	42 714
1. Individual	214	10 283	1 436	74 033	1 947	95 700	1 900	81 722	1 464	72 919	848	41 493	214	6 157	35	3 036	619	24 554
2. Group participants	175	4 042	1 993	29 572	2 155	36 306	2 621	53 812	1 324	32 063	685	15 521	234	6 236	12	92	698	13 [illegible]
3. Societies	-	-	10	252	14	90	61	2 013	118	386	42	235	17	2 621	100	2 029	44	4 [illegible]
4. Regional program	-	-	21	2 131	364	9 269	243	5 518	-	-	-	-	-	-	-	-	-	-
II. Ejido farmers	314	1 913	3 882	11 170	3 792	26 725	691	9 235	3 509	27 304	3 187	18 073	1 706	17 310	1 601	7 815	651	25 541
1. Individual	2	13	12	416	25	666	7	78	18	635	64	1 122	2	14	1	22	2	120
2. Group participants	312	1 900	2 348	7 859	3 585	25 402	517	9 062	2 405	14 176	2 760	14 272	1 649	17 261	959	6 622	374	7 325
3. Societies	-	-	22	63	22	144	-	-	1 066	12 347	363	2 679	55	15	642	971	275	17 [illegible]
4. Regional program	-	-	1 500	2 812	167	453	167	95	20	144	-	-	-	-	-	-	-	-
III. Service farmers	-	-	-	-	1	136	1	72	1	36	-	-	-	-	5	5	1	13
1. Individual	-	-	-	-	1	136	1	72	1	36					5	5	1	13
Terms	285	16 238	1 903	117 138	2 656	159 246	2 607	152 372	2 051	132 708	1 374	75 322	440	34 344	76	12 977	942	68 168
	-	-	4	107	30	582	25	480	13	308	9	148	-	-	-	-	-	-
	6	162	62	1 535	117	3 319	173	5 278	96	2 620	60	2 667	35	860	8	1 569	37	1 525
	32	844	272	8 823	516	17 127	507	20 691	504	17 719	274	10 556	74	4 702	10	250	173	8 412
4	33	1 421	295	12 301	685	22 704	745	24 723	488	26 073	325	15 715	117	5 767	6	52	201	10 421
5	203	11 676	1 038	73 733	1 166	79 775	986	66 580	903	62 330	529	31 151	100	5 952	13	770	261	14 [illegible]
	7	389	95	5 175	64	4 902	146	4 729	53	4 522	68	3 037	11	234	4	110	141	7 [illegible]
	1	167	30	2 084	3	270	7	901	6	852	16	1 115	6	4 537	5	2 464	63	[illegible]
	1	288	10	2 134	10	2 144	4	764	8	464	16	2 674	10	3 963	9	2 023	47	11 464
9	-	-	38	2 475	10	10 363	6	10 038	49	4 274	55	2 200	56	2 729	12	847	16	6 [illegible]
10	2	1 900	25	8 677	55	18 040	28	10 180	11	13 336	18	6 059	23	5 525	8	4 892	3	1 245
Groups of Credit	285	16 238	1 903	117 138	2 656	159 246	2 607	152 372	2 051	132 708	1 374	75 322	440	34 344	76	12 977	942	68 168
1 a 2 500.00	-	-	32	22	23	30	27	36	2	4	114	4 630	-	-	2	3	1	57
2 501.00 a 10 000.00	41	262	193	1 262	490	3 022	504	3 205	160	1 043	92	626	9	86	4	23	30	235
10 001.00 a 25 000.00	48	821	327	5 638	467	7 637	506	7 994	360	5 838	289	4 722	71	1 021	14	210	178	3 251
25 001.00 a 50 000.00	65	2 997	556	20 161	649	23 555	613	21 555	570	20 035	355	12 805	128	3 824	11	224	356	12 685
50 001.00 a 75 000.00	41	2 296	254	14 489	371	21 271	319	18 371	301	16 634	178	9 906	66	3 356	5	105	182	9 313
75 001.00 a 100 000.00	33	2 667	266	21 470	299	23 754	299	23 582	309	24 161	157	13 467	49	3 746	1	19	89	6 862
100 001.00 a 150 000.00	22	2 506	161	18 377	196	22 056	163	18 263	180	20 360	94	10 531	35	2 544		191	40	4 [illegible]
150 001.00 a 200 000.00	6	955	88	13 250	90	12 827	107	16 006	82	11 099	32	4 838	7	349	8	1 267	4	637
200 001.00 a 250 000.00	5	906	16	2 977	42	8 262	36	7 438	32	6 355	13	1 767	9	1 [illegible]	7	602	4	628
More than 250 001.00	4	2 638	36	19 472	29	36 764	33	35 732	45	27 099	40	12 750	66	18 325	20	10 313	53	29 164

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Table 9

SPECIAL FUND FOR AGRICULTURAL FINANCINGS

DISCOUNTED PAPER

IDB

- Thousands of pesos -

CATEGORIES	1968 Number	1968 $	1969 Number	1969 $	1970 Number	1970 $	1971 Number	1971 $
Subsectors		57 531		82 181		111 452		92 155
Crop production		15 790		23 830		33 990		35 134
Bee keeping		-		125		9		-
Poultry production		45		103		1 300		325
Fruit production		3 937		3 317		3 703		7 350
Livestock production		37 759		54 806		71 539		43 755
Agricultural industries		-		-		853		591
Type and level of Beneficiary	2 734	57 531	5 039	32 181	6 179	111 452	2 639	92 155
I. Owners	1 346	40 179	2 135	59 021	2 719	77 065	2 208	54 594
1. Individual	602	27 769	665	34 256	1 104	42 734	712	30 930
2. Group participants	697	12 268	1 236	23 220	1 501	31 872	1 413	23 658
3. Societies	47	122	84	1 605	111	2 459	82	5 006
II. Ejido farmers	1 387	17 316	2 853	22 965	3 459	34 319	482	27 561
1. Individual	10	144	7	139	3	46	5	165
2. Group participants	810	5 997	1 930	14 427	1 430	17 766	238	7 196
3. Societies	567	11 175	916	8 399	2 026	16 505	239	20 166
III. Tenant farmers	1	36	1	135	1	68	-	-
1. Individual	1	36	1	135	1	68	-	-
Credit terms (years)	1 025	57 531	1 535	82 181	2 022	111 452	1 366	92 155
1	10	131	-	-	-	-	-	-
2	88	1 746	214	5 779	136	4 402	79	3 036
3	266	8 919	417	14 498	418	12 759	300	13 069
4	200	11 907	351	19 364	421	21 659	369	20 052
5	373	22 379	440	27 276	615	31 150	354	20 [illegible]
6	51	3 310	27	3 617	233	12 424	137	9 734
7	17	648	17	622	104	6 011	52	5 303
8	2	580	19	2 358	31	5 311	18	2 151
9	16	7 389	32	2 461	27	4 635	14	10 508
10	1	522	18	6 206	37	12 401	3	3 612
Stratification of Renting by size of loans	1 025	57 531	1 535	82 181	2 022	111 452	1 366	92 155
1 - 2 500.00	1	2	1	2	23	600	30	1 554
2 501.00 - 10 000.00	109	714	135	912	62	901	31	737
10 001.00 - 25 000.00	227	3 556	317	5 025	384	6 761	248	4 451
25 001.00 - 50 000.00	248	8 281	422	14 241	761	25 408	572	20 405
50 001.00 - 75 000.00	152	8 316	225	12 040	309	15 952	220	12 630
75 001.00 - 100 000.00	142	11 226	189	14 551	177	12 252	135	10 750
100 001.00 - 150 000.00	80	8 065	125	12 213	121	11 509	70	7 922
150 001.00 - 200 000.00	23	2 431	23	1 878	33	2 567	11	1 571
200 001.00 - 250 000.00	21	2 281	26	3 505	34	3 798	6	1 434
More than 250 000.00	22	12 659	68	17 814	118	31 593	43	30 439

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II.D.4 Other Sources of Credit

In exceptional cases, creditors may obtain a suplementary loan for production and are furnished to increase the productivity of the first loan, generally of the long term type. Another common source of financing is the usury in the rural areas, with high interest rates for short term credits and payments are made in kind at current prices in the harvest periods.

Other sources of credit are the official banks and firms that sell inputs or buy the crops.

II.D.5 Profile of Farm Community

The information obtained in the evaluations of credit studies of the beneficiaries of each of the programs that manages the Fondo. in each locality is handled statistically for the institution. However, the great dispersion of the credits granted is not possible to relate and characterize in a practical form the beneficiaries with the communities where they live.

Nevertheless, and as consequence of the requirements to be fulfilled to be a credit subject into the ALPRO Program, only those which join the size conditions of their property, amount and value of assets and gross income are elegible to obtain credits from this source. It may be mentioned that the beneficiaries in this and other programs are relatively homogeneous.

Next table shows the number of beneficiaries that received ALPRO credits in the years of 1967 to 1970.

In accordance with the projections made by Fondo for 1976, the number of creditors with ALPRO-IDB funds will be 8 000, while the creditors with ALPRO-AID funds will decrease.

Table 9a. ALPRO CREDIT BENEFICIARIES. MEXICO. 1967-1970

		1967	1968	1969	1970
IBD funds	Small farmers	-	1 347	2186	2720
	Ejido farmers	-	1 387	2853	3459
AID funds		6416	4 760	7295	7932
TOTAL		6416	7 494	7295	7932

Table 10

DISCOUNTED CREDITS PER ACTIVITY

ALPRO-IDB PROGRAM

(THOUSANDS PESOS)

ACTIVITIES	1968	1969	1970	1971	1972	1973	1974	1975	1976
1- Cattle	11.962	19.884	26.831	21.026	28.460	31.874	35 288	38.702	42 116
2- Dairy cattle	8.120	13.497	18.214	14 250	19.298	21.609	23 920	26 231	28 542
3- Hogs	1.310	2.177	2.938	2.306	3.119	3.494	3 869	4.244	4.619
4- Poultry	45	73	448	127	328	390	452	514	576
5- Goats	22	36	49	15	28	28	27	26	25
6- Sheep	21	36	49	31	45	49	53	58	62
7- Various livestock	393	653	881	673	913	1.019	1.125	1.231	1.337
8- Rural constructions	4.711	7.631	12.938	13.758	17.867	21.111	24 355	27.599	30.843
9- Machinery, implements and equipment	13.192	16.406	17.814	13.607	15.916	16.181	16.446	16.711	16.976
10- Equipment, Hidraulic constructions and - installations.	9.704	9.178	13.970	10.107	12.239	12.839	13.439	14.039	14.639
11- Crops	1.752	4.947	6.713	5.897	8.377	9.797	11.217	12.637	14.057
12- Development of soils y land	4.213	4.910	5.720	6 156	6.910	7.574	8.238	8.902	9.566
13- Fruit trees	1.815	1 956	3.761	4.120	5.093	5.965	6.837	7.709	8.581
14- Others (floriculture, bee keeping, industrial plants*	271	797	1 136	82	407	370	334	297	261
T O T A L :	57.531	82 183	111.452	92.155	119 000	132.300	145.600	158.900	172 200

* And electrification.

Table 11

PROJECTIONS OF DISCOUNTS BY FIELDS OF INVESTMENT

AND TYPE OF BENEFICIARY

ALPRO-IDB PROGRAM

	1968	1969	1970	1971	1972	1973	1974	1975	1976
TOTAL DISCOUNTS 1/	57 531	82 181	111,452	92 155	119.000	132 300	145 600	158.900	172 200
CATEGORIES									
Livestock production 2/	37.804	54 909	72 897	49.080	66,623	71,804	76,985	82.166	87 347
Crop production	15 790	23 830	33 990	35 134	44.233	51.052	57.871	64 690	71,509
Fruit production	3 937	3.317	3 703	7,350	7,230	8.292	9.354	10 416	11.478
Others	-	125	862	591	914	1.152	1 390	1.628	1,866
TYPE OF BENEFICIARY									
NUMBER OF:									
Small farmers	1.347	2 186	2,720	2 208	2.891	3 202	3,513	3.824	4 135
Ejido farmers	1.387	2 853	3.459	482	3 627	3.838	4 049	4 260	4.471
T O T A L :	2 734	5 039	6,179	2.690	6 518	7,040	7.562	8.084	8,606
PERCENTAJE:									
Small farmer	49	77	44	82	44	46	47	47	48
Ejido farmer	51	23	56	18	56	54	53	53	52
T O T A L :	100	100	100	100	100	100	100	100	100

1/ Thousands of pesos

2/ Poultry production included.

Independently of the small farmers and ejido farmers financed by private and official credit institutions, those financed with resources from the ALPRO Program account for about 3.3 % of the total farmers of the country with such characteristics.

In all the country, ejido farmers and private farmers may be found working side by side. However, in the most important agricultural regions of the country such as the Northwest, El Bajío, La Laguna, and others, the differences between the working conditions and earning of the small farmers and ejido farmers and the middle and large farmers or cattlemen with own or rented lands, become important. These differences are mainly due to quality and quantity of natural resources, technology used, mechanization, and financing.

II. E. LOAN POLICIES AND PROCEDURES

Credit farmers who receive resources from Fondo may obtain various loans at the same time, if they satisfy the necessary requisites for them. Also, in certain cases, some of these loans may be assigned to the payment of liabilities. This situation is foreseen in different documents in the institution's regulation of operations. In Paragraphs I and II, from No. 3 in the Fondo's Operation Rules, the following is stated:

I. Credits may be granted only to producers to get started. Only in extraordinary cases, in dealing with long term credits, assignation up to 25% of total credit for payment of liabilities, resulting from transactions done by the producer within the year before the date of the contract, may be accepted.

II. "The total amount of the credit granted to one person should not exceed $100 000 pesos when dealing with short term credits, and $200 000 pesos with long term credits; neither the total of both credits granted to one producer may exceed $250 000. Just on exceptional cases, upon consultation with the Technical Committee, these credits may reach twice the fixed limits."

In Fondo's Bulletin No. 1400 of December 30 1959, addressed to commercial credit institutions, Section I. B. states the following: "Individual limits of $100 000 pesos for short term credits, $200 000 pesos for long-term credits combined will not apply to cattleship credits, but in this case the maximum Fondo may finance to commercial credit institutions should not exceed $500 000 pesos for each cattle producer who receives credit from the mentioned institutions.

With ALPRO-IDB fund the higher amount of credits granted will be $150 000 per beneficiary. Regarding credits given to producers' groups or associations, the highest financing will be $5 000 000 pesos whenever in allocating it among the group members, the individual responsability does not exceed $150 000 pesos.

The Seventh Crite rion of this same program states that "in order to provide payment capacity to producers who obtain longterm loans, attention will be given to commercial credit institutions in terms of having enough funds to provide short-term loans necessary for cultivating benefited lands and developing the corresponding livestock exploitations.

Commercial credit institutions will give short-term loans during during the amortization period of the long-term loans. With reference to the former loans, the agreement between the credit institution and the producer receiving the credit, could be made clear in the corresponding contracts in order to control the recuperations of long-term loans.

A circular letter of March, 1969 to the credit institutions being financed with funds from different programs of Fondo, says:"... the top loan per producer receiving credit has been reduced from $250 000 to $150 000 pesos with the purpose of distributing the benefits from the ALPRO Program among a greater number of producers." It was not possible to determine the way in which the beneficiaries have been repeating their transaction with any of the programs during past years, because there was no available proper information from previous evaluations. However, it is a fact that many producers have obtained more than one loan.

II. E. 2 Interest Rates

As stated above, in financings with resources from Fondo the private bank may not charge farmers for the use of money interest rates higher than 12% in short-term credits, nor higher than 10% a year in long-term credits, ordinary interests, collecting expenses, inspection, opening of credit or other charges included, except in cases of nonfulfillment, in which the institutions are legally authorized to name an auditor, and all expenses generated by this will be charged to the debtor.

In case of delay on payment of the debtor's obligations, the debtor should pay moratory interests, at a rate fixed by the institution and the Fondo. The interests generated should be paid after due time, on periods no longer than a year. In financings with funds from the rehabilitation and rural development program within the ALPRO objectives, given its aims and the special quality of the credit subject, the interests charged by the banks to producers should not be higher than 7% per year, this rate including the expenses generated in the normal handling of the credit, being possible to set moratory interests no higher than 6% per year.

In the credit lines of the ALPRO-IDB Program for loans or discounts to banks, there should be stated interests-- on unpaid balances, in terms of the percentage of the discount and according to the following table.

Discount Proportion %	Bank Contribution %	Discount Rate %
90	10	4.6
80	20	4.3
70	30	4.0

Banks may only collect money from debtors, and these will only be compelled to pay up to 7.6% per year on unpaid balances, including interests, honoraries, commissions, and any other institution expenses to the credit beneficiaries, without falling into penal interests in the event of delay within the limit fixed by the fiduciary.

With reference to the transactions between Fondo and private banks, in the first Operation Rules done by the Technical Committe, the interest rates were fixed between 5.5 and 9% per year, according to the proportions of the agricultural loan provided by Fondo's Program. In the measure in which the proportion granted by Fondo increased, the rate of interest to be charged to the commercial institution increased too, not being able the latter to charge its clients in transactions more than 12% per year. The purpose of this policy established by the technical Committee, was to further encourage the commercial banks, with reference to interest rates and discount proportions in the financings.

Upon these bases, the second operative formula was: authorize commercial banks financings up to 100% of farm loans granted; establish for operations between Fondo and banks, an interest rate 5% when the final beneficiaries are ejido farmers, small farmers or credit unions, the rate charged to them not being higher than 11% in short-term loans, and 9% in long-term loans; establish interest rates of 6% when Fondo's financings are not higher than 90% of the final loan, and under the condition that the bank itself keeps the credit lines for ejido farmers or small řpdicers om tje proportion determined for each case. The highest loan per producer remained at $100 000 pesos on short-term loans; $200 000 on long-term loans, and $250 000 on combined credits. The interest rate charged to farmers should not be above 12% on short-term, and 10% on long-term loans.

The Operation Rules for Fondo's Program were changed on December 30, 1959. In reference to discount and interest rates, it was established to finance up to 70, 80, and 90% of livestock loans, with interest rates charged to the bank by Fondo of 6, 7, and 8% respectively; the farmers would be charged interest rates no higher than 10% in long-term, and 12% in short-term loans. When operating with credit unions, the Fondo may reduce its interest rates by half-point, if the institution receiving the money does the same with de unions. The Operation Rules suffered new radical modifications in 1966 tending to provide a greater participation of the credit unions in the obtainment of credits. The main object was that commercial banks and unions could enlarge and improve their inspection and technical assistance to producers. For this purpose, the following steps were taken: a) The Fondo should reduce by means of commercial institutions, one point in the discount rate in all those operations done in collaboration with unions; besides, they were given the oppoortunity to operate credits with contributions of 10 and 20% from their own resources. Also, the Fondo reduced and additional point for each 10% of their contribution.

b) The discount rates which the Fondo collects from the credit institutions were fixed at percentages of 7, 6 and 5% a year for operations derived from financings to crop production as well as those derived from livestock credits, applying these rates upon the percentages provided by the commercial banks from its own resources, and being these resources 10, 20 and 30 per cent from the total import of the credits granted. By this mean, the prior regulations that charged a 6% a year and a proportion up to 90% of farm credits, were modiffied. Livestock credit documents can be discounted at rates of 8, 7, and 6% a year, in terms of the commercial banks' contribution, which should be 10, 20, and 30% respectively.

c) The dispositions from Bulletin No. 1400 were revoked, in reference to the decrease of points in the interest rate, when individual credits to crop production were no higher than $50 000, nor $250 000 for livestock.

Discount rates in transactions done with charge to resources from Mexico's program, in connection with the aims of the ALPRO-AID Program, continued being 3% for commercial banks with a maximum interest rate of 7% a year for the producers. The proportion of discount in this program is of 90% of the credit granted. In financings from Fondo's

program, the maximum interest rates for the producer continued being 10% in long-term credits and 12% in short-term credits, including in these percentages honoraries, commissions, and whatever expenses the institutions or credit unions may incur for the application and supervision of it, conditions confirmed in Bulletin No. 1583/66. In working out the questions stated by the commercial banks with reference to the cession of points in favor of credit unions regulated in Bulletin No. 1582/66, a handbook was published on November 15, 1966. However, given the numerous questions received by the Bank of Mexico regarding the trade and documentation form of operations in which credit unions mediated and the treatment given in relation to their contribution, the Bank was urged to formulate a model of contract for the opening of credit between banks and unions, preventing and resolving problems that might arise in operations done with Fondo's original resources. In March, 1968, modifications on discount rates in ALPRO'S Program were introduced in order to make it compatible with a new financing operation obtained from the IDB by the Federal Government. The administration of this operation was committed to the Bank of Mexico, within the diverse Trust named Special Fund for Agricultural Financings; the current rates are 7% for producers, and 4% for commercial banks.

The real cost of credit for beneficiaries is, in general, a bit lower from what is expected in the interest rate; this occurs because such rate is fixed during the complete operation period (investment and recuperation) of the loan which is established in the contract for opening credit. This document also establishes the amount and date of payments which apply to producers. Interests are charged at a fixed rate and over unpaid balances until the debt is liquidated.

On medium and long-term credits (up to 15 years when given with charge to the ALPRO -IBD Program), the inflation rates favor the beneficiaries by decreasing the present value of payments done for the repayment of the loan. This, in terms of benefit-cost analysis represents higher returns for the producer, or a more reduced real credit cost than the one established.

II. E. 3. Other Subsidies

Besides the low interest rates given with credits discounted with charge to programs managed by Fondo, another important types of subsidy that producers receive are free services of technical assistance of the Fondo (different from technical assistance services of other institutions), and the supervision of the credit, described in Section II. H. 1. b. Another

service wich may be taken as a subsidy, especially for ALPRO'S programs (ALPRO-AID and ALPRO-IDB) and Special Fund for Agricultural Financings, are the studies and evaluations of the applications from people receiving credit in commercial banks. The evaluation and study works made by the Fondo's technical personnel, vary in ends according to the program treated. In dealing with discounts with charge to the ALPRO'S programs, the immediate purpose of the study is to determine whether the person applying for the credit fulfills all requirements prevailing in the Operation Rules and the basic criteria of these programs.

II. E. 4. Collateral

To start the Fondo's operative system, this should receive from a commercial bank an application for an agricultural credit line, and according to it, formulate a memorandum to be approved by the corresponding Technical Committee.

The applications presented by the commercial banks as well as banks from the Agricultural National Bank must be addressed to the Fondo, and should include the following data.

a) Import of the financing to be granted by the bank or finance society.

b) Import of the discount credit line applied for, specifying the percentage to be discounted and interest rate to be charged by Fondo.

c) Type of financing granted, whether short, long, or combined term.

d) Wheter the loan concession will be done through credit unions and/ or individual producers.

e) Zones in which operation is planned to be more intensive.

f) Investment concepts, indicating kind, unitary costs, and estimated amount for each.

g) Approximate number of producers involved with the applied credit line.

i) Credit amortization terms; and

j) Regulation calendar.

Complementing the above data, and with reference to agricultural short-term loans for cultivating one or more crops, the applicant institution will have to present the following information.

a) Area for each crop to be habilitated.

b) Probable amount of loans to be granted to each crop, and of the financings applied to Fondo for the same purposes.

c) Direct cost budget per hectare, describing crops and expenses will be done.

d) Loan to be granted with base on each item of the direct cost, according to the crop system.

e) Productivity expected per hectare; rural price at which the farmer sells usually his products and estimation of total import of the future crop.

The application will have to specify clearly which proportions from the applied credit line are going to be assigned for crop and - livestock production. Such applications will be treated by Fondo in the following form, with resources from the Agricultural Trusts managed by it.

a) Applications for credit lines for farm or stock short-term financings, with resources from Fondo's program.

b) Applications for credit lines for long-term credits with resources from IBRD.

c) Credit lines for long-term financings to small farmers or to ejido farmers who satisfy the requirements referred in the basic criteria in the ALPRO - AID or ALPRO - IDB Programs.

Once the application for opening credit line has been approved by the Technical Committee, Fondo holds with the commercial institution a contract for credit opening to discount up to a fixed amount, stating the investment objectives, which are to be according to the Fondo Operation Rules, and to the characteristics described above. After the contracts have been formulated and signed by the commercial institution and Fondo, the commercial bank is able to initiate the discount operation through the corresponding procedures, consisting on letters of partial or total disposition of the credit lines opened by Fondo. Each letter of - -

disposition, for partial or total credit line opened, should have to be accompanied by the following documentation:

1. Copy of the contracts. They should be properly signed by the institution as well as the debtors. The amount to be discounted by Fondo will come from these contracts.

Contracts presented to Fondo should normally be officially registered in the corresponding institution.

2. Deposit certificates. The banks should give the Bank of Mexico, properly indorsed, the credit titles signed by the debtors against the institution making the discount operation, up to a total value not smaller than the corresponding disposition; and also, promissory notes of the same kind indorsed in guarantee, up to a sum equal to the one which the institution will invest from its own resources, in the understanding that these documents in both cases should come from the same transaction.

3. Relation of documents to discount. These relations with charge to the credit line opened to the discounting institution; should contain in the first part, the main characteristics of the financing granted by Fondo, such as the name of the Bank or Financing Society, the line number, import, dispositions, total operated and balance for disposal; and in second term, the particularities of the credit operation between the commercial institution and its respective debtor, and should indicate the name of the debtor himself, ubication of his property, type and date of the contract, import of the granted credit, rate of interest, investment concepts and the nature of the promissory notes subject to discount. These forms of relation of documents to discount should be sent cuadruplicate.

4. Evaluations of the investment to be made. In discount operations with resources from ALPRO'S programs, whether dealing with funds from AID, IDB or IBRD, documents with studies and evaluations of every one of the farmer's applications should be presented in addition to the documentation referred to above. Such studies must be formulated by Fondo's technical staff, or by technical personnel formally appointed by Fondo.

The selection of clientele will be made upon judgement and according to the intern practices of each institution, but it is required that the credit adjusts to the operation rules of the respective program.

As a pre-requisite and in order to apply for these evaluations, it is required that the institution has determined that the applicant meets the requirements fixed in each program. Relations between the commercial credit institution and the producers receiving credit is properly described along the credit's documentation which the applicant appears at a credit institution with his investment project containing the following data:

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a) Amount of credit applied for.

b) Program including investment objectives, costs and total volume of investments, indicating in its case, those to be made with own resources.

c) Guarantees offered and, on determined circumstances, the appraisal of goods by an agricultural technician.

When documents covered by the guarantees offered are not in due form, the applicant is advised to meet with a lawyer to cover the irregularities. In some cases, the legal department advises the applicant for the necessary - questions; in case where the appraisal does not exist, it is practiced by the institution or any other institution strange to the applicant. Once the applicant has obtained a favorable resolution, the contracts are formulated and should contain, among other requirements:

a) Amount. Import of the credit

b) Investment program

c) Repayment or amortization program

d) Interest rate

e) Guarantees affected.

f) Client's obligations and reasons for cancellation of contract.

g) The inscription that should be done at the Real Estate Registration Office of the properties given in guarantee is an essential requeriment.

Once the credit contract has been registered, the debtor may go to the institution and do the fund retirement according to the ministrations calendar through the subscription of the promissory notes documenting his retirements. The final appendixes contain some main forms used in the operations between the Fondo and the commercial institution as well as between the latter and the producers.

II. E. 5. Estimations of Techniques

The supervision of the credit will be in charge of the commercial institution giving the credit and, when the sum of such credit is discounted by the Fondo, this may keep the right to supervise that investment plan is done in a sarisfactory way. Such supervision is under the attention of the Fondo's local agencies, and its execution is divided in two steps: a) Office inspections

and b) Field inspections. Both are already described in II. C. 2. c.

The number of visits per farm depends upon the amount of the loan and the period of investments.

To supervise the credit, the technical staff have basic information about the contract of credit opening of each one of the farmers under their control.

II.F. COLLECTION

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II. F. 1. Repayment Record

In relation to the amount of discount credits, it has been a 100% repayment of all credit recuperations between Fondo and commercial credit institutions. The expired portfolio from the commercial institutions with respect to the total ALPRO-AID Program, for instance, represents 0.92%. One can list a number of reasons that can explain the high repayment indexes of credits:

1) The subjects of credit are selected.

2) Project evaluations are made before the loans is granted and begings to be in operation; these evaluations consist in investment studies and profitability of investments from which the amount of credit, repayment terms, and the program of recuperation are established so that the farmer can be left with a reasonable amount of profit. These studies determine also the characteristics of desirability which the farm units must satisfy so that the loan can be safe.

However, the basic is that the Fondo does not finance economically submarginal farmers, but people who already practiced a profitable farming with possibilities of improving through a credit. There are a number of observation about the conditions influencing the farmer's propention to pay his credits. They are included in an appendix to this paper

II. F. 2. Methods

The collection of discount resources to commercial credit institutions for granted agricultural loans is made by Fondo according to the established credit contracts, with charge to any of the programs and under the Fondo's operation rules with commercial credit institutions. Between commercial banks and farmers receiving the loans, the collection mechanism is based in the repayments program before the credit is approved, as a part of the farmer's evaluation. All operations among Fondo, the commercial banks and the farmers are in cash.

II. F. 3. Special Enforcement Procedures

For operations between Fondo and the commercial banks Article 16, from Fondo's Operation Rules, states the following: "The Fideicommissioner will not perform the operations (discount, guarantee, and loan) when the credits given to farmers with resources from programs operated by Fondo, fix interests

superior to 12% a year. Also, the Fondo will not do such operations with the credit institutions when it is discovered that these institutions charge different amounts or interes that do not appear in the respective credit contracts or when Fondo is not notified. In Part VI from Article 21, and with respect to guarantee operations (that are minimum), it is established that: "The Fideicommissioner will not pay the guarantee when,

a) By negligence of the credit institution, it loses the privileges referred to in the first paragraph from Article 327 from the law of Titles and Credit Operations.

b) The institution releases part of the goods given in guarantee by the debtor or allows them to be substituted by other ones without previous authorization from the Fideicommissioner.

c) If the creditor does not demand the debtor the debtor the credit when the latter employs the funds for different purposes as those specified, or shows carelessness in the administration of the business.

d) If the creditor does not fulfil the specifications of the respective guarantee contract."

In order that the Fideicommissioner can discount credit titles granted to commercial credit institutions, it is required that the farmer who receives the credit supervises the correct investment of the funds and takes care and preserves the guarantees given. About the measures the commercial banks can take when debtors do not pay on time; the following is established.

With the Fondo's Program, the institutions, as specified by law, can name an auditor and the expenses will be convered by the debtor. If the debtor does nor pay on time, he must between the institution and Fondo. The interest rate cannot be higher than 6% a year under the ALPRO Program. Additional information about long and short term credits in relation to contracts between the banks and the debtors and measures that will be taken can be found in the appendix at the end. For group credits, each of the group members has a - definite and personal responsability; thus, each debtor is subject to personal type sanctions and to the group pressure.

II. F. 4. Rescheduling

The rescheduling of debts with Fondo is very unusual and is generally done in the following cases.

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II. F. 4. Rescheduling

The rescheduling of debts with Fondo is very unusual and is generally done in the following cases.

a) When for reasons completely out of the control of the debtors, they cannot only pay their credit but need a new loan to continue their production activities and to be able to pay their debts to Fondo.

b) When in the debtor's farm or exploitation, some extensions to the already in operation activities are being planned and approved, with a loan discounted by Fondo.

The rescheduling procedure is as follows:

a) The debtor applies to the commercial bank an extension for his credit or a new loan with a new due date for the previous payment so that he can produce enough to pay for both credits.

b) The commercial bank transfers the application to the corresponding Fondo's agency. This agency or office makes the necessary studies to determine whether it is possible to make a new rescheduling or not, the amount of the new loan, and the most adequate form of payment for the new loan.

c) After this study is done and depending upon the amount of the operation, the Fondo's agency will be able to approve the rescheduling or either send the application and study to the Technical Committee from Fondo in the Central Office. The local offices can approve loans up to one million pesos with charge to the proper program.

d) The rest of the operation of rescheduled credits is the same as that for normal credits.

II. G. COSTS AND FINANCE

II.G.1 Portfolio Profits and Loses

Since the first AID loan and in relation to the A LPRO -AID program, the portfolio balances at December 31, for each year were. *

Years	Balance
1963	18.2
1964	131.5
1965	264.1
1966	347.0
1967	383.8
1968	339.9
1969	256.6
1979	181.3
1971	181.8

There is no expired portfolio because the institutions operating with the program affront the risk in case the credit given to farmer - is not recuperated. The ALPRO- AID portfolio has had a revolving velocity during the last four years, as follows:

Years	ALPRO-AID Portfolio Velocity
1968	2.33
1969	3.03
1970	2.44
1971	2.94

Given that recuperated funds from AID loans are not assigned to finance the program, there is a decreasing proportion of such loans, - with respect to the set of all Fondo programs.

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* See table at final of its chapter.

II. G. 2 Administrative Costs

The main operation costs from Fondo are the following:

a) Technical assistance. - salaries of technical staff, depreciation and travel expenses, etc.

b) Administrative services. - Technical Committee, salaries of - administrative staff, depreciation, etc.

c) Financing. - interests on rediscount operations with Bank of Mexico.

The Fondo's costs (aggregate costs from all truts) for each peso lent in 1971, were. *

Technical assistance		1.67%
Administrative services		2.05%
Financing		4.83%
	Total	8.55%

For the AID portfolio the rediscount in the Bank of Mexico is - not used; that is Fondo cannot increase its operations with AID resources, employing funds from the Central Bank

II. G. 3. Beneficiary Savings

In any of the programs managed by Fondo, the debtors are forced to save or make investments to provide a refinancing source for the - program.

However, they have the obligation to make specific investments

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* See tables at the final of its chapter.

with the loan so as to permit an increase in their assets and to dispose of resulting actives, which means an increment in their capital.

II. G. 4 External Financing.

In general, the Fondo's sources of funds are:

National Sources.

a) A given amount from the Federal Government that has increased with truts established by the Government itself to give credits to agri - culture, with the patrimony integrated by the National Funds of Agricultu - ral Guarantee; with the yield of investments that have been making with re - sources from Fondo.

b) With resources from the operation of placing the bonds for - livestock development in compulsory deposit.

c) With other national resources that the Government may allow. The first source of funds is devoted mainly to discount operations with comercial credit institutions to increase the agricultural activities. The second - source is to finance livestock activities.

International Sources.

a) Resources from AID loans within the ALPRO.

The ALPRO has been supported with 2 loans for a total of 41.5 - million dollars. The first one in 1962 at 0.75% a year, to be due in forty years; an the second in 1966 at 3.5% a year, for a 25-years term. To conti - nue the program, the IDB in 1968, granted a 20 million dollars at 3% a year for a 22- years program. Since the beginning of ALPRO Program until Sep - tember 30, 1970, a gross total of 67.9 million dollars had been granted in - rediscounts to refinance primary loans about 75.4 million dollars. REcupe - rations of loans are dedicated to new loans and during the last three years, they have been maintained at a more or less constant level, from about 28 - to 30 million dollars.

These resources from ALPRO are for loans and redi scount ope-

rations to finance long and mediun -term loans to ejido farmers and small farmers according to credit programs to successful producers.

b) Resources from the trust named Special Fund for Agricultural Financings from loan 430-MF of the IBRD wich are used to medium - and long-term credits to crop and livestock production and agricultural in - dustries.

c) Resources from the IDB whose amount is to continue the financing from ALPRO program. These funds increase the resources from - the trust. Special Funds of Agricultural Financing in order to be able to employ them to rediscount the official banks.

d) Resources from the 610- ME loan, second credit obtained by the Mexican Government from the IBRD.

All these resources have been discounted to the private banks - for the financing of producers, as shown in the nextfigure:

ANNUAL DISCOUNTED CREDIT PER
PROGRAM OF CREDIT
(MILLIONS OF PESOS)

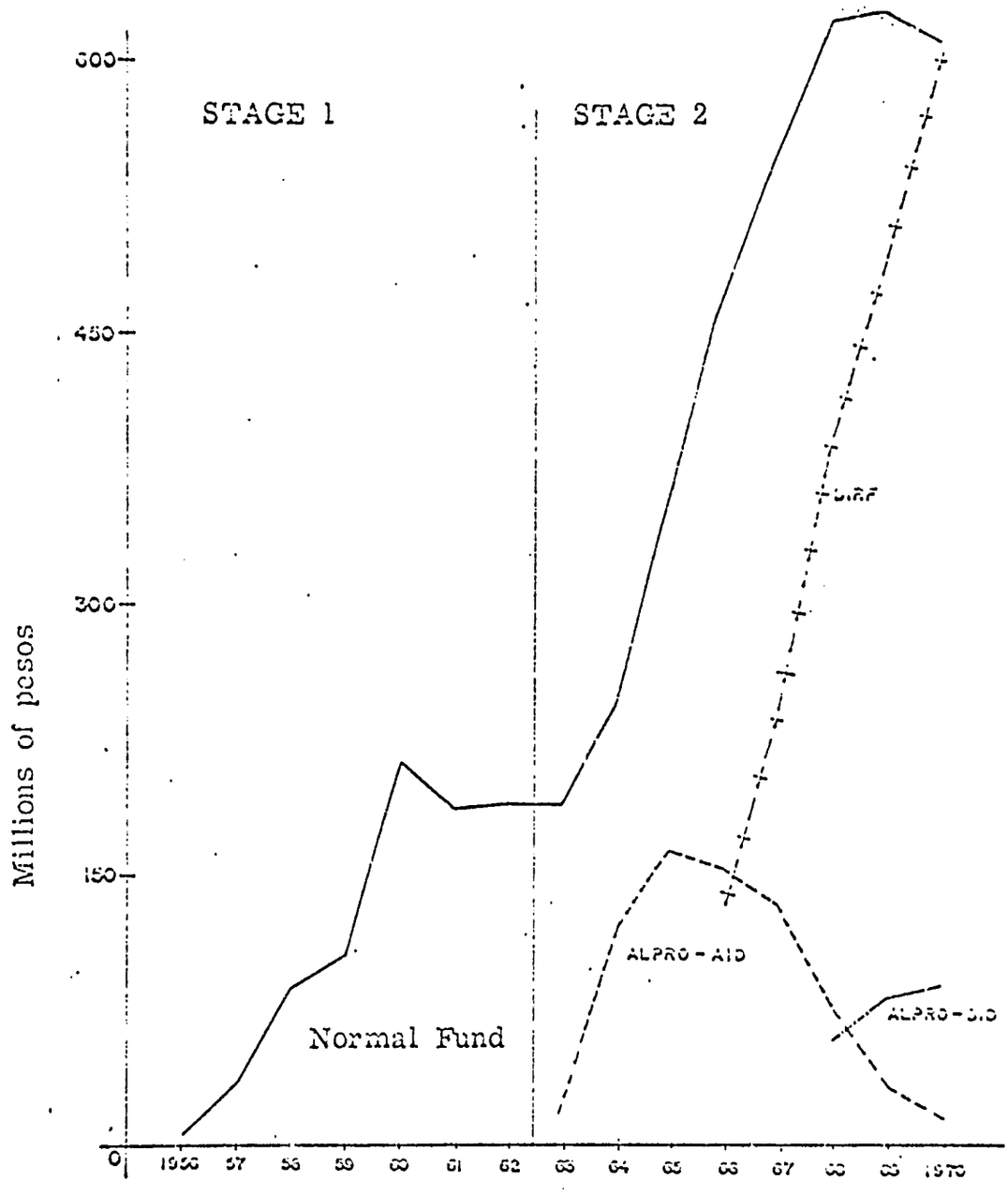

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Table 12

FONDO. VALUE OF DISCOUNTS IN THE ALPRO-AID PROGRAM.

(Millions of pesos)

Years	Discounts
1953	18.2
1964	120.0
1965	163.6
1966	148.8
1967	132.7
1968	75.3
1969	34.3
1970	13.0
1971	68.7
1972	71.2*
1973	62.5*
1974	53.7*
1975	44.9*
1976	36.2*

* Estimated recuperations based on the 1967- 71 recuperations Planning and Operations Division.

II. G. 5 Institutional Solvency

The financial situation of Fondo has been improving with resources from the Federal Government and past periods utilities. Thus, if 1966 is compared with last three years, great increases are observed every year, and also a total growth from 9.4 to 16.1 millions dollars. See next table:

million of pesos

Year	Funds Received: Initial& Subsequent	Amortizations	Cummulative Utilities	Total	% Increase Base Year 1966
1966	118.2	-	-	118.2	100
1969	121.5	4.4	14.1	140.0	118
1970	134.0	18.3	17.7	170.0	143
1971	146.5	37.1	18.8	202.4	171

For 1974 will be a Fondo patrimony of 298.1 millions of pesos - wich means a 252% increase with respect to the base year 1966.

During the analyzed period, the balances to December 31 of the - international credits and rediscounts made in Bank of Mexico, are:

Balances to December 31
Million of pesos.

Year	International Credits.	Rediscounts in Bank of Mexico.	Total	% Increment Base Year 1966
1966	487.2	474.7	961.9	100
1969	1 018.4	705.4	1723.8	179
1970	1 438.1	606.1	2044.2	212
1971	1 830.0	978.1	2808.1	292

For the next years, the international credits are going to be increased with loans from the credit application to the IBRD, Fourth Agricultural Development Project, General Subprojet; also, available funds in Bank of Mexico will increase from the agreements relative to the legal deposit - from financing societies from February 1971 and May 1972.

Most of the described financing resources are invested in credits and rediscounts whose balances were 2394.1 million pesos for December 31, 1971. From this, 442.7 correspond to short-term credits and 1 951.4 to medium and long-term credits. The credit portfolio is always recuperated on due time, independently of supervised and recuperable investments of producers, mainly because Fondo's system of charging directly to the participating bank all due amounts in its account in Bank of Mexico. Based on the objectives and policies from Fondo , the incomes per product are employed to cover the expenditures. The accumulated residuals from 1955 to December 31, 1971 are 40.9 million pesos. From this, 22.1 are applied to from capital and contingency passive reservoirs. In spite of the big expenditures in technical assistance, the Fondo operates with profit. The incomes obtained in 1966 and 1971, were employed to cover aggregate expenditures as follows:

	Million of pesos		%	
	1966	1971	1966	1971
Financing costs	20.9	104.0	43	56
Administrative services	16.6	44.2	34	24
Technical assistance	11.5	36.1	23	20
	49.0	184.3	100	100

Despite that in relative terms, the technical assistance cost have decreased from 23 to 20%, they have improved in quality. See tables annexed.

II .G.6 Foreign Exchange Balance

There were no available figures to get an idea about the net im -

pact that the Fondo's programs small producers have on the balance of - payments.

However, since the credits from these, programs must be given to basic crops, this may decrease tha basic food products imports. Also- restrictive measures were applied to reduce wheat production in the win - ter crops 1965/66 and 1966/67, the irrigated corn production in 1966 and sor go production in 1967/68, With these measures, unfavorable exportations to world market prices, lower than production costs, were avoided.

Table 13

FONDO'S ANNUAL PORTFOLIO BY KIND OF CREDIT AND ORIGEN OF RE - SOURCES. TO DECEMBER 31 OF EACH YEAR.

MILLIONS OF PESOS

YEAR	TOTAL	SHORT TERM	LONG TERM	OWN RESOUR CES.	AID	IBRD	IDB
1956							
1957							
1958							
1959							
1960							
1961							
1962							
1963					18.2		
1964					131.5		
1965	710.0	57.2	387.4	444.6	264.1	1.3	
1966	1057.6	120.0	466.9	586.9	347.1	123.7	
1967	1270.0	197.2	370.4	567.4	383.8	318.6	
1968	1520.3	293.4	226.5	519.9	338.9	605.7	55
1969	1717.1	318.8	137.8	456.6	254.5	885.9	120
1970	2056.3	423.2	48.5	471.7	181.3	1207.4	195
1971	2375.3	431.1	13.4	444.5	177.8	1517.7	235

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M E X I C O

LIVESTOCK AND AGRICULTURAL DEVELOPMENT PROJECT

FONDO DE GARANTIA Y FOMENTO PARA LA AGRICULTURA, GANADERIA Y AVICULTURA

COMPARATIVE STATEMENT OF NET INCOME

(In million of Pesos)

CATEGORY	January 1º – December 31, 1969				January 1º – December 31, 1970				January 1º – December 31, 1971			
	IBRD Program	IDB Program	Other Operations	Total	IBRD Program	IDB Program	Other Operations	Total	IBRD Program	IBD Program	Other Operations	Total
INCOME:												
Interest from Rediscounts	46.0	3.9	45.0	94.9	64.5	3.0	43.4	115.9	95.9	8.3	47.1	151.3
Interest from Investments	2.2	–	8.1	10.3	3.4	–	11.0	14.4	11.8	–	20.7	32.5
Other Income	0.2	–	0.9	1.1	0.6	–	0.3	0.9	0.5	–	0.9	1.3
Total Income:	48.4	3.9	54.0	106.3	68.5	6.0	54.7	131.2	108.2	8.3	68.6	185.1
EXPENSES:												
Honoraria												
Technical and Executive Committes	0.1	–	0.2	0.3	0.1	–	0.2	0.3	0.2	–	0.4	0.6
Technical Assistance and Services	0.3	–	0.4	0.7	0.1	–	0.1	0.2	2.2	–	–	2.2
Bank of Mexico	0.9	–	0.9	1.8	1.1	–	0.8	1.9	1.5	–	0.9	2.4
(A) Total:	1.3	–	1.5	2.8	1.3	–	1.1	2.4	3.9	–	1.3	5.2
Salaries – Administrative and Field Personnel	6.8	–	10.4	17.2	7.2	–	15.6	22.8	8.5	–	19.5	28.0
Per Diems and Travelling Allowances	1.4	–	1.4	2.8	1.4	–	1.9	3.3	2.4	–	1.8	4.2
Expenses for Employe Welfare	6.5	–	8.5	15.0	7.6	–	10.7	18.3	10.5	–	13.9	24.4
Interest Paid on Money Borrowed												
Rediscounts with Bank of Mexico	13.4	–	9.2	22.6	14.5	–	4.9	19.4	15.9	–	9.5	25.4
AID-AID Credit Num. 43	–	–	11.3	11.3	–	–	11.5	11.5	–	–	11.1	11.1
AID-IDB Credit Num. 163	–	2.5	–	2.5	–	5.9	–	5.9	–	7.3	–	7.3
IBRD Credit Num. 430	16.7	–	–	16.7	16.5	–	–	16.5	17.0	–	–	17.0
IBRD Credit (Second Loan)	0.5	–	–	0.5	15.3	–	–	15.3	43.2	–	–	43.2
Depreciation of Equipment:	–	–	2.0	2.0	1.0	–	1.6	2.6	–	–	2.7	2.7
Other Expenses	2.7	–	6.6	9.3	5.5	–	6.6	12.1	7.5	–	8.3	15.8
(B) Total	48.0	2.5	49.4	99.9	69.0	5.9	52.8	127.7	105.0	7.3	66.8	179.1
(A + B) Total Expenses:	49.3	2.5	50.9	102.7	70.3	5.9	53.9	130.1	108.9	7.3	68.1	184.3
NET INCOME:	– 0.9	1.4	3.1	3.6	– 1.8	2.1	0.8	1.1	– 0.7	1.0	0.5	0.8

ACCOUNTING DEPARTMENT

Table 15

[illegible]

[illegible]

FONDO DE GARANTIA Y FOMENTO [illegible] [illegible] Y AUTOMOTRIZ

[illegible]

(In Million of Pesos)

CATEGORY	[illegible]				[illegible]				[illegible]			
	IRBD Program	IDB Program	Others Operations	Total	IRBD Program	IDB Program	Others Operations	Total	IRBD Program	IDB Program	Others Operations	Total
INCOME:												
Interest from Rediscounts	104.0	19.2	36.8	160.0	121.7	22.5	43.0	187.2	141.6	26.2	50.2	218.[illegible]
Interest from Investments	43.5	-	34.9	78.4	51.0	-	40.8	91.8	59.1	-	50.3	109.[illegible]
Other Income	0.5	-	0.9	1.4	0.6	-	0.9	1.5	0.5	-	[illegible]	[illegible]
Total Income:	148.0	19.2	72.6	239.8	173.3	22.5	84.7	280.5	197.5	26.2	103.5	327.8
EXPENSES:												
Honorarium												
Technical and Executive Committee	0.2	-	0.4	0.6	0.2	-	0.4	0.6	0.2	-	0.4	0.6
Technical Assistance & Services	0.2	-	0.3	0.5	0.2	-	0.3	0.5	0.3	-	0.3	0.6
Bank of Mexico	1.6	-	1.1	2.7	1.9	-	1.9	3.8	2.1	-	[illegible]	[illegible]
(A) Total:	2.0	-	1.8	3.8	2.3	-	2.0	4.3	2.6	-	2.8	4.6
Salaries - Administrative and Field Personnel	22.3	-	14.9	37.2	25.8	-	17.2	43.0	29.5	-	19.2	47.7
Per Diems & Traveling Allowances	2.5	-	1.6	4.1	2.7	-	1.8	4.5	2.9	-	2.0	4.9
Expenses for Employs Welfare	15.1	-	10.0	25.1	17.0	-	11.3	28.3	18.9	-	12.6	31.5
Interest Paid on Money Borrowed												
Rediscounts with Bank of Mexico	14.5	-	24.5	39.0	15.8	-	27.1	42.9	17.4	-	29.7	47.1
ALPRO-AID Credit No. 43	-	-	10.9	10.9	-	-	10.4	10.4	-	-	9.9	9.9
ALPRO-BID Credit No. 153	-	7.4	-	7.4	-	7.1	-	7.1	-	6.8	-	6.8
Credit No. 295	-	3.1	-	3.1	-	6.2	-	6.2	-	9.9	-	9.9
BIRF Credit No. 430	15.3	-	-	15.3	14.5	-	-	14.5	13.7	-	-	13.7
BIRF Credit No. 610	52.8	-	-	52.8	52.8	-	-	52.8	52.5	-	-	52.5
BIRF Credit No. 747	20.5	-	-	20.8	42.9	-	-	42.9	60.5	-	-	60.5
Depreciation of Equipment	2.7	-	1.9	4.6	3.2	-	2.1	5.3	3.6	-	2.4	6.0
Other Expenses	9.2	-	6.2	15.5	10.2	-	6.8	17.0	11.1	-	7.4	18.5
(B) Total:	155.3	10.5	70.0	235.8	184.9	13.3	76.7	274.9	209.1	16.7	83.2	309.0
(A + B) Total Expenses:	157.3	10.5	71.8	239.6	187.2	13.3	78.7	279.2	211.7	16.7	85.4	313.6
NET INCOME:	- 9.3	8.7	0.8	0.2	- 13.9	9.2	6.0	1.3	- 14.2	9.5	18.1	13.4

NOTE: Because of the important parallel increase in both programs (IBRD and IDB) - except for their financial expenses - we cannot make a direct identification regarding the costs of each one of such programs. Therefore, data relative to this kind of expenses are provided as an - aggregate in the column named "IBRD".

[illegible]

ACCOUNTING DEPARTMENT

BANCO DE MEXICO, S. A.

LIVESTOCK AND AGRICULTURAL DEVELOPMENT PROJECT

FONDO DE GARANTIA Y FOMENTO PARA LA AGRICULTURA, GANADERIA Y AVICULTURA

Table 16

BALANCE OF THE FEDERAL GOVERNMENT CONTRIBUTIONS, INCLUDING NET INCOME ACCRUED AS OF DECEMBER IN THE YEARS INDICATED

(MILLIONS OF PESOS)

CATEGORY	1969			1970			1971		
	SPECIAL TRUST FUND	FONDO	TOTAL	SPECIAL TRUST FUND	FONDO	TOTAL	SPECIAL TRUST FUND	FONDO	TOTAL
First Contribution	5.0	104.0	109.0	5.0	104.0	109.0	5.0	104.0	109.0
Constribution for IBD Program	12.5	-	12.5	25.0	-	25.0	37.5	-	37.5
Amortization IBD loan 183/ST-ME	-	-	-	-	-	-	5.7	-	5.7
Amortization first and second loan (430-ME and 610-ME)	4.4	-	4.4	18.3	-	18.3	31.4	-	31.4
Acumulated net income	0.3	13.8	14.1	0.9	16.8	17.7	1.2	17.6	18.8
Net Income	0.6	3.0	3.6	0.3	0.8	1.1	0.3	0.5	0.8
TOTAL:	22.8	120.8	143.6	49.5	121.6	171.1	81.1	122.1	203.2

ACCOUNTING DEPARTMENT

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BANCO DE [illegible], S. A.

LIVESTOCK AND AGRICULTURAL DEVELOPMENT PROJECT

FONDO DE GARANTIA Y FOMENTO PARA LA AGRICULTURA, GANADERIA Y AVICULTURA

BALANCE OF THE FEDERAL GOVERNMENT CONTRIBUTIONS, INCLUDING NET INCOME ACCRUED AS OF DECEMBER IN THE YEARS INDICATED

Table 17

(MILLIONS OF PESOS)

CATEGORY	1972			1973			1974		
	SPECIAL TRUST FUND	FONDO	TOTAL	SPECIAL TRUST FUND	FONDO	TOTAL	SPECIAL TRUST FUND	FONDO	TOTAL
First Contribution	5.0	104.0	109.0	5.0	104.0	109.0	5.0	104.0	109.0
Contribution for BID Program	37.5	–	37.5	37.5	–	37.5	37.5	–	37.5
Amortization IBD Loan 103/SF-ME	17.0	–	17.0	28.4	–	28.4	39.8	–	39.8
Amortization First and Second Loan (430-ME and 610-ME)	45.2	–	45.2	59.7	–	59.7	90.7	–	90.7
Accumulated Net Income	1.5	18.1	19.6	0.9	18.9	19.8	-3.8	24.9	21.1
Net Income	-0.6	0.8	0.2	-4.7	6.0	1.3	-4.7	18.1	13.4
TOTAL:	105.6	122.9	228.5	126.8	128.9	255.7	164.5	147.0	311.5

ACCOUNTING DEPARTMENT

Table 18

BANCO DE MEXICO, S. A.

LIVESTOCK AND AGRICULTURAL DEVELOPMENT PROJECT

FONDO DE GARANTIA Y FOMENTO PARA LA AGRICULTURA, GANADERIA Y AVICULTURA

STATEMENT OF ASSETS AND LIABILITIES AS OF

(In million of pesos)

CATEGORY	DECEMBER 31, 1969			DECEMBER 31, 1970			DECEMBER 31, 1971		
	IBRD Program	Other Operations	Total	IBRD Program	Other Operations	Total	IBRD Program	Other Operations	Total
RESOURCES:									
Investments in Government:									
Securities	7.6	127.2	134.8	87.5	70.9	158.4	276.5	353.4	629.9
Short Term Loans	-	325.2	325.2	-	423.1	423.1	-	442.7	442.7
Medium and Long Terms Loans									
Fondo's Own Programs	-	139.3	139.3	-	46.5	46.5	-	16.2	16.2
ALPRO-Program	-	256.6	256.6	-	181.3	181.3	-	181.6	181.6
IDB - Program	-	121.3	121.3	-	195.9	195.9	-	235.2	235.2
IBRD- Program	888.6	-	888.6	1.207.4	-	1.207.4	1.516.2	-	1.516.2
Miscellaneous Assets	3.3	43.8	47.1	13.4	60.6	74.0	37.3	44.4	81.7
Total Resources:	899.5	1.013.4	1.912.9	1.308.3	980.3	2.288.6	1.832.0	1.273.7	3.105.7
LIABILITIES:									
Liability for Money Borrowed									
Rediscounts from Bank of Mexico	297.2	408.2	705.4	246.2	359.9	606.1	614.5	363.6	978.1
AID Funds (Nacional Financiera)	-	518.3	518.3	-	505.2	505.2	-	492.1	492.1
IDB Funds (Nacional Financiera)	-	141.6	141.6	-	237.2	237.2	-	244.3	244.3
IBRD Funds(Nacional Financiera)	358.5	-	358.5	696.7	-	696.7	1.093.6	-	1.093.6
Other Liabilities and Reserves	12.4	33.0	45.4	-	72.3	72.3	33.6	60.6	94.2
Total Third Party Liabilities	668.1	1.101.1	1.769.2	942.9	1.174.6	2.117.5	1.741.7	1.160.6	2.902.3
Contribution of the Federal Government (inclusive of Accumulated Net Income)	9.4	134.3	143.7	23.4	147.7	171.1	81.2	122.1	203.3
Total Liabilities:	677.5	1.235.4	1.912.9	966.3	1.322.3	2.288.6	1.822.9	1.282.7	3.105.6

Note: From the year 1971, net worth appearing in the column IBRD program corresponds to the Special Trust Fund.

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ACCOUNTING DEPARTMENT

Anexo [illegible]

[illegible] 19

[illegible], S. A.

[illegible]

FONDO DE [illegible] PARA LA AGRICULTURA, GANADERIA Y AVICULTURA

PROFORMA [illegible] ASSETS AND LIABILITIES AS OF DECEMBER 31,

[illegible] YEARS [illegible]

(In Millions of Pesos)

CATEGORY	1972 IBRD Programs	1972 Other Operations	1972 Total	1973 IBRD Programs	1973 Other Operations	1973 Total	1974 IBRD Programs	1974 Other Operations	1974 Total
ASSETS:									
Investments in Government:									
Securities	544.2	436.4	980.6	636.7	510.6	1,147.3	689.3	618.6	[illegible]
Short Term Loans	-	446.3	534.3	-	639.2	639.2	-	748.2	748.2
Medium and Long Term Loans:									
Fonda's Own Programs	-	42.0	42.0	-	49.2	49.2	-	57.5	[illegible]
Alianza Program (ALP)	-	284.1	284.1	-	282.2	282.2	-	336.9	[illegible]
[illegible] Program	-	281.2	281.2	-	327.8	327.8	-	353.7	[illegible]
[illegible]	1,959.2	-	1,959.2	1,919.6	-	1,919.6	2,340.8	-	2,340.8
Miscellaneous Assets	49.6	71.1	120.7	58.0	71.7	129.8	88.0	85.8	[illegible]
Total Assets:	2,503.0	1,872.3	[illegible]	2,614.3	1,864.0	4,552.3	3,037.8	2,246.6	5,284.3
LIABILITIES:									
Rediscounts from Bank of Mexico	480.6	818.4	1,299.0	528.7	900.3	1,429.0	581.6	990.3	1,571.9
AID Funds (Nacional Financiera)	-	489.6	489.6	-	449.9	449.9	-	428.6	428.6
IDB Funds (Nacional Financiera)	-	343.9	343.9	-	473.6	473.6	-	610.2	610.2
IBRD Funds (nacional Financiera)	1,503.6	-	1,503.6	1,814.0	-	1,814.0	1,971.8	-	1,971.8
Other Liabilities and Reserves	12.6	22.3	34.9	49.6	85.5	135.1	158.5	281.7	440.2
Total Third Party Liabilities	1,996.8	1,674.2	3,671.0	2,391.3	1,910.3	4,301.6	2,711.9	2,310.8	5,022.7
Contribution of the Federal Government (Inclusive of Accumulated Net Income)	106.0	198.1	[illegible]	122.8	128.9	251.7	161.5	160.0	[illegible]
Total Liabilities:	[illegible]	[illegible]	[illegible]	2,514.1	2,039.2	4,553.3	2,873.4	2,487.8	[illegible]

NOTES:

1. [illegible]

[illegible] DE CUADRO [illegible]

II.H. COMPLEMENTARY FACTORS

II.H. COMPLEMENTARY FACTORS

II.H.1 Technology

A. Orientation and How to Administrate it.

Credit provided with charge to the Fondo's programs for small producers is usually long-term credit and in cash. As these credits require a previous study for approval and supervision during their operation, they are granted upon a mutual agreement among the commercial bank, the producer, and the Fondo, that they will be invested according to a technology established in the contract to open the credit. In short-term credits, some banks, usually official, provide part of the credit in inputs whose amount and characteristics imply the adoption, by common agreement between bank and producer, of a determined technology that produces an average expected return in production, However, this is generally not the case in the parallel or complementary short term credits granted by commercial banks with charge to the current Fondo's resources since the management of products represents higher credit operation costs.

B. Extension and Supervision Program.

Technical assistance and supervision services are mainly provided by Fondo's technicians at the regional agencies. The following services are provided.

1. Technical assistance to institutions.

a) Help credit institutions in the formulation of programs and applications.

b) In short term credits, provide or suggest the ministrations calendar, according to production costs in the region treated.

c) In long term credits, some aid is given to institutions in the formulation of the investment and repayment program, based on the corresponding study and evaluation of the application and the exploitation itself, and according to the productivity of the farm or the kind of investment.

2. Assistance to producers.

The Fondo's technical assistance to producers is as follows.

a) Study of applications presented to commercial banks by agricultural producers.

b) Evaluation of applications subject to credit.

c) A support to the producers' applications with the necessary technical agricultural data and examination of them with agronomic criteria to determine whether the investment plan proposed by the producer corresponds to rational and profitable investment concepts in terms of land, water availability, working equipment, producer's capacity, experience, etc. This is done in order that the long term loan applied by the producer to rehabilitate or improve his exploitation and the complementary or parallel short term credits that the institution will have to provide later (which are mentioned when referring to the Basic Criteria) can be recuperated with the investment's productivity, allowing a remnant that secures the economic and social needs of the producer.

d) Technical advise to producers and, at farm level, for the use of fertilizers, insecticides, crop rotation, improvement of existing works, design of new works, etc.

e) Organization of societies or groups of farmers for a better improvement of the financing and technical assistance services mainly.

3. Credit programming at regional level.

Other activity developed by the technicians of the Fondo's regional agencies is the orientation and elaboration of crop and livestock development programs, financed by Fondo at a regional level, tending to promote the development of the producers technical, economic, and social progress. The aim is that the farmers make an efficient use of the available resources in the given region (land, water, agricultural equipment, cattle, orchards, vegetables, etc.), improving in this way the different production lines and in general, the economy of the region in which these are

located. These programs are proposed to commercial credit institutions so that they take care of their promotion and financing. The Fondo does not offer training programs for producers and the inspection visits are usually individually, not frequent in number nor practiced for all debtors because of the large number, they are rather at random and in a proportion of 15 % of the producers.

C. Other Mechanisms for Transference of Techniques.

As stated above, the Fondo's financing program includes specific technical assistance services for the ends and proper operation of the credits granted, independently from services available for the producers from official or commercial institutions.

On the other hand, the only technical assistance services that may be considered apart from this or other credit programs, are the Agricultural Extension National Services and demonstration services in the experimental fields of the Agricultural Ministry (SAG). Such services have a very small influence in relation to the number of agricultural producers in the country. For this reason, the coordination between these services and the agricultural financing programs of any other institution are not common.

From the above, we can conclude the following:

a) Small producers who request financings with resources from programs managed by Fondo are willing to adopt and follow the required technological changes, inasmuch as the credit is conditioned to this fact.

b) The technology to be used is determined and agreed in the evaluation of the credit's application, being supervised throughout the operation by the Fondo's technicians.

D. Nature of the Technology.

Credit programs for financing small agricultural producers are operated as development programs for the people receiving credit and not as campaigns to increase production or promote the use of improved inputs. To attain this goal, the

technical assistance mentioned above is provided to the institutions and producers. The technicians in charge are previously trained in the Fondo's training courses held annually at the Agricultural Economics Center (CEA) from the Postgraduate College at Chapingo, Mexico.

II.H.2 Supplies and Sales

A. Program Supplies

Once the contract for opening credit has been signed, and according to the established investment program, the producer may use the necessary amounts of money to obtain the equipment or inputs required. When buying equipment and machinery or contracting services, the Fondo's technicians suggest (without compromise) to producer the most adequate kind of equipment and company or companies where to buy or contract the services he needs. The Fondo's regional agencies and Central Offices have a record of the contratists and firms, as well as their solvency, in order to protect the beneficiary from fraud or abuse by these firms. In short term credits complementary to the long term credits provided by commercial banks and discounted by Fondo, there are no inputs provided; banks doing this independently, usually recommend their debtors to organize in groups to make transportations, management, storage and sometimes application of inputs and services received as part of the credit, cheaper when done at a larger scale. In the Fondo's operation conditions, producers normally enter the inputs market as any other consumer, and are able to obtain them at market prices. Some of these inputs may be imported and the producer may obtain them on his own, knowing the technical recommendations and suggestions from the Fondo's staff. With reference to long term credits and mainly those assigned to primary industrialization of agricultural products or works of rural infraestructure, credits are granted up to a total of five million pesos to organized groups of beneficiaries, whenever such amount, proportionally distributed among the group receiving the credit, corresponds to a maximum of $150 000 per beneficiary. These kinds of credit are financed with charge to the IBRD Program. More credits have been discounted for regional development purposes.

B. Program Infraestructure

Resources from programs for small agricultural producers are assigned to the improvement and development of the beneficiaries' farms, whenever with such financing they improve their productivity conditions, giving attention to the working productivity principally. As stated above, credits for rural infraestructural works are under the influence of other programs from Fondo, and may be granted to individuals or groups of producers organized for such purpose. However, some lines of investment such as irrigation works or installations for storage of products, may be considered within the programs for small producers, whenever they are done in the beneficiary's farm, for developing its productivity and according to the respective Operation Rules.

C. Availability and Access

In the preliminary study and evaluation of the credit applications a technology to be followed is suggested, based on the real availability of inputs and equipment recommended. Such availability is constantly verified in the market by the Fondo's technicians, and sometimes different alternatives can be presented for acquiring the necessary inputs or equipment. In case there is no possibility of obtaining some of the necessary or recommended items, the producers are free to consult the Fondo's technicians to solve the problem. Such solution may consist in substituting the item, getting it in other part of the country, or, if necessary, import it. In a extreme case, a modification of the investment plan can be considered. Anyway, producers attend freely to the local, regional, or national market looking for the items they need in production.

D. Secured Sales and Guarantee Prices

In the same way producers buy their inputs, they go to the market to sell their products freely, without any official intervention by the Fondo or credit institution. Any kind of trade or sale of the agricultural production before it is produced is the producer's own responsibility (whether in individual, or collective form

in organized groups), whenever these operations have the control and approval of the credit institutions. The reason for this is only because the crop is a part of the guarantee. However, and officially throughout the country, the Federal Government through the National Company for Popular Subsistences (CONASUPO) establishes a guaranteed demand for some basic products, such as corn, wheat, beans, etc.

E. Insurance

One of the Fondo's activities is to perform repayment guarantee operations for such credits not elegible to insure through the Integral Crop and Livestock Insurance (ANAGSA), though such function of guarantee has been uneffective and has only worked in very few cases, as in the Comarca Lagunera's Rehabilitation Program. Fondo's guarantee is preferably given to small farmers who are not able to offer enough specific guarantees to commercial credit institutions; they are also given to the producers that fulfill any of the two following requirements, according to the Fifth Article from the Law created by Fondo.

a) That they invest, from their own resources, a part (specified by the Operation Rules) of the approved budget of the investment project.

b) That they have enough properties to respond for the total financing, apart from the expected value of the crop.

In any case should the guarantee exceed 60 % of the main part of the credit granted or planned, and to become effective the amount really operated by the debtor will be taken as a basis. The institution may only ask for the guarantee when the recuperation is not possible because of unexpected and uncontrallable reasons after a 12-month period, counted from the date of expiration. In the event that the Fondo pays the guarantee, the amounts recovered afterwards from the debtor will be proportionally distributed between the fiduciary, for the sum paid, and the credit institution for the unpaid proportion of the main amount of its credit. (According to the Fourth Article, Eight Fraction from the Operation Rules). The institution will pay Fondo for the guarantee service a prime no higher than 2.2% on the guaranteed amount. Subsequently, some modifications permitted that, in some special cases, the Fondo

might incur in the obligation of paying the recuperation on the expiration dates of the promissory notes not covered by the producers, without waiting for the 12-month period fixed as a general rule, and the quota for the guarantee service was decreased, making it variable and not higher than 2.5 %. The greatest facilities in guarantee services would be granted in loans to ejido farmers and small farmers, through the operations are performed with the Fondo's financing. In the case of other producers, repayments would only be guaranteed with the loans are made with the own resources from the beneficiary institution. On the other hand, ANAGSA covers, through the payment of specific primes, the different risks of the crop and livestock activities.

These primes are estimated with base on the regional incidence of damages and, by law, are paid by the credit institutions as part of the financing granted to producers. Also, the producers can contract, on their own, the insurance services that they require for other activities out of financing. In general, the characteristics of the ANAGSA are as follows.

- It is obligatory for customers of official agricultural banks.
- The covering contains only the direct crop expenses till the moment of damage; that means, expenses financed by the short term credit. It is an insurance of the credit.
- It has distribution of risks in space; that is, from some crops to others and from zones to anothers, so the less profitable crops and zones are subsidized by the more profitable crops and zones.
- It is a strongly subsidized service by the Government.

F. Other Marketing Arrangements in the Program

There are no services related to facilities or help to producers in the sale, transportation, storage out of the farm, wholesale privileges, etc. within the Fondo's activities. However, throughout the country, and especially in strongly agricultural zones, there are 1976 warehouses for purchase and storage from the Rural Warehouses Program of CONASUPO, to which the producers may go for selling their basic products (corn, beans, and wheat) at guarantee prices, whenever the products are delivered in good conditions as far as humidity and cleanliness is concerned.

G. General Marketing Conditions

As Fondo's activites with its financing programs for small producers are performed at an almost national level, it would be excessively long to describe and characterize the commercialization of the production obtained through the discounted financing for the influence area of each of the Fondo's regional agencies. Also, this activity remains out of the Fondo's regular activities and for this reason there is very few descriptive or quantitative information on this respect. Recently, through the "Program of Immediate Action on Agricultural Credit" approved by the Federal Government on June 22, 1972, in the State of Guerrero began a series of credit and development plans with charge to the different programs managed by Fondo in which financing operations are planned for agricultural production and development of farm productivity as well as product industrialization and construction of rural infraestructural works; all integrated in one state program and with full organized participation of small producers.

This latter type of financing as well as organization of producers may have some impact in the production and its commercialization. However, this does not mean they have a direct participation on the mechanisms and facilities for marketing of products.

H. Benefits and Risks

A necessary requirement for the credit's approval, especially in loans to small producers is the study and evaluation of the producer's application by the Fondo's technicians. In this study and based on the farm's payment capacity (present and at the end of the investment period), the investment and recuperation of credit programs are established, so once discounting all production and financing expenses, the producer may count with a reasonable proportion to cover his current living needs.

III. EVALUATION

A. Performance

1. Apparent Uses of Credit

The credit supply by the Fondo to farmers through the credit institutions are intended for the purposes or concepts of investments specified in the credit studies or evaluations made by the technician or the Fondo. Therefore it is very difficult that such credits go to other different concepts. When this is the case the Fondo can do two things: one, ask the credit institution to rescue the full amount of credit by making effective the collateral, or change the concepts of investments previous study of the technician of the Fondo in accordance with the changes that the farmers made.

The actual policy of the Fondo is to grant long term credits for capital formation and once this is granted, or at the same time, they grant short term credit for production purposes. When this is the case it is very difficult for the farmer to divert the credit for consumption expeditures because the technician of the Fondo makes a careful program of investment in accordance with the tasks and purchases of inputs that are going to be performed month by month in the crop from preparation of the land to actual harvesting. There are some tasks that are performed by the farmer and this part of credit could be considered as consumption expeditures. Because of this program, some times the small farmer or ejido farmer, does not have money to take care of his consumption needs, then he asks to the local lender or to the local store per credit for consumption to be paid once he havests the crop.

In relation to this matters, the Fondo does not carry statistics of the way that the farmer expends the production credit. For this reason is very difficult to know if there is some divertion of funds for expenditure purposes; however this thing is not considered as a problem.

2. Effects

a. Production. Because of the nature of the loans made by the Fondo (long term loans) it is very difficult to account only for the impact of the short term loans for production. However, the long term loans are for improving the condition of the farm such as leveling of the land, lining canals, drilling wells, construction of barns, corrals, planting fruit trees or perennial crops, cows for milk production, etc. When these credits are accompanied by production credit the impact is combined and not only the production increases, but the productivity of the whole farm unit.

In relation with the impact of the ALPRO credits program, there is a survey carried out by the Fondo for the period of 1968-1969. In this time there were 17, 639 producers beneficiated with this program. The universe where the sample was taken (328 farmers) was composed of 5893 creditors.

In the period studied (1968-1969) the credit institutions discounted 339.4 million of pesos and beneficiated the 5893 producers mentioned above. On the average, each farmer received 57 000 pesos per farm. From the evaluations performed to each farmer it was estimated that on the total the value of the production before the credit was going to be 530.7 million and after the credit of 707.2 million. From the sample survey it was calculated a value of production of 853.0 million pesos. In Table [illegible] it is possible to see the calculated value of production before and after the credit and the calculated from the sample survey for the activities of livestock agriculture, fruticulture, poultry and a mix of other type of credits. As can be seen; the value of production is much higher than the predicted after the credit. Then the credit has raised the production and the productivity of the farms beneficiated.

b. Farm income. Actually the farm income of the farmers beneficiated with the ALPRO credit programs has raised, however the Fondo does not keep this kind of statistics. From the survey it was found out that 73 percent of the farmers derive its income exclusively from the farm. This income was expended as follows.

food	20 percent
clothing	7 percent
others	12 percent
saving, investments, capital accumulation	61 percent
	100

The data obtained from the survey was used to calculate the relation between the gross value of production and the value of the assets and gross value of production less costs of crops and the value of the assets before and after the credit, and the obtained from the survey. These relationships show how these coefficients changed, for instance: the relationship between gross value of production and value of the assets changed from 25.1 percent before the credit to 31.4 after the credit and the calculated from the survey showed a value of 35.7 (Table 21).

It is very difficult to kow, because of the lack of data, how much of the increase in production has been captured by the intermediaries or viceversa. The Fondo is only concerned with the production and very seldom

Table 20

ABSOLUT AND RELATIVE DIFFERENCES OF THE VALUE OF PRODUCTION PER AGRICULTURAL AND LIVESTOCK ACTIVITIES BEFORE AND AFTER THE CREDIT AND THE OBTAINED WITH THE SAMPLE SURVEY

ACTIVITY	SURVEY						INCREMENT				Difference between the prediction and the survey	
	Before the credit		Predictions		Results		Pesos		Percent			
	Value	SE	Value	SE	Value	SE	Prediction	Survey	Prediction	Survey	$	%
Livestock	213 604	11.8	309 196	25.5	332 875	9.6	95 592	119 271	44.8	55.8	23 679	11.0
Agriculture	209 084	23.6	279 301	9.6	403 623	10.0	70 217	194 539	33.6	94.0	124 322	59.4
Fruticulture	15 400	19.5	21 156	14.6	24 325	18.1	5 756	8 925	37.4	57.9	3 169	20.5
Poultry	4 025	17.2	4 576	19.0	4 761	16.6	551	736	13.7	18.3	185	4.6
Other	58 552	16.2	92 981	10.2	87 454	13.8	34 429	28 902	58.8	49.4	-5 527	-9.4
Total	500 665	11.2	707 210	11.9	853 038	6.5	206 545	352 373	41.3	70.4	145 828	29.1

* Prediction after the credit

S.E. Sampling error

Table 21

RELATIONSHIP BETWEEN VALUE OF PRODUCTION AND VALUE OF ASSETS EXPRESSED IN GROSS AND NET VALUES, BEFORE AND AFTER THE CREDIT AND THE CALCULATIONS FROM THE SURVEY

ACTIVITIES	RATIOS %						INCREMENT %			
	Before		Prediction		Survey		Prediction		Survey	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Livestock*	18.4	9.4	23.9	11.7	28.6	14.6	4.6	2.3	10.2	5.2
Agriculture	40.6	17.2	50.9	21.6	54.3	23.0	10.3	4.4	13.7	5.8
Fruiticulture	23.8	10.1	30.3	12.9	31.7	13.5	6.5	2.8	7.9	3.4
Other	25.2	11.2	34.4	15.3	32.4	14.4	9.2	4.1	7.2	3.2
Total:	25.1	11.4	31.4	14.3	35.7	16.2	6.3	2.9	10.6	4.8

* Includes poultry.

has something to do with the marketing aspects of the agricultural products.

c. Technology. The ALPRO credit program is only concerned with long term loans and only when the farmer asks for a complementary credit then it is possible for the Fondo to make some technical consideration to improve the productivity of the farm with the use of modern inputs. However, when the technicians of the Fondo make the credit study or evaluation of the long term credit, make some consideration about the productivity of the farm before and after the credit (prediction) with the use of modern techniques (improved seeds, fertilizers, etc.). Nevertheless, are not certain that the farmer is going to follow that technique if there is not a credit for that purpose at the same time.

When the credit is intend for tubewells, then are some provisions in order to make drastic changes in crop production with the use of modern inputs. There are some indications that one of the main concepts of investments are the tubewells in areas where the water is scarce or in areas where production depends of seasonal rainfall and is desired to change the cropping pattern and rise the productivity of the farm.

d. Saving and other source of finance. In the credit program managed by the Fondo, there are not provision for the small farmers or ejidatarios to create savings habits or reinvestments for capital formation. Each one of the creditors behave in different way. It is possible to find out through the country creditors of this kind of program that have enlarged their farms and now receive credit of other programs managed by the Fondo where the rate of interest is much higher.

The intended purpose of the ALPRO credit program is for improving the conditions of the farm and capital formation. When one ALPRO credit is granted there are some provisions to gran another credit for production, if the farmer does not have money of his own finance himself. One of the Fondo program with National funds is intended exclusively for production loans; however, these complementary loans are only granted if at the same time there is a long term loan or the farmer has already one.

The rate of interest charged to the ALPRO creditor has not discouraged the flow of savings into farm finance because these programs are so small that they do not have any impact in the overall rate of interest of the country.

e. Employment. As was discussed above, the ALPRO credit programs are for long term concepts of investments. Some of these concepts like tractors and machinery are saving labor techniques therefore instead of creating new jobs displaced them. This is more dangerous when a group of small farmers and ejidatarios are involved in the investment. Some times is desirable to have a tractor in order to do the work more rapidly; however just one person is employed and the other does not have anything to do, if there is not diversification of activities. This saving of labor does not affect the wage rate.

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Sometimes is desirable to have investments that save labor because there are possibilities of employment of labor force saved in other activities; however each case must be analized because there is a lot of pressure of people unemloye in most of the regions of the country.

f. Political and social structure. The ALPRO credit program in a region is designed for farmers selected that have productivity and capacity to pay because its physical resources can be combined with the investmentes and make profitable the loans. However, in most of the rainfall season producers (temporaleros) the majority of the farmers have such kind of resources, that can not be combined with long term investments. These groups of farmers are unable to take advantage of a normal policy of credit. It is necessary that the government starts special programs not only of credit but also programs of infraestructure together with programs of research, education and extension service, and be prepared to absorb losses due to the unpredictable wheather. These farmers are the ones that actually create social and political problems, because their quality and quantity of resources are so small that they abandon the rural areas to go to the cities in order to find a better job. It had been some attempt to group farmers with scarce resource in order to make large units and take advantage of investments others than agriculture; like production of grasses to rise cattle. However, there are capital devises techniques that can not be implemented all over the country.

3. Progress towards other objetives.

One of the main results of the Fondo has been the participation of the private banks in financing agricultural and livestock programs, much more than used to be. Actually the private banks play an active roll in financiang agricjlture by discounting much of their agricultural credits in the Fondo and granting credits with their own resources. The statistics carried out by the Fondo shows increases in the number of small farmers beneficiated with credits; however, this program is not enough to fulfill the needs of the great majority of the small farmers and ejidatarios of the Country. In July of this year the government through the Fondo started a new program of agricultural credit for small farmers using national funds named "Agricultural Credit Program of Inmediate Action". In this program private and oficial institutions can discount credits with the Fondo.

There is another program of agricultural credit that could be carried out by the private institutions. These are obligated to deposit in the Central Bank certain percentage of the demand deposits in cash and gain 5 percent of interest intead of doing that, they can loan this percentage to small farmers and obtain a 7.6 rate of interest.

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4. Image

a. Farmer attitudes. Actually the creditors do not have information about the portfolio of the different programs managed by the Fondo.

When a promotion is carried on with a group of small farmers the technician of the Fondo explain to them the different types of credits, maximum amount granted per applicant, term, rate of interest, and concepts of investments that can be loaned through the credit institutions. These norms of credit, limit up to certain point any demand for changes that the farmer could propose to the Fondo. On the other hand, when the technician makes the credit study or evaluation of the farm investment of the applicant, he sugests and actually programs the amount of the individual loan, the term to be paid out and he determines if the small farm could be an ALPRO creditor or have a credit in another program. In another words the farmer has a little to do in order to demand changes in the norms of credit established by the Fondo.

b. General image of Program. When the ALPRO credit program was established in 1962 the requirements to be a credit subject were very difficult to fulfill; therefore in the first years of operation the number of loans were very small. It was not until years later when the basic criteria requirements and norms of operation were less rigid, then the number of ALPRO creditors increased. However there is the impression that these credits are granted to selected farmers and ejido farmers that actually are productive and have capacity of payment; then the ALPRO credit help them; but the same success could have been obtained with another credit program, even with a higher interest rate.

The technical assistance that the technician of the Fondo supply to creditors can be visualized at the time when they make the credit study or evaluation. At that time and when they present its report of the evaluation it is consigned certain practices and uses of inputs that the farmer must follow in order to make sucessfull the credit granted. This is considered as technical assistance, however there is not.

The continous increases and sucessfull credit operations of the Fondo in all the programs, have been made possible for the Country to start other credit programs with international and national funds, not only with the private credit institutions but with the official ones that traditionally have been unsuccessfull in granting credits.

B. Evaluation Procedures and Feedback

1. Program Evaluation Procedures.

There were not considered at the beginning of the ALPRO credit program any evaluative procedure that could measure the success of the program. Once the credit is granted, it is planned periodic visits to creditors to see first if the credit was invested for the purpose intended and after that, to see the development of the productive process. However, they do not keep systematic records of income changes or another progress of the creditors. The only records that the Fondo keeps are related with the type of loan, terms of payment, number of creditors, etc.

In 1971 it was carried out a survey to estimulate the impact of the ALPRO credit program. Some of its results have been discussed in early parts, however in the apprendix it is attached the publication of this study.

2. Feedback and Changes in Program.

As it was mentioned above at the beginning of the ALPRO credit program the number of loans were not very significant due to the rigid basic criteria and norms of credit of the program. However once these basic criteria were less rigid and more promotions with farmers and private credit institutions were made, the number of ALPRO creditors increased, even though the rate of interest has increased from 6 to 7.6 percent. Actually the ALPRO credit program was one of the first ones that impacted not only farmers but private credit institutions to ask and invest more in agricultural sector, respectivelly. The Fondo is an institution of a great success because it has induced the private banks to invest more in agriculture and to create its own technical body in order to increase the number and volume of credits discounted with the Fondo and credits granted with its own resources.

At the same time the Fondo has been given more freedom and responsibility to its branch regional and state offices to approve credits up to a million pesos without the approval of the technical committees of the central office.

The success of the Fondo has induced the government to start other credit programs with private and official banks using national and international funds in order to reach small farmers and ejidatarios that they have productive and payment capacity, but its colateral is not enough to obtain a certain amount of credit.

C. Problems.

1. Government Level.

Actually there have not been problems with the ALPRO credit program at any level, government, Fondo, or small farmer. The problem is that there are not enough sources of funds to satisfy the demand of credits for all the farmers of the country. However it is known that not all the farmers of the country could be subject of credit of a normal policy of credit, because its quantity and quality of resources are so small that the credit they could receive are not productive. Even if the credit is productive a failure of a year is more than enough to put in danger the program because the production of the following year even if it is very good, is not enough to pay for the credit received this year and the debt of the year of the failure. These producers need some help from the government that can be channalized in investment program of infraestructure, research, education and extension services, plus the availability of subsidised credit or supervised credit that must nost be granted by a bank. This kind of program could make possible for some farmers to be a credit subject of a normal policy of credit.

2. Agency (Fondo) Level.

The only possible problem at the level of the Fondo are the ones related to the requirements that a small farmer need to fulfill to be a credit subject of an ALPRO credit program or other credit programs. These requirements are not fulfilled by the majority of the small farmers and ejido farmers of the country, therefore it is necessary to have other programs like supervised credit with technical assistance, that could grant credit to these farmers. This credit could be a combination of credits for consumption and production. However, it is necessary to take some providences to avoid the failure of the program with crop insurances and for a governmental subsidy.

3. Farm Level

This problem borns from the Fondo and affects the farmer. When the credit study or evaluation is carried out by the technician of the Fondo, he makes his estimations taking in consideration the average yields and prices that prevail in the region and very seldom from the own farmer. This does not take into consideration the management ability of the producers. The sometimes the productive and payment capacity of the farm and the farmer is subvaluated or overvaluated and when the amortization of the credit

is due the farmer can not fulfill its commitments.

To prevent this kind of problems it is necessary that the technician of the Fondo when they make their evaluation consider each farmer as a case and not as an average farmer.

Other problem that is not considered in these cases is the marketing aspect. It is easy to increase production but most of the time this production is sold in the same markets and at the same intermediaries. Then the increase in production is shared with the intermediary because he obtains the same margin for both the traditional and increased production. It is necessary to adivise and associate these farmers in the aspects of comercialization to take advantage of the margin that the intermediaries are obtaining from them by looking different channels of marketing.

D. Conclusions About Small Farmer Credit.

1. Major Problems of Small Farmers.

Evidently the situation and problems of the small farmers beneficiated with the ALPRO credit program are not representative of the problems and conditions of the majority of the small farmers and ejidatarios of the country.

Some of the key economic, social and political problems of the small farmers are as follows.

a) Minifundia and irregularities in land tenure

b) The quantity and quality of resources are so small taht can not be combined with investmentes and make them productive.

c) There is a lack of a network of infraestructure, therefore the resources are not fully utilized.

d) Due to the individuality of the small farm produces, the lack of a convincing incentive, the coops and farmers organizations have been a failure. The credit has been used as a mean to organice the small producers and ejidatarios forgetting other aspects. However, these organizations have been failed due to the little organization and technical assistances offered to other tasks of the production and marketing aspects.

e) The lack of local research have limited the alternatives of cropping and livestock production in areas of seasonal rainfall.

f) The techniques recommended by the extension service people have not been useful in the areas of scarce physical resources.

g) The land tenure problems have limited the organization of the small producers because they do not have a title of his plot of land and can not offer it as a colateral for a credit.

h) Generally the small producers lack of education to adopt new techniques.

i) Some times the alternatives of agricultural and livestock activities do not offer to the small producers high earnings; then the producer do not take the risk of testing them, because of the problem of being in debt and loose its patrimony.

2. Role of Credit in Meeting These Problems.

As was pointed out before, credit alone can not solve all the problems mentioned above, nor increase. production of small farmers and ejido farmers in unpredictable climatic conditions. Also credit alone as a mean to associate producers to make edecuate units of production have not been successful due to lack of permanent and sistematic technical assistance and education. The organization of small producers has been only for the purpose of facilitate the operation, control and recuperation of the credits granted.

The Ejido Bank (BANJIDAL) and other oficial banks actually plan and make the decisions of the agricultural process of its creditors given little or no responsibility to the farmers; in the making decision process of what to plant, what kind of inputs to use, and where to sell the products.

It has been few attempts of given supervised credits to capacitate small producers to become actual subjects of credit of a normal policy of credit.

In August of this year, the Secretary of Finance made prevision to support loans up to 80 percent of small farmers that having capacity of production its collateral was not enough to satisfy the requirements of the credit institutions. Also it made provision to provide permanent technical assistance without cost to the credit institution and to the farmer, creating a new program in the Fondo. This loans can be granted by private and official institutions.

In October of this year, the government iniciate a program of infraestructure in rural areas in order to provide facilities for the new credit programs that are going to be chanalized by the private and official banks.

3. Credit and new technology

a) Triggering small farmer development.

There have been in the last years an attempt to reorient the research in agriculture to areas of scarce resources to discover local techniques to solve local problems. This is going to increase the use of purchase of inputs and move these farmers at higher levels of technology and as a consequecen high demands of credit. Besides that, the new investment of the government in rural areas is goin to going to facilitate the success of the new credit programs.

b) Sustaining small farm development.

The subsistence agriculture that practice most of the small farmes of the country can be over come with sound programs of research, education and extension, together with programs of credits for consumption and production, organization of farmers, availability of inputs and new channels of comercialization.

Actually the institucionalized credit has been the major limiting factor for the development of these group of farmers. The norms of credit followed by the credit institutions are so rigid that do not permit farmers to deviate credits for purposes other than production. However do not take into consideration expenditures for consumption purposes; then when the institution provides the inputs sometimes the farmer sells part of it to fulfill his consumption needs and his family. Besides, most of the credit granted for the institution is for areas that have "good" resources and the risk of a failure is rare.

Private lenders and stores are more successful than credit institutions in areas of scarce resources because they have a combination of credit for production and consumption; even though they charge high interest rates and they purchase the produce at very low prices. However they meet on time the needs of the farmers.

There is a wide ignorance on small farmers of the new program of credit. They do not know how to apply and get them. It is necessary a massive education and promotion of the credits provided by the credit institutions.

4. Conditions for success or failure.

The is not evidence to know if the ALPRO credit program might be better or worse than another credit program. However it was one of this first programs that impacted not only small producers but private credit institutions.

It was the beginning for other programs; because it was successful. It is known that the creditors were selected and the resources that they owned were much better than the ones not beneficiated with these credits.

The Fondo started this program and since then the organism has grown at a higher rate. There are technician of different disciplines that advise and make credit studies of all kind in the agricultural sector. Now the Fondo is managing other credit programs and they are charging higher rates of interest in comparison with the old programs.

The Fondo does not make direct loans to farmers; then up to a certain point, he is not responsible of the recuperation of the loans. The credit institution is the one that has the responsibility of granting the loan, supervising, and recuperating it.

When there is a problem, the Fondo grants a larger term of recuperation or demands the credit institution to rescue the credit selling the collateral that the farmer give to the credit institution. Then the recuperation of credits by the Fondo all the time are 100 percent. The problems are faced by the credit institution that granted the loan.

5. How could the program be improved

To improve the performance of the ALPRO credit program in his aspects of production and welfare of the small producer it is neccesary to make the following changes.

a. Reorient the credit program not only to commercial farmers but to subsistence farmers that have some possibilities of potencial production with the help of infraestructure in rural areas.

b. Accept credits for farmers that eventhough they are productive, do not have grarantees to cover the amount fixed by the credit law.

c. Provide actual technical assistance to farmers, no only on the time of the credit study, but through the whole process of production and selling activities.

d. Participate and advise in the network of infraestructure necessary to improve the condition of the farm that are financed by the government.

e. Promote the new program of credit not only with farmers but with official credit institutions, pointing out the advantage of using these credits.

f. Simplify and speed up the credit studies with farmers and institutions to reduce the delinquency rates and lower the average of administrative and supervisory costs of the loans. This could be done by inducing governmental agencies to supervise the loans and advice the small farmers and ejido farmer in the production and marketing process.

In relation with the question that if the concessioned interest rates are unnecessary, we think that this is correct. The interest rates is only one part of the credit and if the activity where it is invested is productive, there is no problem to be paid. Instead of subsidy the rate of interest, it is better to subsidise the modern inputs and guaranteed a price for the products to be obtained.

IV. ROLE OF TECHNICAL ASSISTANCE

IV. ROLE OF TECHNICAL ASSISTANCE

IV. A. AID INPUTS*

IV. B. OTHER CONTRIBUTIONS FROM DONORS

Capital administrated by the Fondo from international organizations is as follows:

a) A loan for 20 million dollars by the Agency for International Development in 1962.

b) Extension of a previous loan for 21.5 million dollars more in 1965.

c) Loan by the International Bank for Reconstruction and Development for 25 million dollars in 1965. (Loan No. 480-NTE).

d) Loan by the Interamerican Development Bank for 20 million dollars in 1968.

e) Loan from International Bank for Reconstruction and Development (2nd. loan) for 65 million dollars in 1968.

f) Interamerican Bank Development. loan for 82 million dollars in 1971.
g) World Bank, loan for 75 million dollars in 1971.

From these funds, only those from the loans by the AID IDB managed by the ALPRO'S Program of Fondo are assigned to the financings of small agricultural producers.

Technical assistance provided by these agencies refers basically to determining criteria for the allocation and operation of these resources according to the specific purposes for which they were contracted.

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* As suggested by the outline, this section was eliminated.

C. EFFECT[illegible]

If technical assis[illegible] referred to in [illegible]ction is that the agency (Fondo) should provide th[illegible]ners receiving credit, the answer is affirmative because especially with sm[illegible] commercial producers, technical assistance is the key aspect not only [illegible] credit's recuperation, but for reaching the parallel objectives of habilitation, technological change and increase in the productivity in the farm as well as in resources. Though the results found on the impact of the program are successful and [illegible], if such program is expected to operate at a really important scale in relation to the number of small producers existing in the country, then, besides a greater volume of resources, technical assistance and specific habilitation should play a basic role, taking into account that supervised credit is essentially an intensive form of agricultural extension and habilitation. The fact that the credit's philosophy or technology has or has not poorly adapted to the country's conditions, depends on the availability of previous experiences and on the possibility of putting into practice proper and efficient mechanisms to face the real problem in its whole.

In the future, with the experience gained from the program and from other countries through the Spring Review, it will be possible to make more successful and advanced programs.

IV. D. SUGGESTIONS

More frequent evaluations on the impact of the program in the fulfillment of its purposes, may provide more consistent criteria for confirming or modifying, as convenient, the action developed. By this way, benefits would be more significan each time, not only in terms of the beneficiary's situation, but also on the total number of producers with low incomes in the country.

A continued flow of technical and financial assistance, whose type and size has to be determined upon the developed criteria through more critic evaluations, has to be oriented towards regional programs coordinated with the participation of public sector.

With reference to the AID function in terms of support and financing of credit programs for small producers, there exists the need to promote and obtain each time more important loans at low costs, in order to finance the development of undeveloped countries.

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In second place, AID must play an important role as a catalyzer for the establishment of development strategies based in wider criteria - of international cooperation. In third place, the adoption and use of technical assistance and humanization mechanisms each time more modern and at a massive scale according to the condition, customs, and objectives for the respective program in each country, must be culminated.

Finally, the interchange of experiences and easing of more efficient procedures, among the countries trying to achieve their problem of rural and national development have to be promoted.

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Anna [illegible]

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Annex 2

AGRICULTURAL AND LIVESTOCK PROGRAMS OF CREDIT THAT THE PRIVATE AND OFFICIAL BANKS OFFER IN COMBINATION WITH THE FONDO (FIRA)

Short Term Loans (Fondo Normal program)*

Agriculture.

a. Maximum amount per applicant: up to $100 000 pesos.
b. Term: up to 12 months.
c. Rate of interest: 12 percent per year.
d. Concepts of investments: all kind of crops: sorghum, corn, wheat, barley, vegetables, beans, potatoes, and other crops.

Livestock:

a. Maximum amount per applicant: up to $100 000 pesos.
b. Term: up to 24 months.
c. Rate of interest: 12 percent per year.
d. Concepts of investments: production or purchasing of young bulks and hogs for fattening, broilers and pullets. Production of forager and purchasing of medicines and concentrates.

Long Term Loans.

BIRF Program.

a. Maximum amount per applicant: there is no maximum limit as long as the coleteral is acceptable for the credit institution.

b. Term: from 3 to 15 years depending of the nature and concepts of investment.
c. Rate of interest: 10 percent year, up to $500,000.00 and 11 percent for loans larger than $500,000.00.

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* Mexican Resources.

d. Concepts of investment:
1) Agriculture: well drilling, purchase of wells equipment, tractors, farm equipment, construction of canals, leveling of the land, other improvements in the land, sprinkle irrigation, drip irrigation, plantation of perennial crops and another complementary investments for diversification of crop production and agricultural productivity.
2) Livestock: purchase of all kind of cattle, cows, pigs, etc. for raising purposes and milk production, construction of barns, corrals, silos and other construction for livestock rising.
3) Industries: Construction of packing houses for meet, fruits and vegetables, pasteurization plans, plants mixers of fertilizers, insecticides and concentrates, sloughter houses, deshidratation plants and another small industries for agricultural and livestock products.

ALPRO Program.*

a. Maximum amount per applicant: up to $150,000 pesos.
b. Term: from 8 to 15 years depending of the nature of the investment.
c. Rate of interest: 7.6 percent per year.
d. Concepts of investment: the same as the BIRF program except the Industrial credits.

* Considered both programs ALPRO-BID and ALPRO-AID. In order to receive and ALPRO program is necessary that the credit subject fill out the requirements stablished by the Fondo.

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COUNTRY PROGRAM

CREDIT AMONG SMALL FARMERS

THE CASE OF THE PUEBLA PROJECT OF MEXICO

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Puebla, Mexico
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I. CHARACTERISTICS OF THE PUEBLA PROJECT AND THE CREDIT PROGRAM WITHIN IT.

A. Background

1. Historical Summary

The Puebla Project region consists of about 120,000 hectares of farm land. About 80% of this area is planted to corn each year. The region is representative of subsistence agriculture; the main crop is corn which has been grown for hundreds of years under rainfed conditions. It has been estimated that about 47,000 rural families live in the region. The average size of plot per head of family is about 2.5 hectares, and the average number of members per family is 5.5. At the time the Project started, the farmers had very low yields due mainly to technological limitations. Under these circumstances, they were not able to increase the yields of corn by only reallocating the resources at their disposal. (1)

At the beginning of 1967, the first stage of the Puebla Project was implemented. This stage consisted in establishing agronomic experiments to determine the potential of the region for increasing yields on the bases of modern technological inputs and to obtain a package of new practices. In this way, after analyzing the results of the experiments a recommendation based on new agricultural practices was produced to be immediately distributed among the farmers of the region. This happened at the beginning of 1968.

The promotional stage of the Project, to achieve the participation of credit institutions (which would provide credit for the farmers to purchase the new inputs) and among the farmers (who would be the beneficiaries) at the community level, started early in 1968.

It had been found in the survey that served to build the bench mark (carried out during the winter of 1967-68) that the farmers had in general scarce economic resources. After gathering that information, it was clear that the credit program must receive prime importance. Although official and private credit agencies had been operating in the region for years, by 1967, they had reached only 12% of the farmer population (4.4% received credit from local lenders,

6.0% from official agricultural banks, and the rest from private agencies). (2)

The first year (1968) 103 farmers agreed to try the new technology on an experimental basis. Only 15 of the 103 farmers had the necessary resources to purchase the new inputs; 88 of them were willing to participate, but only if the inputs were provided on credit. This first year, although promotion was made available to managers of government banks, no one was willing to participate; they preferred to continue working in the conventional way. Only one private agency (a fertilizer dealer) agreed to participate on an experimental basis the first year. The manager had agreed with the director of the Project that he would provide only the necessary inputs on credit, but no cash would be supplied.

Good results were obtained the first year, and the managers of official institutions were invited to attend the demonstration organized at the end of the agricultural cycle. They agreed to participate on an experimental basis in 1969.

By 1970, the participation of the three government banks was much more important than that of the private agency. Since then, they have provided more and more loans each year. In 1969, the three official banks provided credit to 1005 farmers associated in 70 groups. These 1005 farmers worked a total of 1602 hectares. The total loans were equivalent to U.S. $80,100.00. The private agency provided credit to 1556 farmers associated in 58 groups who worked 2719 hectares. The total amount loaned to these 1556 farmers was equivalent to U.S. $135,950.00.

In 1970, the official banks provided credit to 3089 farmers associated in 134 groups who worked 7,930.10 hectares. The private egency supplied credit to 1750 farmers, organized in 85 groups who worked 4681.75 hectares.

In 1971, the three official banks provided credit to 3609 farmers associated in 132 groups who worked 11,042 hectares. The private agency reached 1631 farmers who were organized in 51 credit groups and who farmed 3,395.50 hectares of corn.

Finally, in 1972, the plan for reaching 10,000 farmers and at least 20,000 hectares planted following the new recommendation was hindered by two main factors: 1) a decrease in the price of chemical fertilizers caused a demand larger than the amount supplied, and so there was a general scarcity

of materials in almost all agricultural regions in the country; 2) the rainy season started too late and some campesinos who were in the lists to get credit decided not to participate because the risk was higher under these circumstances. At this time, the private agency provided credit to 1774 farmers who worked 4,108 hectares and were associated in 59 groups. The official agency provided credit to 4,416 farmers associated in 326 groups who worked 13,117 hectares.

The average amount of money the campesinos borrowed from the official banks and private agency (in material or money to purchase material) was U.S. $60.00 per hectare in 1970 and about U.S. $50.00 in 1971 and 1972, due to a fall in the fertilizer price.

In regard to future plans to reach the masses of campesinos, these will mainly depend on the availability of fertilizers to be purchased or to be provided by official and private agencies. It will also depend on the effectiveness of the campesino organization, which will facilitate the distribution of credit, and on the rainfall. In a good year, more campesinos will take the risk of purchasing modern inputs; in a bad year, most campesinos will prefer not to take the risk getting in debt with the credit agencies.

2. Relation of the credit agencies in Puebla to the National Credit System

Both the official banks and the private agency are part of the National Credit System. According to the present needs at the national level, it is estimated that the available funds would be insufficient if at a given moment all potential clients demanded credit. Within the state of Puebla each institution has the power to reallocate the available funds and so to satisfy the demand for credit in the short run. In other words, if in a given year the demand for credit for a given crop is larger than what was foreseen, the board of the bank can, for example, reallocate their available funds from alfalfa to corn. This is a prerogative of the state agency, once the central office has approved the budget for a given agricultural cycle. Actually, it is unlikely that a shortage of credit would prevent reaching more campesinos.

3. Other Program Activities

The official banks that are actively participating in the action program of the Puebla Project are, of course, involved in other credit activities with other crops and livestock. However, they are not concerned with any other activities aiming at general development of the community. Neither is the Puebla Project engaged in other activities aiming at development, other than those having to do with the increase of yields of corn and, more recently, of beans.

4. Relation to the Pre-existing Local Institution

As mentioned earlier, the Puebla Project was not created for the purpose of providing credit to the campesinos. The purpose was to mobilize local resources and work with farmers to promote their adopting the new technology by making available agricultural credit. It is clear then that the strategy of the Project contemplated, from the very beginning, the gradual involvement of local credit agencies in the action program, as well as other agricultural institutions.

The Puebla Project is in no way competing with the existing agricultural institutions; on the contrary, it looks forward to the coordination of complementary actions to provide a better service to the campesinos.

In regard to the credit agencies, although in a certain way each one has a well-defined clientele, to a certain extent they also compete each other. In fact, because a group can receive credit from more than one institution, it can shift whenever the service is not altogether satisfactory.

All credit agencies, being Mexican, are staffed with Mexican personnel. The staff of the Puebla Project is also 100% Mexican. More than half of the personnel has had graduate studies, and some have completed a Ph.D. at foreign universities. Three advisers from CIMMYT have been actively participating in the program.

5. Agricultural Patterns and Potential

As was mentioned previously, about 80% of the total farming area in the region is planted to corn, which is mainly used for family consumption. This is the reason why the

Puebla Project was implemented to rapidly increase the production of corn in a relatively short period of time. Corn is also used to feed the domestic animals raised for sale or for consumption. Corn is easily converted into money when there is an emergency (sickness of one member of the family, for example).

At the time the program started, yields were very low (about 1300 kg/ha). Nowadays, those participating in the program are getting at least 80% more than farmers still following traditional methods.

Corn production in the area is, of course, not exported, nor sold out of the state. This production is consumed within the state. Two years ago, the state of Puebla had to purchase corn from other regions to satisfy the internal needs.

The second most important crop in the region is beans, also grown for family consumption, though some extra kilos may be sold in the local markets. Beans and beans associated with corn are also included on a smaller scale in the research program. A preliminary package of new practices has been developed, and a set of recommendations is already being given to farmers. Bean yields were very low when the program started, (about 200 kg/ha), due mainly to pests that attacked the crop. With the new technology, the farmers can obtain up to 2,000 kg/ha. This package of recommendations, however, is not still promoted in an extensive way within the region.

Besides these two main crops, there are subregions having some irrigation where the farmers grow all kinds of vegetables. The production is sold in the main cities within the region and in the market of Mexico City. There is also an area, in the center of the region, where the farmers have grown fruit trees for years. The quality of the fruit, however, is very poor and the productivity very low. Fruit production usually goes to state markets. There are several small factories making apple cider, which buy apple production. Other species are sold in local markets during the market days.

In 1967, according to the survey carried out among the farmers, it was found that the availability of new agricultural technology for most of the crops was almost nil. At present, about 13% of the campesinos in the region are using the new technology, but they planted about 18% of the acreage sown to corn in 1972. These figures, however, refer

to those farmers who are directly participating in the credit program. There is also a large number of users of the new technology (according the mid-term evaluation carried out during the summer of 1971) who do not appear in the credit lists because they purchased the required inputs on their own. The exact number of this group of beneficiaries will be available within a month or two.

It is felt that the program has the potential to reach about 80% of the farmers who regularly grow corn. This figure, of course, refers to the use of new technology by the farmers and not necessarily to the credit program. This is because a considerable proportion will get credit on their own or will have the necessary resources to purchase the inputs that the new technology requires.

B. Objectives

1. General Objectives

a. Announced

The announced objectives of the Puebla Project are: 1) to develop, field test, and refine a strategy for rapidly increasing yields of a basic food crop among small holders; 2) to train technicians from other regions in the elements and successful use of this strategy. (3)

The main objectives of the action program are: 1) to produce and refine a package of new agricultural practices designed to increase the yields and to immediately distribute the package among the farmers; 2) to coordinate actions with all the local agricultural institutions to release the available resources mainly capital; 3) gradually organize the farmers to facilitate the process of getting credit. On the other hand, through the organization of the groups, the farmers would share political power and would put pressure on the agricultural institutions to encourage them to undergo desirable changes in their organization and operation.

The objectives of the Puebla Project and the action program within it have remained the same over time, although the strategy of specific programs has been modified according to the information obtained through the continuous evaluations. However, these modifications have been made in order to be more effective in reaching the above-mentioned objectives.

Clearly, the objectives of the Puebla Project are in line with the national government policy, i.e., to transform traditional agriculture to a modern and viable agriculture through which the rural sector can achieve better living conditions. However, the procedures followed at the national level are different from those followed in the case of the Puebla Project. While the strategy of the Puebla Project consists in concentrating effort on a basic food crop among small farmers, at the national level resources are spread among such a variety of crops and activities that results are very seldom positive.

b. Apparent

In the case of the Puebla Project announced and apparent objectives are the same. Because the Project has developed an Evaluation Program, any misconception in the planning or programming of activities can easily be detected and corrected in the short run. The objectives are basically sound not only at the regional level but in the long run at the national level.

Organized and discontented groups are only found in Puebla State University. However, they have respect for this kind of project, given an awareness that it is in the countryside where there exists a more urgent need to improve the living conditions.

2. Term of Loans

a. Purpose

The main purpose of the credit provided by official and private agencies has been for production. Specifically, the loans provided to the farmers associated in credit groups are for purchasing the required inputs to increase the production of corn. Most of the participating agencies in the credit program provide the required materials on credit rather than cash. Because most of the campesinos do not need to hire labor to do the cultivation necessary to the corn crop, very few really need cash for that purpose. Also, the region is relatively free from pests, but where an insecticide is needed, the agencies can provide the necessary cash to purchase the recommended product.

Although, as mentioned above, the participating credit agencies have other credit activities, such as irrigation, credit for livestock development, etc., the action

program of the Puebla Project does not extend to those activities.

In regard to storage, there is a government agency which purchases, manages, and stores crops on a national basis. In the state of Puebla, this agency has several reception and storage centers, where the campesinos can sell their production of corn and beans at the support prices established by the government.

b. Period

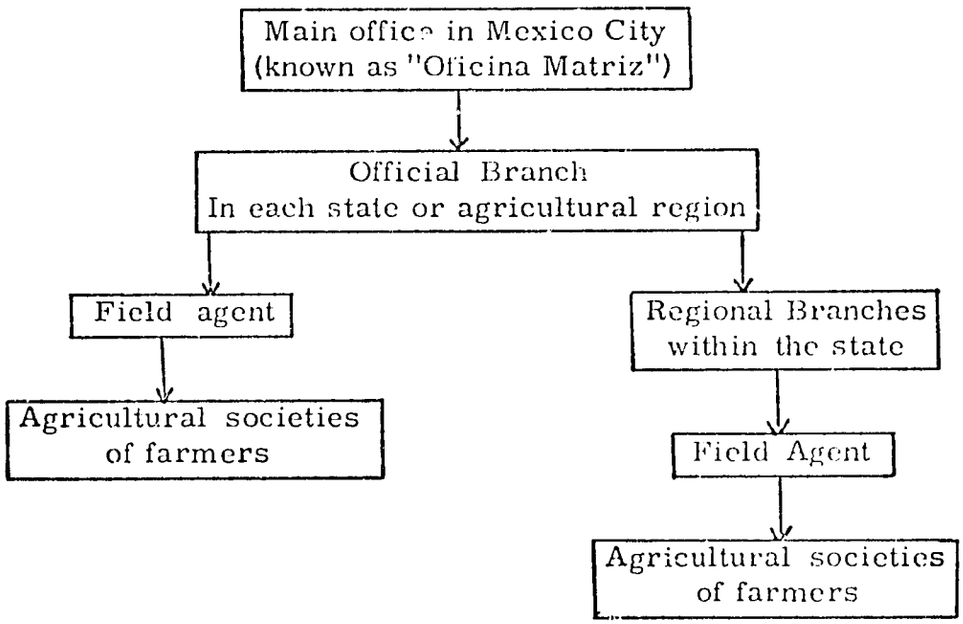
Up to date, most of the funds have been channeled into short-term loans. The maximum terms is for nine months, but if a campesino wants to pay back his loan before the date line, he can get a discount in the total interests he has to pay. Only five or six groups (out of almost 200) have requested long-term loans. These loans have been mainly for digging tube wells or to purchase a pump to get some irrigation water. Others have purchased milk cows, for example. Although the extension agents of the Project are prepared to provide the interested groups all kind of information regarding long-term loans, and to put them in contact with the respective institutions, they do not provide technical assistance in that particular field.

C. Organization

1. General Structure

The Puebla Project is a decentralized agency that up to now has been funded through a special grant from the Rockefeller Foundation, and administrated through CIMMYT. The Project consists of the following specific programs: 1) agronomic research program, which includes corn improvement and soil fertility or productivity programs; 2) extension program; 3) evaluation program; and 4) a coordinator or director at the regional level. These four programs constitute the core of the action program in the field. (4)

In regard to the credit program, the structural organization is as follows:



The main function of the central office is to allocate the available funds of the institution at the national level. The official branch in each state sends its Plans of Operation to the central office where a National Council analyzes it and totally or partially approves it. Once the budget has been approved, the state council has the privilege to re-allocating resources to different lines of credit. Each regional office, usually in the state capital city, is staffed by a manager and a head of each one of the five administrative departments. The maximum authority of the bank at the state level is the above-mentioned council known as "Comision de Planeacion." That council includes the manager of the regional office, and one representative of government agencies (Ministry of Agriculture, Ministry of Water Resources, and State Department of Agriculture) and two or three representatives of the farmers of the region.

The official branch at the state level is completely decentralized with regard to field activities. In general, they have the power to solve most of the problems that deal with the supply of cash or inputs. If plans are drawn in

advance, usually things can run smoothly in a given agricultural cycle. The supervision of lending procedures by the central office very seldom exists in decentralized offices. (5)

D. Participants

1. Selection Criteria

According to the traditional formal rules of private and government agencies that provide credit in the region, less than 5% of the total farm population qualify as clients. Obviously, following these formal rules there was no hope to reach the largest majority of small farmers in the region. On the other hand, most of the farmers (according to the basic survey of 1967-68) were not willing to borrow money from the government banks because they considered that official agencies provided very poor service. There was a clear need to promote changes both at the institutional level and at the farmer level.

The Director of the Project convinced the managers of a private credit agency (a fertilizer dealer) to provide credit to the farmers on an experimental basis and under new procedures the first year. The extension agents, on their part, during the promotional stage explained to the farmers that there was a private agency which was going to provide credit under new procedures.

Under the new procedures of the private agency, the most important prerequisite was that the farmers be associated in a credit group with two or three representatives. The second most important prerequisite was that the farmers follow the technical recommendation provided by the extension agents of the Project. A moral commitment to repay the loan had to be made if physical guarantees did not exist.

Once the groups were organized, the members set up their own working rules (normative statement and sanctions) to keep up their credit-worthiness. The group sanction punishes poor performers by expelling them from the group. If there is a high incidence of poor performers within a group, the agency cuts off the credit to the whole group.

Large farmers (with more than ten hectares) do not have any problem in getting credit on their own, if they can provide the guarantees the agencies require. However, this group of large farmers is relatively small (less than 5%).

As mentioned above, the area was selected because it is representative of areas populated by subsistence farmers with scarce resources. Two main prerequisites were considered necessary for selection of the area, namely: 1) an ecological environment that will permit substantial yield increases; and 2) a general political environment favorable toward increased production.

2. Differentiation Policy

Because each official agency has a well-defined clientele, according the category of the farmers (ejidatario or small private owner), they do not differentiate among clients. The only agency that in the past has had a kind of differentiation policy is the private fertilizer dealer. However, this fact has been dictated more by the circumstances than by a planned policy. Because the dealer has not been able to take care of all its potential clients each year, several groups have decided to shift to the official banks.

3. Number and Types

Because most of the farmers associated in groups own small plots or have ejido parcels not larger than 2.4 hectares, i.e., are in the category of sub-family size, no breakdown by size has been made.

On the other hand, because the program has focused its action on the corn crop, this has been the only crop for which those farmers in the credit groups have received credit.

The following four tables show a breakdown of the number of farmers who have received credit and the number of hectares they have worked each year since 1969, according to the credit institutions.

Impulsora de Puebla
(Private fertilizer dealer)

Year	Number of Farmers	Number of Groups	Number of Hectares	Average Acreage per Farmer	Total Loaned (U.S.$)
1968	103	0	65	0.65	3,250
1969	1,556	58	2,719	1.75	116,500
1970	1,750	85	4,682	2.68	280,920 *
1971	1,631	51	3,395	2.08	169,950 **
1972	1,734	59	4,108	2.47	205,400 **

Banco Nacional de Crédito Ejidal
(Puebla Branch)

Year	Number of Farmers	Number of Groups	Number of Hectares	Average Acreage per Farmer	Total Loaned (U.S.$)
1969	413	15	829	2.04	49,740
1970	2,122	59	4,522	2.68	271,320 *
1971	2,199	54	4,920	2.24	246,000 **
1972	2,499	52	5,105	2.09	255,250 **

* Estimate based on an average of U.S.$60.00 per hectare

** Estimate based on an average of U.S. $50.00 per hectare

Banco Nacional de Crédito Agrícola

(Puebla Branch)

Year	Number of Farmers	Number of Groups	Number of Hectares	Average Acreage per Farmer	Total Loaned (U.S.$)
1969	50	0	687	13.80	41,220
1970	480	23	1,788	3.75	107,280 *
1971	1,114	58	4,951	4.35	247,550 **
1972	1,774	261	7,499	4.25	375,350 **

Banco Agropecuario del Sur

Year	Number of Farmers	Number of Groups	Number of Hectares	Average Acreage per Farmer	Total Loaned (U.S.$)
1969	542	55	1,603	2.95	96,180
1970	487	52	1,619	3.30	121,200 *
1971	296	20	1,172	3.97	58,600 **
1972	183	13	822	4.52	41,100 **

*Estimate based on an average of U.S. $60.00

** Estimate based on an average of U.S. $50.00 per hectare

4. Other Sources of Credit

The above-mentioned sources of credit are the only ones that have been participating in the credit program of the Puebla Project. The local lenders at the community level still remain as a source of credit for emergencies, but very seldom for productive purposes. The data of the mid-term evaluation will show us what proportion of the population still needs this kind of credit.

5. Profile of Farm Community

As was mentioned before, the population of the region is quite homogenous as regards size of ejido or individual plots. Also, they are quite homogenous as regards economic resources and technological knowledge.

The participants in the credit program are, it is felt, representative of the total population, given that the opportunity to participate is open to everybody. Since the beginning, it has been a Project policy that participation must be on a volunteer basis.

It has been estimated that only 80% of the farmer population in the region will eventually participate in the credit program of the Project. At present (1972), about 13% of the total population is engaged in the credit program.

As can be observed in the table presented above, the participants are considered small farmers because of the size of their parcels and no large farmers are included in any group. The few who exist in the region are working by their own. In some cases they go to see the extension agents of the Project to ask for specific recommendations. However, the extension agents concentrate their efforts in helping to organize and provide technical assistance to the groups of small farmers.

E. Lending Policies and Procedures

1. Portfolio

The information concerning the number and value of loans over time was shown in previous tables.

The loans have been specifically for corn production. Although beans have recently been introduced lately to the program, the farmers have bought the recommended inputs since the recommendation is still on a small scale. No credit

for other crops is provided to those in the credit program (if the credit agencies also have other lines of credit, it is provided at the farmer's own risk).

Most of the farmers in the different groups are repeaters from previous years (75%). However, there is a growing group of farmers who participate each year for the first time (about 20%). There is also a small group which drops out of the credit program because they cannot repay their loans or because they got the necessary cash to buy the materials (5%) on their own.

Usually, the farmers in the credit program only get one loan for corn. The amount of the loan depends on the number of hectares he wants to work in a given year (from 0.5 to 10.0 hectares in the extreme cases).

2. Interest Rates

For more than 20 years, the official banks have had a fixed interest rate for their clients of 1% per month. The maximum term of loan for production purposes is nine months. The private agency participating in the program charges 1.5% per month, and also provide loans for a maximum period of nine months.

Although there has been a considerable degree of inflation in the country during the last ten years, there is no available information to estimate the real cost of credit to borrowers.

3. Collateral

Direct collateral is usually not required from farmers participating in the credit program. The official banks, however, require farm credit groups to sign a contract with the bank in which the farmers pledge to back each other in case of default.

4. Other Subsidy

There is no subsidy program for the private agency participating in the credit program. The clients of the official banks theoretically receive a federal subsidy through the agricultural insurance agency. However, it is estimated that the premium the farmers pay to get the insurance

is enough to cover the payments the insurance has to make for crop damage. It is considered that no subsidy is necessary for the credit program of the Puebla Project, due to the fact that there is a satisfactory repayment rate. On the other hand, the interest rate not only covers the administrative expense but allows the banks to have a considerable margin of profit. At the national level, however, the banks operating under traditional procedures have the need for a federal subsidy, due to the high incidence of credit delinquency. The interest rate of official banks is subsidized by the government by 0.5% per month.

5. Appraisal Techniques

For the farmers associated in a credit group, the traditional burdensome appraisal of the property of the applicant has been eliminated. Because potentially all the arable land in the region is suitable to grow corn, once an individual has been accepted into a group, there is no need to go to visit the parcel. The insurance agent and the field agent visit the farm when the crop is in an early stage to check if the farmer has followed the recommendations and to insure him or to reject his crop.

Prior to the planting date, the extension agent of the Project obtains a list of applicants, which includes the number of hectares for which each client wants to get credit. The private agency requires a minimum physical guarantee on the part of some members of the group. In this way, the group accepts a common responsibility to pay back on time to avoid trouble for those who give the guarantee. The extension agent usually pays two or three visits to the community until the final list is obtained.

F. Collection

1. Repayment

In comparison with the rate of delinquency, the official banks get with their traditional clients, the rate of delinquency which those in the credit program incur, is relatively low. The private agency has always gotten a low delinquency rate because of the kind of guarantee it asks from its clients.

In 1968, when the only agency that participating in the credit program was the private agency and only 103 farmers got credit, the repayment of loans was 100%. This private agency in 1969 provided credit to 1556 farmers and got 96%

repayment. By 1970, it provided credit to 1750 farmers with a rate of repayment of 95%. In 1971, the total of farmers who received loans was 1631 and the rate of repayment reached a peak of 97.5%. Finally, in 1972, the agency again provided credit to 1734 farmers, who are expected to repay their loans in at least 97% of the cases.

Traditionally, the Ejido Bank has been the credit source with the highest delinquency rate. In fact, in the past they have been satisfied if they got 50% of repayment on time. The first year that this Bank participated in the credit program, the extension agents of the Project did not properly get in touch with the farmers who received credit, due to the lack of coordination with the field agents. As expected, the repayment rate scarcely reached 55.5% this first year, which was a little bit better than that of the traditional clients. With better coordination the second year (1970), the Ejido Bank took care of 2122 farmers, who repaid 72% of the loans on time. The situation was much better in 1971, when about 91% of the total money lent was repaid on time, with 2199 farmers receiving credit from this institution. Finally, in 1972 the Banco Ejidal provided credit to 2499 farmers and again it is expected that at least 90% of them will repay their loans on time.

The Banco Agricola did not have a better starting than the Banco Ejidal due mainly to the lack of coordination. In 1969, it provided on credit the recommended inputs to 50 traditional clients who only repaid on time 50% of the total amount lent. In 1970, with much better coordination, most of the clients of this Bank received opportune technical assistance on the part of the extension agents of the Project. The rate of repayment of the 480 clients who received technical assistance was 90%. Those who received the same materials on credit but did not receive technical assistance, only repaid on time 77% of the total money lent. The rate of repayment in 1971 reached a peak of 92%, mainly due to the fact that most of the 1114 clients received opportune technical assistance.

The poorest participation in the credit program has been that of the Banco Agropecuario del Sur. This has not only been in regard to the number of loans but also extends to the rate of repayment on time. For example, in 1969 only 50% of the amount lent to 452 farmers was repaid on time. In 1970, 487 farmers received credit from this

agency and the repayment rate scarcely reached 60%. By 1971, 256 farmers got their credit from Banco Agropecuario and again the repayment rate scarcely reached 60%. In 1972, the repayment rate is not expected to be above 60%. The problem with this agency has been its lack of interest in the credit program among small farmers. It argues that the program constitutes an administrative burden and that the farmers are not good clients. Besides, the Bank's field agents have never had interest in getting in touch with the extension agents of the Project, to provide their clients (in most of the cases) with opportune technical assistance.

2. Methods

The private agency has a different method of collection than that followed by the official banks.

Because of more flexible administrative procedures, the private agency encourages its clients to pay back, as soon as they can, through the representatives of the groups. The incentive that the client has is to get a discount in the total amount of the interest he has to pay at the termination of the loan. In this way, the agency gets repayment on installments during the whole year. Another procedure that has been encouraged since the beginning is that the agency's representatives got to the City of Puebla to make the repayments received during each week from the members of the group. Of course, the extension agency plays an important role during the whole crop cycle; he insists upon the convenience of paying before the term to get a discount in the interest, but also on keeping the credit worthiness of the group by repaying on time at the end of the term.

In the case of the official banks, besides the field agents who at the end of the year visit each group with a list of clients and the total amount that each one owes to the agency, the extension agents encourage their clients to repay on time at the end of the term. Although the clients of the offical banks theoretically can also get a discount in the total interest they have to pay for their loans, this has been traditionally discouraged by the field agent of the bank because they consider it constitutes an administrative burden. However, several groups asked the managers of these agencies, through the extension agent of the Project, to make effective that formal rule. Although that way of repayment only started last year on a small scale (with the complaint of field agents and administrative personnel), it offers another means to improve the repayment rate.

The repayment of loans to the private agency is only accepted in cash. In the case of the official banks, it can be in cash or in kind, through the official agency that pays the campesinos the support price of corn.

3. Special Enforcement Procedures

Theoretically, both the private agency and the official banks can take legal action against a client that fails to pay back at the end of the term. However, both prefer to follow the friendly way to convince irresponsible clients to repay their loans. The most effective way of convincing those who fail to pay back on time is through the other members of the group. When the group receives credit, all the members accept a common responsibility to repay on time. The field agent explains in a clear way that the bank can cut off the service if some members do not pay on time. This is the reason why the whole group helps to convince those irresponsible members to repay, so they can get credit again. When the rate of delinquency is smaller than 5% for a given group, those who fail to repay their loan are allowed to sign a new document and to repay it, say, three months later. When the client fails to pay back at the end of the second term, then the extreme of legal action is taken. However, the action of the group has proven far more effective than legal procedures

After each group is formed, it sets up a set of working rules (sanctions and normative statements) to regulate the behavior of the members of the group. The most radical sanction of a group usually has to do with theexpulsion of irresponsible members from the group. Once a member in a given group has been expelled, it is very difficult for him to enter another group or to get credit with another agency.

4. Reschedule

It is more common among the official banks to reschedule a debt. The official banks can reschedule a debt for another full period of nine months, though three-month period is more common.

G. Costs and Finance

1. Portfolio Profit and Losses

We will only analyze in this section the portfolio for the credit program of the Puebla Project and will ignore the rest of the normal operations of the respective agencies in the region.

Only Banco Agricola gradually increased its portfolio to reach more clients each year. The high rate of repayment has allowed the Bank to get an annual budget increase to be allocated to the credit program of the Project. With a rate of delinquency of less than 10%, the Bank does not erode its budget for the next year. This is because they usually get a full recuperation of faulty credit, two years later at most.

The Banco Ejidal, although with a poorer rate of repayment, has not seriously been affected by faulty clients. Although it has not shown a marked tendency to reach more clients in the last two years, in the future it is expected to reach more and more farmers through better coordination with the Project extension agents. It is considered that after two years, this Bank also can get a complete recuperation of faulty credit. This fact is not considered a source of capital erosion which could diminish the budget of a given year.

The Banco Agropecuario only has decreased the share of its portfolio in the credit program, its interest in small farmers is diminishing. The bank has the highest delinquency rate, but this does not mean that its budget has decreased. It states that after two years, all the total money lent in a given cycle has been completely recuperated.

The private agency participating in the credit program has had the highest repayment rate from the beginning. However, it seems they have reached a ceiling regarding participation. This is by no means due to a lack of resources, but rather to administrative restrictions which do allow the agency to take care of a growing number of clients every year.

Although it is considered that Mexico has had inflation year after year, there are no exact figures to really measure how it has affected the budget assigned to the credit program.

2. Administrative costs

Although figures are not available for any of the four credit agencies, one can get an idea of the relative administrative costs of each. The private agency has had minimum administrative costs, mainly due to the more effective organization of the farmers on the part of the extension agents of the Project. This more effective organization in turn is due to the fact that this agency does not have any field agent and the extension agent plays that role. In this

way, the manager of this agency is able to handle the administration of the credit with only two secretaries during the whole year. One of the two visits those groups with faulty credit at the end of the term, serving as a kind of field agent.

The Banco Agricola also has been able to handle the credit program at a very low administrative cost. This Bank only has one field agent who reviews the corn crop along with the insurance field agent and the clients. The Bank thus relies mainly on the extension agents for the Project. During the process of providing credit to the different groups, the Bank hires temporary personnel (four to five secretaries), who are partially paid by the clients, so the process of writing documents is faster. The repayment of loans is facilitated by the organization of groups which repay through their representatives. When a group is larger than twenty farmers, it is divided into two or more groups with its own sub-representatives. In this way, both the processes of receiving credit and repaying are faster and more efficient.

The Banco Ejidal and Banco Agropecuario are well staffed with field agents and secretaries who perform the administrative aspects of the credit. This fact is the main reason why the credit is still largely provided in convential ways. Thus organization of the farmers relies partially on the Bank's own field agent with only a small proportion under the direct responsibility of the extension agents of the Project.

In regard to the policies adopted to cut down costs of administering both credit and technology, the most important has been the organization of the groups. In this way, a commong guarantee is provided (by depositing some ownership certificates or ejidal certificates of those individuals who have their documents in order) to the bank instead of individual guarantees: not only are the latter more burdensome, but not everybody can provide them. By the same token, technical assistance is given to the group rather than to individual clients. Demonstrations are organized at every stage of the crop where something new is done. Although technical assistance is more effective when carried out on an individual basis, it has the limitation of reaching only a small number of clients.

3. Beneficiary Savings

Although no one of the four agencies participating in the credit program has an official and compulsory savings policy, the extension agents have been promoting the initiation of saving accounts with the main purpose of capital formation through the groups. Two groups successfully started savings accounts two years ago, and it is expected that more groups (those better organized) will soon initiate a savings policy. Unfortunately, such a policy is still far from being considered as an internal way to refinance the credit program.

4. External Finance

The credit programs of official agencies have been financing the credit program with national funds. The private agency has mobilized its internal resources, but it also is tied to the national system of production of fertilizers and it depends on the national policy for the amount of credit its manager can get for the state. No foreign capital has been channeled to the credit program through the official or private agencies. In the last two years, Banco Ejidal and Banco Agropecuario have had an authorized credit larger than that suscribed, due mainly to the fact that not all the farmers are willing to seek credit with them or to internal problems. The Banco Agricola, however, has had a higher suscribed capital than that authorized by the central office. Banco Agricola also has provided more incentive to its clients by eliminating certain bureaucratic procedures. This is the only official bank that has been able to keep pace with the demands for credit through a reallocation of other lines of credit to the corn crop within the credit program of the Project. This is one of the privileges each official bank has at the state level once the central office has approved the budget.

No special discount policy has been implemented by the central office to date. The only incentive the local agencies have to participate in the credit program, is the higher repayment rate which is possible through the organization of the groups and the technical assistance provided by the extension agents of the Project.

The only guarantee the official banks have is through the agricultural insurance system. By law, all clients of official banks have to be insured automatically against all kind of risks. The agricultural insurance not only serves to protect the farmers but also prevents the bank from

possible erosion of capital. While the idea of the agricultural insurance is excellent, it is still far from a satisfactory performance.

5. Institutional Solvency

Although no one of the participant agencies has had a considerable portfolio loss as a result of its participation in the program, each one has a different story that has been partially told in previous sections, but will be completed here.

The private fertilizer dealer, for example, has not had any inconvenience in getting new credit from the central offices in Mexico City, due to its good records regarding repayment of loans. However, the manager of this agency argues that only if he gets 100% repayment, will he continue in the program. He is not satisfied with even 97.5% repayment.

The official banks in the State of Puebla, as mentioned before, are part of the national system to serve the small farmers. Of course, each one of the banks can get an increase of budget for each crop if its records are satisfactory. The central office can cut down or to definitely cut off a line of credit if the losses are growing each year. Excepting the Banco Agropecuario, which has had smaller participation and the less satisfactory results, the other two banks are in the position to ask for an increase to budget to enlarge their participation in the credit program.

6. Foreign Exchange Balance

Because the Puebla Project has been taking place as a pilot program in the Valley of Puebla, its impact regarding production has been regional and has not had any effect on the foreign exchange reserves of the country. The corn produced is consumed by the family and any extra production sold in the market for local consumption and not for export.

H. Complementary Factors

1. Technology

a. Directing, Tying and Packaging

The four agencies participating in the credit program have been providing credit for materials to be used according to the new recommendations. This has been mainly at the suggestion of the farmers themselves, who, in general,

do not need cash to pay extra labor to carry out the cultivation that this crop requires. The credit is, of course, tied to the new technology to cultivate corn, which consists of a package of new agronomic practices.

In a few cases, the farmers need extra cash to hire labor or to purchase pesticides. The Edjido Bank has insisted on providing cash to all its clients; however, those groups in the credit program now have the alternative of not getting cash if they do not want it.

b. Program Extension and Supervision

Perhaps it has become clear up to this point that although the credit program is directly related to the extension program, the latter is directly carried out by personnel of the Puebla Project. In fact, as was stated at the beginning of this paper, the Puebla Project was implemented in the region to develop and immediately distribute a package of new production practices among the farmers by the Project's own extension program.

The extension agent of the Project regularly visits the communities where a group has been formed to provide services to the farmers. The regular visit is at most every other week. However, if the farmers have a problem that requires technical assistance, the extension agent pays an extra visit to advise the farmers how to solve the problem.

One of the most important modalities introduced in the extension program aiming the multiplication of the extension agent's effort has to do with the training of aides to assist him. These aides are farmers themselves hired within the region but with some education. Each extension agent has two aides, who received some field training until they perfectly grasped the essence of the innovation. These helpers play a key role during the objective demonstrations of how to properly use the new technology. After explaining in their own words the meaning of the new technology to the farmers, they teach them how to use the new inputs by actually doing each one of the steps.

A second important modality to multiply the effort of the extension agents has to do with a series of

interchanges of groups from different communities, within the region. During these interchanges of groups, the farmers have the opportunity to see what and how other farmers in other communities are doing, and to reinforce the need of a correct application of the new recommendation. Even more important than that is the interchange of knowledge on other crops that the farmers from different communities have.

c. Other Arrangements for Technical Transfer

The extension component of the Puebla Project was integrated from the beginning. As was mentioned before, the staff of the Project is paid by a special grant that the Rockefeller Foundation made available for a period of six years through CIMMYT.

The extension agents of the Puebla Project have been closely related to the credit agents of the Banco Ejidal during the last two years. With the credit agents of Banco Agropecuario, unfortunately, that relation has been weaker. As mentioned before, the private agency and the Banco Agricola do not have credit agents and in both cases the extension agents of the Project fulfill both roles. In fact, during the formation of a group in a given community, the extension agent explains the sources of credit available. If they want to obtain credit from Banco Ejidal or Banco Agropecuario, the extension agent puts the credit agents of these banks in contact with the leaders of the group to go ahead with the administrative process. If they want to get credit with Banco Agricola or with the private fertilizer dealer then he directly helps the group until the credit has been provided to the farmers.

In regard to the coordination of credit agents and extension agents, this is facilitated by the local coordinator of the Project. It is one of the basic assumptions of the Project (based on past experience in Mexico) that the transfer of new technology does not take place automatically once it has been obtained and successfully applied by some local farmers with more resources than the majority. Because the main problem is the lack of resources and objective demonstration of how to use the new technology, both programs are considered of key importance in the overall strategy of the Puebla Project.

d. Nature of Technology

A research program was built into the Project as the core of the action program. In fact, the first stage of

the Project had the objective of establshing agronomic experiments throughout the whole region to determine the potentiality to increase productivity in relation to the actual levels, on the basis of modern inputs of production. After analyzing the results of the experiments of the first year, it was found that it was possible to at least double the yields on the basis of appropriated rates of fertilizer only. The existing improved varieties and the hybrids produced in the Chapingo experiment station did not appear superior to the existing local varieties of corn. It is clear that the package of recommendations to date consists mainly of appropriate rates of chemical fertilizers, time of application and a higher population of plants per hectare. The productivity program has continued establishing experiments throughout the whole region each year. This has allowed them to refine the package of new practices for specific sub-regions within the region. Actually, there exist seventeen different packages regarding rate of fertilizers, time of application, and plant population per hectare. The experimental design the researchers use allows them to minimize the cost and the risk of the new recommendation and to maximize the profit for the farmers.

Prior to taking full responsibility of a given sub-region, the extension agents of the project receive a period of on-the-job training. If a team of extension agents is scheduled to be replaced because they are to go to a graduate study program, the new team goes to the region and spends at least three months getting acquainted with the region, the people, and with the program in general, accompanied by the respective members of the older team.

2. Supplies and Sales

a. Program Supplies

Fertilizers in Mexico are produced by a government enterprise. Each state has an authorized dealer who by law can sell materials only to farmers and not to private businessmen who could resell these materials. This is a national policy whose objective is that of regulating the price of materials in the whole state by avoiding intermediaries, who could make profit at the expense of the farmers. This is a new policy, started two years ago, which has not yet had the desired effect. When the Project started five years ago, almost each community had a fertilizer seller who usually had available the conventional formula that had been used for years in the region. At the beginning, it was thought that these local businessmen could serve as suppliers of the new

inputs; however, because of the new law that possibility has been eliminated.

Each one of the official banks orders in advance through the central office in Mexico City the amount of fertilizer materials that are going to be needed. If there is enough production, the materials are supplied from Mexico City through the authorized dealer in the state. When there are no available materials in stock, they are supplied later, but often so late in the season that farmers do not get the materials on time and do not apply them.

After the administrative arrangements have finished, both the official banks and the fertilizer dealer that provide these inputs on credit, supply the materials directly to the farmers in the City of Puebla. The farmers usually have to hire a truck to transport the materials to the community. If they prefer, the official banks can pay the transportation and add the cost to the credit. The private fertilizer dealer and the Banco Ejidal have one more distribution center in another important town in the region, in addition to the central storage place in the City of Puebla.

Last year, the prices of fertilizer were cut because the agency was making, besides the pure economic profit, a considerable monopoly profit at the expense of the farmers. This fact, of course, caused an increase in the amount of fertilizer demanded that was superior to the amount supplied. The farmers actually are paying the just price for the materials, and the government is not subsiding the production of fertilizers.

On the other hand, it is estimated that the fertilizer industry in Mexico has the capacity to satisfy the national needs and that it will not be necessary to import materials neither in the short run, nor in the long run.

b. Program Infrastructure

The whole region has an adequate system of dirt roads that are usable during the whole year. That system of roads was there when the program started and was not built as a part of it.

Also there exists a system of storage for corn where the farmers can sell their corn at the official support price. This is also a national system of storage that was

built at the time the Project started, but not as a part of the action program.

Another government agency is in charge of irrigation works. This program is independent within the region, and it does not have anything to do with the Puebla Project.

c. General Access and Availability

Although the gradual involvement of the private sector in the credit program has been an objective of the Puebla Project, they have remained at the margin. This is in part due to the fact that the small farmers do not meet the prerequisites of the private sector. Also, because of the administrative burden of taking care of so many people with such small pieces of land, the private sector considers the program not profitable for them. They, of course, continue to provide credit to commercial farmers, their traditional clients.

d. Guaranteed Sales and Price Support

In Mexico there has been a national policy of support prices for basic grains for more than ten years. There is also an official agency that purchases and stores the grains in places convenient for the farmers. Each campesino within the Valley of Puebla can go to any of the existing reception centers and sell them the amount he wants.

Because the campesino always sells corn in small amounts, there is no problem in transporting it. The most common means of transportation are the local buses that transport it to the local markets. If the campesino has more than one ton of corn to sell, he usually hires a truck (in the same village). If there is no other transportation mean, a burro is commonly used.

e. Insurance

In Mexico, by law, all the farmers who receive credit from official banks in short-term loans for productive purposes have to be insured against natural risks. The National Insurance Agency was created in 1961. Basically, the service it provides is sound and if certain bureaucratic procedures are overcome, it can be a great thing for the small farmers in the whole country. Through agricultural

insurance, the government has attempted to prevent the official bank from systematic losses due to natural damage to crops. Theoretically, the campesino only pays the equivalent of 40 to 50% of the premium (40% Ejidatarios, and 50% small owners) and the government subsidizes the other 60% or 50%. However, in the past four years in the credit program it has been estimated that the premium paid by all the beneficiaries has been enough to cover the indemnization to those who had losses due to frost, hail, storms or, winds during the crop season.

In general, the campesinos of the region prefer not to use the Agricultural Insurance because they believe that the insurance only covers those crops that have a high probability of success and rejects those with higher potential for losses. However, in the future this can represent an incentive to the campesinos to use the insurance if certain changes in the working rules take place.

f. Other Market Arrangements

As it was mentioned above, we are only working with corn, and since that there is a price support for this grain no other kind of market arrangement has been made for the program. In spite of the existence of the support price for corn, the campesinos can get a better price in the local markets when there is low production in the region in a given year. However, this question of where to sell, is decided by the farmers themselves.

g. General Marketing Conditions

The existing market system in the region (official and local markets) can absorb the total production of corn even when the Project had reached its target of doubling the yields in all the acreage planted with corn every year. The State of Puebla has to buy corn from other agricultural regions to satisfy its internal needs.

h. Profits and Risks

If all the beneficiaries were following the Project recommendations, they would get at least twice as much production as those still following traditional methods. It is estimated that only 50% are following the recommendations as given by the extension agents. The rest follow those recommendations in part, but not closely enough to be satisfactory. There are several reasons that explain why the participants do not follow exactly the original recommendations.

Apparently, the most important is that they did not receive the inputs on time due to a late supply of materials from Mexico City. The second most important reason is the concern of the campesinos over the risk represented by the uncertainty of a good rainy season. Their reaction in this case is to plant fewer plants per hectare than the recommended population, or to apply less fertilizer, because they think the crop will not make use of it if there is not enough moisture in the soil. However, by doing this, the farmers reduce the yield they could get if they followed the recommendations as originally given. In fact, once a recommendation is produced by the scientists and passed to the extension agents it has included all the variations of the rainy season (but not a delay in the supply of the required inputs).

In a study carried out in 1969, by directly interviewing several farmers who had followed the recommendations, it was found that they got a net profit of $1532.00 Mexican pesos per hectare in comparison with net profit of $341.00 Mexican pesos per hectare for those still using traditional methods. (6)

II. EVALUATION

A. Performance

1. Apparent Uses of Credit

The credit provided to the participants in the Puebla Project has been used exclusively for productive purposes. According to the mid-term evaluation data, all the participants use the credit for that purpose. This is largely due to the fact that the credit is provided in kind and very seldom in cash. When Banco Agricola has provided cash to its clients for the purchase of the needed materials, the extension agent of the project accompanies the representatives of the groups to purchase the inputs that will be used.

2. Effects

a. Production

Two benefit cost analyses of the Puebla Project have been made using ~~basically the~~ information collected by the evaluation team. The first analysis was performed by Jairo Cano and Delbert T. Myren, the second by Jairo Cano and Don Winkelmann. The differences of these two studies rely mainly in the assumptions made about the future of the Project, due of course to the fact that there is no complete

statistical information. While Myren and Cano included secondary benefits, Winkelmann and Cano opted for a set of conservative assumptions.

In the first study, Cano and Myren,(7) after carrying out a realistic analysis on the basis of existing information for the first two years of operation, made a series of assumptions for the years ahead, up to 1975. For 1968 and 1969, Cano and Myren classified the costs as direct and associated. They considered as direct costs, the value of goods and services used for the establishment and functioning of the Project during its operation. Associated costs were those necessary to prepare for use or sale the goods and services produced by the Project. The direct costs of the Puebla Project for Cano and Myren were those which were necessary to produce valid information about corn production under rainfed conditions and to share this information with the farmers. The associated costs were those entailed by the farmers in order to apply the new information on corn production.

In regard to the benefits, Cano and Myren also considered two types: primary benefits which are those goods and services to which a monetary value can be assigned which are produced as an immediate result of the activities of the Project. These primary benefits can be divided into those that have been measured and those which it has not been possible to measure. The secondary benefits were those desired in addition to the immediate goals and services of the Project. An example is the organization of the farmers. Once the farmers are organized, their group strength can be employed for more productive purposes.

After analyzing in all details the existing information, Cano and Myren computed the benefit/cost ratio (B/C) for both years in common, and separately for each one of the years. The ratio for 1968 and 1969 together was B/C=0.93; for 1968 the ratio was B/C=0.05 and for 1969 B/C=1.66. The coefficient of 0.93 indicates that for the two years together the benefits were almost equal to the costs of the Project.

The above benefit/cost relationship only considers the regional level but it does not consider the benefit/cost relationship on the part of the farmers. In their study, Cano and Myren calculated by a rule of thumb the relation between benefits and associated costs for the farmers and roughly determined what a farmer receives on the average for each peso invested in the application of new technology. The results for the farmers, of course, are much more favorable,

given that they are only using the new technology and do not spend any money in developing it. The coefficient for 1968 was B/C=2.97 and for 1969 it was B/C=2.55.

Finally, Cano and Myren made projections based on the first two years for the years ahead, including 1975. The supposition on which these projections are based were: 1) the cost of fertilizers and the price of corn will remain constant during the next five years; 2) in 1970 and 1971, the high yield plantings will give the same yield increase as in 1969, namely, 1,180 kg/ha more than that obtained from traditional planting in 1967; 3) in 1972 and 1973, a new hybrid or open pollinated variety will be used extensively in the region and will give an average yield increase of 10% more over the local varieties; 4) the price of improved seed will be the same as that presently charged for hybrid seed in the region (U.S.$.24 per kilo); 5) in 1974 and 1975, the second improved variety will come into general use in the area and it will permit an additional yield of 5% over the present yields on the basis of use of fertilizers and the variety use in 1973; 6) a total of 80% of the corn area will be planted with high yield technology in 1975, based on a total estimated area in the region of 80,000 ha, which will mean 64,000 ha under high yield planting: 7) the organization of the groups of farmers and other work of the extension team will permit increasing the area in high yield plantings per hectare as follows: in 1970 and 1971, an increase of 1,180 kg/ha, in 1972 and 1973, an increase of 1,455 kg/ha, and in 1974 and 1975 of 1,603 kg/ha; 8) to calculate associated costs it was assumed that the increased cost of fertilizer was U.S.$39.78 per hectare. In addition, the increased cost includes U.S.$3.20 per hectare for planting with the new corn variety. To calculate the benefits, corn was valued at the present support price of U.S.$75.20 per long ton.

The benefit/cost relation was obtained for the period of five years by directly comparing the discounted values (at an interest rate of 12% and taking 1967 prices as the basis of the net benefits and direct costs. The final index was B/C=7.8.

Unfortunately, the corn improvement program was modified last year and the production of new hybrids or open pollinated variety for the region is not now the objective. It follows then that, although technically feasible, propositions three through seven will not be possible under the present circumstances. However, increases of 1,180 kg/ha are feasible. On the other hand, it will not be necessary to

include seed in the associated costs. Also, the prices of fertilizers were decreased last year by about fifteen percent while the support price has remained the same (U.S. $75.20). If adjustments to the associated costs are made due to these changes, there is no doubt that we will come out with a high benefit/cost relationship, although certainly not so high as 7.8.

The study by Cano and Winkelmann/ (8) includes all the costs associated with the Puebla Project, but only includes those benefits related to production, omitting some indirect benefits. They divide the costs into: 1) direct costs, which are all these expenditures made directly by the Project in affecting its activities; and 2) additional operating costs experienced by participating farmers, called farm cost. Benefits are only a measure of the value of the increase in production attributable to the Project.

The first assumption made in order to perform the analysis is that all benefits through production increases cease after 1976, at the time the program finishes.

They note that this is like assuming all the lessons learned are forgotten after that date. The second assumption is that from 1971 through 1976, only those farmers in the program as of 1970 continue and that they are assisted by staff members in maintaining their 1970 yield increases. A third assumption is that only those formally associated with the program benefit from its activities. It is remarked that this is like assuming that no one learns from his neighbor.

They also use 1967 as the basic year to discount the interest rates. Two interest rates were chosen, 12% which is considered the subsidized interest rate for loans, and 18%, which is considered as the marginal productivity of capital in Mexico. In regard to the price at which the farmers sell their corn, two prices are considered: the support price of U.S. $75.20 and the world price of U.S. $60.00 per long ton.

The authors recognize that these are quite conservative assumptions and that each one of them tends to underestimate benefits. However, they emphasize that if benefit/cost ratio are favorable even under these circumstances, it can be said that comparisons would be even more favorable if these assumptions were relaxed.

The results of the respective computations made by Cano and Winkelmann are given below:

Benefit/cost ratios from Puebla Project under alternative assumptions and a horizon from 1967-76

Price of corn $60.00		Support price of $75.20	
12%	18%	12%	18%
1.58	1.52	1.97	1.90

They note that benefits and costs were not treated symmetrically, in that all costs except family and hired farm labor are included while not all benefits are measured.

After computing the above indexes, Cano and Winkelmann concluded that in spite of the conservative assumptions, the Puebla Project will have a substantial pay off as compared with its costs.

b. Farm Income

Although the specific analysis of the effect of farm income increases will be performed on the basis of the information collected during the summer of 1971, there are indications that the participants have used the extra income for productive purposes. In general, those who have increased their yield through the new technology have improved their diet. Others have used the extra income to make some improvements to the house or have started a small business of growing chickens. The chickens in turn are cared for by the members of the family.

Those with better results bought one or two milk cows or started a small business to fatten pigs, etc. In other cases, the farmer bought a small pump for a well to grow other more productive crops. A considerable number of farmers bought a better plow, an animal power cultivator, or a couple of mules, etc.

In general, we can say that most of the participants in the credit program have been able to capture the benefit of the extra production. The intermediaries, who had a better position when the farmers did not have the credit program, are now at a disadvantage since at least those in the credit program do not now need to sell them their production in advance at lower prices. The support price is always a guarantee for the farmers. In some cases when there is low production in the region, the price can be up to 30% higher in the local markets.

c. Technology

As was explained earlier, the package of new agricultural practices consists only of a rational fertilizer rate, a higher plant population per hectare and better weed control. No improved corn variety has been recommended since the local varieties are as good as the existing hybrids or improved varieties for the region. Clearly the impact in the increases in productivity is due to rational use of chemical fertilizers, which are provided to the beneficiaries through the credit program.

d. Savings and Other Sources of Finance

The four credit agencies participating in the credit program have not imposed any compulsory savings policy. The two or three groups that two years ago initiated a savings account for capital formation are still far from having the desired impact in the whole region. It is expected that as the organization of the groups is reinforced, the members of the organization will have more confidence in initiating a common savings for capital formation at the community level.

e. Employment

The technology recommended by the Puebla Project is labor intensive rather than capital intensive. In other words, the adoption of the new technology does not require any machine but it requires more human labor and animal power. The adoption of the new technology demands more farm labor to apply the fertilizers, to plant at a shorter distance, to do the necessary cultivation, and to harvest a larger crop.

In a specific case study completed in 1968, it was found that under the traditional practices a hectare of corn required about 40 man-days during the whole cycle (including the harvest).

The wage in the region is around U. S. $1.00 per man per day. If the farmer uses the new technology, about 30 more man/day are required per hectare. In 1972, about 17,530 hectares were planted under the new recommendations. The amount of employment of family labor or hired labor follows immediately. The wage labor has not increased as a consequence of the Project. (9)

f. Political and Social Structure

Through the organization of the groups, the farmers not only are in a better position to get credit and

to purchase the inputs at a lower price, but what in the future can be even more important is that they can have a more active political participation and share political power. In the last two years, several groups have had confrontations with the managers of the credit agencies who were refusing to provide them with credit, or who were delaying the delivery of materials. In this way, immediate attention was given to their demands. Through the representatives of several groups the farmers have even had several interviews with the Governor of the State to demand a fair treatment not only from the credit agencies, but also from the other agricultural and political institutions in the region.

3. Progress Toward Other Objectives

Progress has been made toward the institutional change. In fact, three out of four credit agencies have considerably modified their procedures to provide more efficient service to the farmers. A specific study of the institutional changes is going on now. Even more important than the changes in the credit agencies is the change recently manifested in a meeting of the Director of the Project and the head of the extension service in the State. The Extension Director stated that the extension service in the State will adopt the strategy developed by the Puebla Project for carrying out the extension work. They, of course, asked for help from the Project in order to train their personnel for a given period of time.

4. Project Image

a. Farmer Attitudes

We can definitely say that most of the participants have a favorable attitude toward the Project. Of course, there exists a small group of unsatisfied clients who did not get good results. However, poor results, when not due to adverse rainfall conditions, were due to not doing the necessary cultivation on time, or because to not following the recommendations as originally given by the extension agent of the Project.

In regard to those not in the credit program, in general their attitude is one of doubt about the ability of the official institutions to provide a satisfactory service. Even when these people have seen good resuls on their

neighbor's land, they are worried about getting the inputs on credit too late and being in debt to the agency, which gives them a feeling of dependency. Others argue that one never has the certainty of a regular rainy season and that hence the probability for good results is low. However, the extension agents and researchers argue that even under these circumstances, those following the recommendations get better results and that the increased production not only will repay the credit, but also leave a larger net profit.

In spite of the general doubt of those not in the credit program, new farmers are participating each year, outweighing those who leave the project or decide to purchase inputs on their own and to take advantage of what they learned during the time of their direct participation.

The increase in the portfolios of the credit agencies are in response to the number of new clients each year. The object of loans continues to be production. However, in regard to the lending procedures, Banco Agricola and the private fertilizer dealer have improved so as to reach more clients and to provide more efficient service. Banco Ejidal has been also making some progress in that direction.

b. General Image of Program

The majority of those who have visited the Project at least once think of it as a general success. In regard to national observers, their opinion has been changing lately. At the beginning, most national agronomists working for government agricultural institutions had the opinion that the Puebla Project was something that a foreign institution had implemented in order to prove they were more efficient than indigenous agencies, but that in reality the results were going to be irrelevant. However, after five years of positive results their attitude toward the Project has been changing. A growing number of scientists from the National Agricultural Research Institute have started establishing their experiments out of the experimental station. This is thought of as a direct influence of the strategy of the Project. In this way, the results will have more probabilities of success when delivered to the farmers by the national extension service. As was mentioned above, the extension service of the State also has modified its attitude and are ready to adopt the strategy generated in the Puebla Project.

Perhaps the effectiveness of the strategy has been more controversial within CIMMYT. A group of CIMMYT staff

members argues that the strategy represents a waste of resources, and that there is no need to have an extension team to supervise the new technology used by the farmers. Neither is there need, they argue, to organize the farmers and to involve the credit agencies in a credit program. It is the contention of this group of researchers that it would be enough to establish a given number of demonstration parcels throughout the area with cooperating farmers. The inputs can be provided free to the farmers the first year, while they have the opportunity to see that the new technology is worthwhile. The following year the cooperators and a growing number of neighbors will start adopting the new technology. On the other hand, the package of new practices can be demonstrated in the experiment stations. In the last analysis, this group says that an extension service is not the role of an institution like CIMMYT, whose main purpose is to carry out agronomic research and breeding of basic grains in the experimental stations.

The group of supporters of the strategy of the Puebla Project within CIMMYT argues that the small farmers not only need technical assistance through a well-trained group of extension agents who can give them clear and objective explanations about the way to use the new technology, but because they are in general so poor and disorganized that it is necessary first to organize them and then to involve them in a credit program. In this way, they will be able to purchase the new inputs required to use the new technology. By the same token, because of the higher risk a small farmer takes in adopting the new technology under rainfed conditions, the agronomic research must be carried out in the same ecological region with cooperating farmers and not in experimental stations. In this way, the new technology not only will deserve more confidence on the part of the farmers, but also it will have a higher probability of success. This group holds that the alternative strategy proposed by those who disagreed, is exactly what the extension service in collaboration with researchers of experiment stations have been doing for years in Mexico, without transforming the situation of poverty under which the small farmers live. On the other hand, this group of staff members of CIMMYT maintains the idea that this institution must also care about doing this kind of job among small farmers.

B. Evaluation Procedures and Feedback

1. Program Evaluation Procedures

The evaluation component has been an integral part of the Project since the beginning. The main objectives of

this specific program are not only to establish a before-and-after measurement, but also to establish a process of feedback among the participant sectors in the action program. In this way, the different programs could be modified or redirected so as to attain more effectiveness in reaching the goals of the Project. (10)

In its studies, the Evaluation Program has used the survey research method, the case study method, and the estimation of yields in the farmers' field through a statistical sample of parcels.

A base-line survey that served as the benchmark for comparisons over time, was carried out during the winter of 1967-68. This research survey was made by directly interviewing a representative sample of farmers of the region. The questionnaires used for the interview contained all the important socio-economic variables that provided the basis to construct estimates of family income, actual yields of the most important crops, and the degree of use of new agricultural technology on the part of the farmers, etc. During the summer of 1971, the mid-term evaluation was undertaken asking basically the same set of questions as in the first survey. The analysis of this information will give us a direct measurement of the achievements of the Project. The case study has been useful in studying the production cost of those following the recommendations as compared to those still following traditional practices.

Objective evaluations of yields have been made since 1968 on the basis of statistical samples of farmers in the credit program, and also general samples of parcels taken throughout the whole region. In this way, a direct measurement of the impact of the program in the whole region is obtained regarding the increases of yields of corn, year after year.

In addition, the Evaluation Program has provided row data for a number of research papers to graduate students at Chapingo, and has helped several other students in the design of studies related to the Puebla Project.

2. Feedback and Changes of Program

The results of the evaluation of the first survey as well as the case studies and the objective measurements of yields, have been of key importance not only for the

Director of the Project but also for all the staff members and managers of credit agencies. The results of the baseline survey, for example, provided a measurement of the degree of technical knowledge and of the levels of productivity the farmers had before the action program started. In this way, the researchers had a clear idea of the potentiality the new technology (obtained from the experiments) had to increase the yields on the basis of non-conventional inputs. For the extension team, it was useful to know, just before starting the promotional stage, what the general attitude of the farmers toward the Project was and the effectiveness of such chanel of communication to deliver news. Also they were provided with information regarding the socio-political organization of the community so they could direct their effort toward a coordination avoiding conflicts with the values the people already held. For the Director of the Project, the information regarding the performance of the credit agencies of the region in providing this service, was useful to move them to change their procedures in order subsequently to reach more farmers.

C. Problems

1. Government Level

Although the Project has had complete support on the part of the state government since the beginning, the problem has been that three different governors have been in power in the scant six years of life of the Project. There was no problem in 1969, when the new governor took office, given that he knew and supported the Project while he was a candidate. The problem is that he resigned his position and a new governor was immediately appointed by the local congress. This new one is not familiar with the Project, but he has indicated that he will support it. The local authorities at the community level have supported the Project in most cases, and have collaborated with the extension agents.

2. Agency Level

Although the credit agencies participating in the program have gradually changed their conventional procedures for providing service (except Banco Agropecuario), there still exist certain bureaucratic procedures that constitute a problem and that cause delay in the supply of efficient service. This problem has to do with the conventional roles of administrative personnel and field agents. The field

agents, for example, in their traditional role are only expected to obtain lists of clients of previously organized credit societies and to supply cash or conventional inputs to the farmers (usually too late). However, they do not care about providing technical assistance, or supervising the use of credit. Neither do they care about encouraging the farmers to repay their loans on time, or a better selection of clients. Now, through the extension agents of the Project, the field agents on the banks have been trained in such a way they not only provide technical assistance, but also become real organizers of the farmers.

3. Farm Level

The main problem with the farmers of the region is their concern over getting into debt with an official agency which is inefficient. Their concern in this respect is with not getting the credit on time or getting poor results, which could cause them to lose their personal independence. This fact, incidentally, accounts for the fact that most of the farmers in the region are not participants in the credit program

Regarding the farmers who are members of credit groups, in spite of radical sanctions of these groups, there are at least 7% of members who never attend the meetings after they received the necessary materials. Neither do they attend (or very seldom) the regular meetings the representatives call to discuss matters of common interest. These farmers very seldom attend demonstrations on how to use the new inputs. But they usually are prone to blame the poor organization of the group or the extension agent for the poor results. Most of them tend to think that chemical fertilizers are a kind of miraculous element that once applied will render good results no matter when applied, and no matter if weeds are not eliminated through proper cultivation.

D. Conclusions About Small Farmers Credit

1. Major Problems of Small Farmers

The major problem with small farmers is that they are poor, disorganized, and facing a technological ceiling that does not allow them to increase their productivity simply by reallocating the conventional inputs at their disposal.

Any project aiming to transform traditional agriculture must, at least, offer to the small farmers:
1) relevant technology on the basis of modern inputs;

2) availability of credit and modern inputs in the local markets, (the credit must be at an attractive interest rate and the inputs at a price that makes their use worthwhile for the farmers. This means that the price at which the farmers sell their products must compare favorably to the purchase price of the inputs.); 3) the existence of an extension service to help the farmers get organized and to spread the use of the new technology in the region through the most effective communication methods.

With respect to political factors, besides a favorable environment at the state level (and also at the national level), it is convenient that the extension agent and the local coordinator take into account the political organization at the municipal level. In this way, the program will gain confidence on the part of the villagers from the very beginning. In Puebla when the program started there was the tendency on the part of the villagers to think that this was a communist program. Through the local authorities it was explained that the Project had official support and also the support of local authorities. In this way, the people felt more confidence to participate.

2. Role of Credit in Meeting these Problems

Because the small subsistence farmers are in general poor, and in the short run there is no possibility of capital formation at the village level, capital for productive purposes must necessarily come from the outside. In the case of Mexico, the agricultural credit systems for owners and ejidos were organized back in the 20's and 30's. The purpose was to provide the small farmers and ejidatarios who received a piece of land with the necessary economic resources to make the land productive. Unfortunately, due to the lack of relevant technology, and even more important, to the lack of good organization at the community level, the availability of credit created more problems than it solved.

In short, credit alone does not solve the problem; it must be closely related to the production of new technology, technical assistance, and to the organization of the campesino.

3. Credit and New Technology

a. Triggering Small Farmer Development

In the specific case of Mexico, an extraordinary infusion of credit in the rural areas would not solve the problem in the short run. As was explained before, most of

the small farmers do not want to get in debt and to lose the independence they hold in very high esteem. The infusion of capital must be gradual, keeping pace with the demands for new loans only. Of course, as was emphasized before, the adoption of new technology will be accelerated if there is an efficient credit program. In this way, small farmers can get the new inputs on credit or get the cash to purchase the new inputs.

It is estimated that in Mexico, as a whole, credit is insufficient to take care of all potential clients. However, at present most of the small farmers do not qualify as clients, due to different circumstances. In the long run, though, it is estimated that the farmers will become organized and will demand that larger amounts of credit flow to the countryside. For the small farmers in the irrigated areas, the problem is not serious. They are even served by private banks.

b. Sustaining Small Farmers' Development

The lack of institutional credit is not the only problem preventing the farmer from adopting new technology that requires the purchase of new production inputs; however, it is the most important one. The second most important problem in a given year can be the scarcity of the recommended inputs. These two problems, however, are faced by those already in the credit program. For the largest majority not yet in it, the problem is, as has been mentioned above, which has to do with the experience of the campesino with poor service and with his concern over getting in debt and having to depend on the credit agency until they repay it. Clearly then, while the action program must make a strong effort to promote institutional changes among the participant credit agencies, it also must include actions toward the gradual change of the attitude of the small farmers toward the institutional credit. There should be more interaction between both sectors.

4. Conditions for Success or Failure

The main reason the Puebla Project and its credit program have done a better job than other programs aiming the transformation of traditional agriculture, is because its strategy was broadly and comprehensively conceived. It was stated from the beginning that: "The philosophy of organizational structure is that the production of information and its dissemination are part of a continuum and cannot profitably be compartmentalized. The program calls for an integrated approach for producing and disseminating knowledge

(through the availability of credit) in which there is a constant interaction and feedback along the continuum. This means that the action program should consist of a small team of well-trained scientists with an adequate budget and free-trained scientists with an adequate budget and freedom to operate at any political and technical level". (11)

The fact that the new technology is developed under realistic conditions by establishing experiments throughout the whole region in collaboration with farmers not only has a higher probability of success on the part of the campesino, but also promotes their confidence and so is adopted faster by them.

The gradual organization of the campesinos in credit groups has also contributed to the success of the Project. The technical assistance is given to the group instead of individuals. This in turn allows the extension agents to reach more clients in each agricultural cycle. Through group sanctions the repayment of loans has been much more effective.

The evaluation team has maintained a continuous feedback among the three participant sectors (farmers, institutions, and technicians). This process of feedback along the continuum has allowed to modification or redirection of individual programs in the short run in order to have more effectiveness in accomplishing the goal of the Project in the long run.

The Director of the Project, through an opportune coordination and communication with the managers of the credit institutions, not only has promoted a growing participation but also has promoted desirable changes in the convential procedures of these institutions. Although most of the changes in the working rules of the credit agencies have been gradual and some have been partial, it is thought that in the long run this will be one of the most important achievements of the Project.

In short, these are the most important factors that have accounted for the degree of success of the Puebla Project in relation to other pilot projects.

5. How Could the Program be Improved?

Changes to improve even further the performance of the Puebla Project in general, and that of the credit program in particular, must be at two levels: those of the credit agencies level and the farmers.

Although several changes have been made or partially made by the credit agencies, if the process is accelerated,

it would result in a more efficient service to the farmers and would reach more clients in the future. For example, an important change that started taking place in Banco Ejidal has to do with the role played by the field agents. In its traditional role the field agent only had to go to those communities that previously had applied for credit to get a list of clients. If all the members qualified for credit then he provided a part in cash and a part in seed and fertilizers. Of course, fertilizers were seldom the best or were delivered in the minimum necessary doses. The field agent did provide technical assistance to his clients or or supervise the use of credit. Very often, of course, the ejidatarios misused the credit or obtained poor results with the provided inputs. Since two years ago, the field agents of the bank have been closely collaborating with the extension agents of the Project. In collaborating, they have made the necessary arrangements for the farmers to get the recommended inputs (in most of the cases). They have also organized demonstrations for the groups. Through this process, the field agents gradually have been getting a training that will allow them to provide good and opportune technical assistance in the future. In the long run then, these field agents will play both roles: that of making all the necessary arrangements to get credit for the group and of giving technical assistance and supervising the use of credit. Once field agents and farmers are closely collaborating, other institutional changes will take place faster.

At the farmers' level, the recommended changes should come mainly in the organization of the groups. Clearly, the existence of the credit group must be the means for the farmers to evolve toward higher levels of organization. These higher levels of organization could be cooperatives, for example, through which the farmers can initiate a process of capital formation at the community level. One change in the short run among the groups where there is a higher incidence of credit delinquency, is to modify the actual sanctions or to reinforce them to keep up the credit worthiness of the group. It is argued that this will prevent farmers from entering the actual groups, but in the long run it will give positive results.

An important change that has to happen at the farmers' level, but that must be promoted by the extension agents of the Project, has to do with the modification of the attitude of the farmer, not yet in the program, toward official credit. On the one hand, the extension agents have to use all the means possible to convince these farmers that it is worthwhile to obtain credit and to adopt the new technology and

and that he will not get in debt if he follows the recommendation as originally given. On the other hand, the idea of the farmers that the official b anks do not provide the credit on time can only be modified if they see more efficiency in the service to those already in the program.

At present, the interest rate of 1% is considered as subsidized by the federal government, given that the marginal productivity of capital in Mexico is 1.5% per month. In general, the farmers of the region do not care about the interest rate, for them the efficiency and availability of the service is more important.

This explains why the private fertilizer dealer has more potential clients that he can take care of, because the procedures of this institution are more flexible and the farmers receive their inputs when necessary, even when the rate of interest is 1.5% per month.

III. ROLE OF TECHNICAL ASSISTANCE

A. Donor Inputs

The Puebla Project has been financed, as was mentioned earlier, through a special grant made by the Rockefeller Foundation. This is administered by CIMMYT. The grant has covered salaries and field expenses of eleven technicians (and a team of aides) who have developed and distributed new technology among small farmers. Credit has been handled through the existing national institutions, in coordination with the extension agents of the Project. No other donor inputs have been received by the Project.

In regard to technical assistance to the staff of the Project, two departments of CIMMYT have been fulfilling that need since the beginning. These departments are Communications and Productivity. The Maize Program of CIMMYT participated at the beginning providing technical assistance but gradually retired from the Project. No other donors or other kind of technical assistance have been received for the Project.

B. Effects

Technical advice by the CIMMYT Productivity Program has been key in establishing the experiments throughout the area to obtain a package of new practices for the farmers. At present, a well-trained personnel formed in the Project exists and this can assure the applicability of the same

methodology to other regions and to other crops. The help of the Communications Department has been important for the extension team, which has developed a new strategy of communication taking advantage of the most effective media to spread the use of the new technology.

The success of the Project, however, is mainly due to the selection of highly motivated and qualified technical personnel. All of them have had experience in the field of promoting development and some have completed graduate training in national and foreign universities.

The coordinator of the Project, and not the advisers, has been promoting changes in the procedures of the credit agencies. However, no changes in the philosophy of these institutions have been promoted because it is not considered appropriate. However, their working rules (although not necessarily the formal rules) are the ones which are considered inadequate.

C. Recommendations

The best way that foreign donor agencies can help small farmers programs in Mexico and other underdeveloped countries, is by making special grants to finance the development and distribution of new technology as was done in the case of the Puebla Project through that grant made by Rockefeller Foundation. In general, the credit program can be undertaken by indigenous institutions. If no credit institution exists in a given country or if they are so inefficient that it is impossible or inconvenient to involve them in the credit program, it is justified to have a credit program undertaken by A.I.D., for example. That credit program, incidentally, could be the means to move the indigenous institutions to carry out procedural changes that in the long run will have positive results and will provide an efficient service to small farmers. The credit program by a foreign agency can also establish the basis for the credit system in the country where none exists.

In regard to technical aid by a foreign agency, in general it is convenient and perhaps necessary, but the main purpose of that assistance must be to train national researchers who later will have full responsibility for continuing to develop and distribute new technology.

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COUNTRY PROGRAM

THE SUPERVISED CREDIT PROGRAM IN EL SALVADOR

1961 TO THE PRESENT

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INTRODUCTION

The institutional agricultural credit system of El Salvador is composed of a Central Bank, seven private banks (two of which are foreign owned), one semi-private mortgage bank (Banco Hipotecario), a Federación de Cajas de Crédito, ABC, a public supervised credit agency (Administración de Bienestar Campesino), a cotton cooperative (Cooperativa Algodonera Salvadoreña, Ltda.), and coffee institute (Compañía Salvadoreña del Café). Of lesser importance, but still part of the system, are FDI, a private development bank (Financiera de Desarrollo), INSAFI, an industrial development bank (Instituto Salvadoreño de Fomento Industrial), a private company financing subdivision of farm lands (Parcelaciones Rurales, S.A.), ICR, a semi-autonomous government institution financing farm land purchases (Instituto de Colonizacion Rural), FEDECACES, a credit union federation financing agricultural cooperatives (Federación de Cooperativas de Ahorro y Crédito de El Salvador) and several fertilizer suppliers making in-kind loans to producers.

In general agricultural loans must be highly secured, are usually for less than one year, and carry interest rates which range from 8 to 12 per cent per year. For all practical purposes only ABC, the Federación de Cajas de Crédito and FEDECACES provide loans to small farmers. FEDECACES only initiated substantial activities in 1972, ABC in 1964, and the Cajas in the early 1940's. Each of these agencies also provides credit to medium and some large size farmers. FEDECACES and Cajas have substantial lending activities for non-agricultural purposes.

Table 1 contains data on the volume of credit granted per year by the major institutions within the credit system from 1966 through 1970. As can be noted, over the 1966-1970 period a total of over US$324 million was loaned to agriculture. Only 7 per cent of these funds went through agencies servicing small farmers: ABC and the Cajas. It is doubtful if half of this 7 per cent went to small farmers.

In 1970, El Salvador had an estimated 358,103 rural families. Table 2 contains a breakdown of these families by size of land holding. In 1961, farmers with less than 10 hectares or about 75 percent of all rural families controlled only 22 per cent of the agricultural land. A similar breakdown for 1970 is not available, but there is no reason to expect that this percentage has changed significantly over time. Of the 286,293 families with land, it is estimated that about 40,000 are producing cotton, coffee or sugar. The remainder, for the most part, are producers of basic grains (corn, sorghum, beans, and rice). The 40,000 producing the traditional export crops are generally the larger producers in the country and in 1970 received 82.1 per cent of the $78.4 million of institutional agricultural credit granted

TABLE 1. TOTAL AGRICULTURAL CREDIT PROVIDED BY INSTITUTIONS IN EL SALVADOR

(1966 - 1970)
(Thousands of Dollars)

AGRICULTURAL SUB-SECTOR	Mortgate & Commercial Banks		Administración de Bienestar Campesino		Federación de Cajas de Crédito	
	Operation*	Capital*	Operation	Capital	Operation	Capital
1966	32,446	2,966	1,570	-	820	88
1967	42,428	2,547	2,200	-	917	84
1968	55,861	1,757	2,955	48	1,030	97
1969	53,150	686	2,786	296	1,183	271
1970	61,517	1,021	3,200	224	1,203	104
TOTAL	245,402	8,977	12,711	568	5,153	644
LIVESTOCK SUB-SECTOR						
1966	982	706	29	116	250	88
1967	1,020	422	28	251	253	84
1968	2,487	785	456	35	342	97
1969	3,543	1,038	350	39	484	271
1970	2,866	745	842	-	492	104
TOTAL	10,898	3,696	1,705	441	1,821	644
TOTAL BOTH SUB-SECTORS	256,300	12,673	14,416	1,009	6,974	1,288

(continued on next page)

*Operation loans are defined as having terms of one year or less. Capital improvement loans carry payment terms of over one year.

(Page 2, TABLE 1)

AGRICULTURAL SUB-SECTOR	Cooperativa Algodonera Salvadoreña		Compañía Salvadoreña del Café		TOTALS		GRAND TOTAL
	Operation	Capital	Operation	Capital	Operation	Capital	
1966	2,942	-	4,369	-	42,147	3,054	45,201
1967	2,151	-	4,397	-	52,093	2,631	54,724
1968	1,398	-	4,953	-	66,197	1,902	68,099
1969	1,343	-	4,283	-	62,745	1,253	63,998
1970	1,293	-	4,782	-	71,995	1,349	73,344
TOTAL	9,127	-	22,784	-	295,177	10,189	305,366
LIVESTOCK SUB-SECTOR							
1966	-	-	-	-	1,261	910	2,171
1967	-	-	-	-	1,301	757	2,058
1968	-	-	-	-	3,285	917	4,202
1969	-	-	-	-	4,377	1,348	5,725
1970	-	-	-	-	4,200	849	5,049
TOTAL	-	-	-	-	14,424	4,781	19,205
TOTAL BOTH SUB-SECTORS	9,127	-	22,784	-	309,601	14,970	324,571

SOURCE: Ministerio de Agricultura y Ganadería, "Diagnóstico del Financiamiento Institucional al Sector Agropecuario (1966-1970)"

Table 2.- Numer of Families by Size of Farm, El Salvador, 1972

Class	Number of Families	Per cent
Landless	71,810	20.0
Less than 1 Ha.	151,057	42.2
1 to 9.9 Has.	115,639	32.3
10 to 49.9 Has.	15,235	4.2
50 to 199.9 Has.	3,335	1.0
More than 200 Has.	1,027	0.3
Total	358,103	100.0

Source: MAG Diagnóstico del Volumen y Distribución del Ingreso (1966-70), unpublished report dated March 1972.

Table 3.- Use of Institutional Agricultural Credit in El Salvador, 1970

Product Group	Amount	Per cent
Cotton, coffee and sugar	$ 64.4	82.1
Other crops and livestock	14.0	17.9
Total	$ 78.4	100.0

Source: MAG Diagnóstico del financiamiento Institucional al Sector Agropecuario (1966-1970), unpublished report dated March 1972

(including credit for livestock) or about $64.4 million (Table 3). This means that the producers of basic grains and livestock, which are the bulk of the producers in El Salvador, received less than a third of the credit granted or about $14 million. There are no data to estimate how much of the $14 million actually went to small and medium size producers (i.e. under 10 hectares) but it is safe to assume that a substantial portion goes to the large landowners. For example, $8.4 million of the $14 million was granted by commercial banks which traditionally lend to the large landowners. Also, the other institutions involved are known to make part of their loans to large landowners.

A B C

The Administración de Bienestar Campesino (ABC) is the agency being considered in this paper. In 1970, ABC granted $4.3 million in credit to the agricultural sector (Table 4). This represented 5.5 per cent of the total institutional credit to the sector.

Table 4.- Use of Administración de Bienestar Campesino (ABC) Credit, 1970

Product Group	Amount	Per cent
Cotton and sugar	$ 1.6	37.2
Other crops and livestock	2.7	62.8
Producers with 10 Has. or more	(1.0)	(23.3)
Producers with less than 10 Has.	(1.7)	(39.5)
Total	$ 4.3	100.0

Source: Memoria of ABC, 1970 and USAID estimates.

Of this amount, $1.6 million was for cotton and sugar (ABC made no coffee loans) with the remaining $2.7 million going to livestock and other crops. ABC's role in lending to producers other than cotton,

coffee, and sugar is significant in that their $2.7 million is about 19 per cent of the total credit ($14 million) for these producers. ABC made a total of 6,464 loans in 1970. The $2.7 million represented about 6,000 loans. About 5,500 of these loans were to small and medium producers, but only about $1.7 million of the total $2.7 million (or about 40 per cent of ABC's funds) was used for these 5,500 loans. Also, with the 5,500 loans, ABC is only reaching 2.1 per cent of the producers with 10 hectares or less assuming one loan per producer per year. As indicated, the remainder of this paper is devoted to ABC and its role in the institutional credit system.

PROGRAM CHARACTERISTICS

Background

Historical Summary

In early 1960, the Ministry of Agriculture (MAG) in El Salvador established a committee of five credit experts to study the credit problems of producers with less than 30 hectares of land. In July, 1960, this committee recommended that El Salvador establish a supervised credit agency. In 1961, at the request of the MAG, USAID provided a supervised credit advisor to assist in the preparation of plans to establish such an agency. On December 11, 1961, the Administración de Bienestar Campesino (ABC) was created as an autonomous government agency.

ABC actually began operations in February, 1962 with initial capital for loans and operations of $665,826 from a PL 480 loan. Initially, ABC had 10 supervised credit agents who were new graduates of the National Agricultural School and had no field experience. In 1964, USAID made an $8.9 million loan to the GOES and ABC received $5,254,820 of which $5 million was to be for making new loans and $254,820 for purchase of equipment. In addition, ABC has also received operating grants from the GOES and has had access to Central Bank funds through several different special funds.

The initial charter called for the ABC program to be national in scope and to make loans only to producers with 30 or less hectares and who actually lived on the farm. These two requirements were removed in 1968 allowing ABC to loan to absentee producers and to make loans to the large farmers which, in part, defeated the earlier purpose. Policy changes in 1972 further encouraged the making of large loans and at the same time the number of field offices was reduced from 31 to 15. It now appears that ABC will be reorganized into an agricultural bank. Actual details of this plan are not available at this time.

Relation to National Credit System

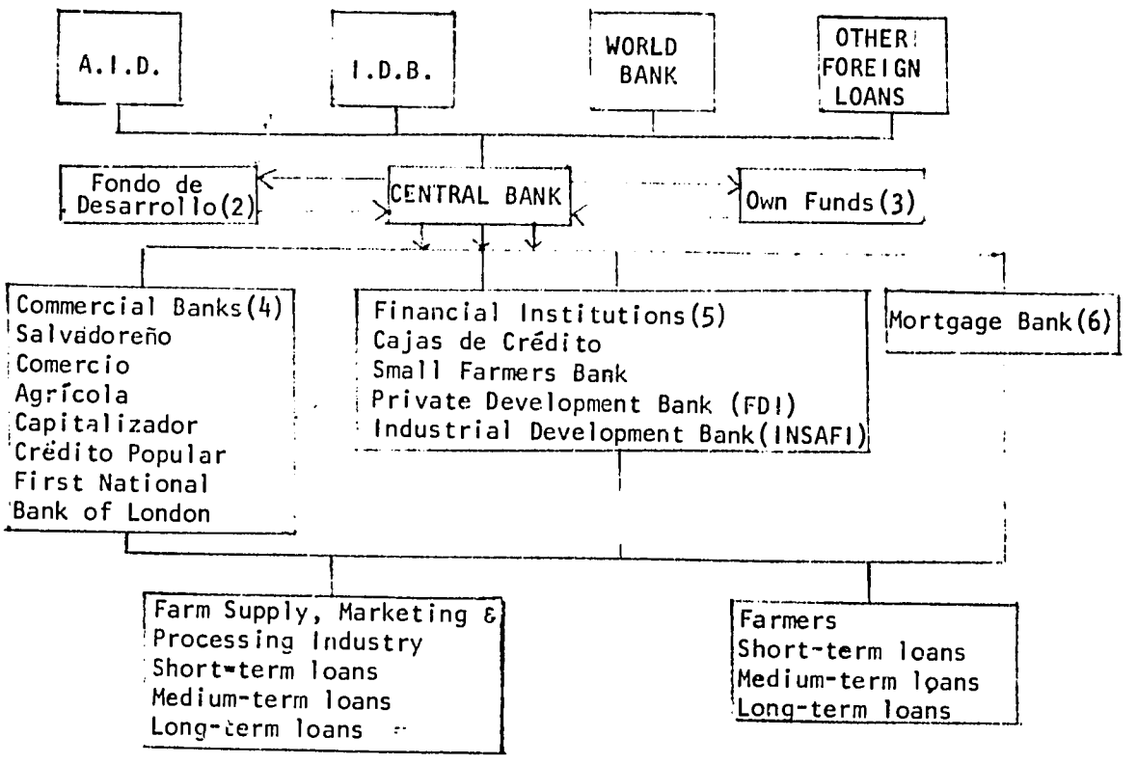
Figure 1 is a diagram of the sources and flows of funds in the national institutional credit system. ABC can receive funds from an international lender or from the Central Bank. The Central Reserve Bank has authorized one year lines of credit since 1964 for planting sugar cane, cotton and other crops at an interest rate of 2 per cent per annum on the amounts drawn-down. Utilization by ABC was as follows:

Cotton	CY	1964	$ 457,375
		1965	400,000
		1966	600,000
		1967	834,000
		1968	1,236,929
		1969	1,352,400
		1970	1,501,518
		1971	1,751,405
		1972 (Auth.)	2,800.000
			$ 10,933,627
Basic Grains		1971	600,000
Fondo Desarrollo		1971	566,500
Cotton Warehouse Receipts		1968 & 1969	273,580
Sugar cane Warehouse Receipts		1970 & 1971	160,520
Rediscounts META and MEGA			83,412
			$ 12,617,639

Relation to Pre-Existing Local Institutions

At the time that ABC was formed, there were three other institutions through which the PL 480 funds could have been channeled. These were the Banco Hipotecario, the Instituto Salvadoreño de Fomento de la Producción (now INSAFI), and the Federación de Cajas de Crédito. While none of these three agencies had a supervised credit program, as such, each was making loans to small and medium size agricultural producers. In a comprehensive credit report conducted by a GOES study group, USAID was accused

Figure 1 - DIAGRAM OF SOURCES AND FLOW OF FUNDS THROUGH FINANCIAL INSTITUTIONS TO FARM BORROWERS IN EL SALVADOR (1)



(1) In addition: A) Parcelaciones Rurales, S.A., a private company finances subdivision of farm land with own resources, B) ICR - Govt. institution finances purchase of farm land, C) FEDECACES a credit union Federation makes loans to Agricultural Coops from an A.I.D. loan, D) Fertilizer Suppliers make in-kind loans to farmers including insecticides and related products.

(2) Fondo de Desarrollo Económico (FDE) - initiated and maintained with the Central Reserve Banks' profits, also obtained Inter-American Bank loan to strengthen fund but has not drawn it down in full. See following pages for a complete description of the financial institution and the Fondo de Desarrollo.

(3) Own funds - bank's profits and reserves from commercial banks.

(4) Short term loans and medium (up to 5 years) made with own resources, that is: savings, time deposits and commercial (checking) accounts, capital and profits, and reserves. Also use special lines of credit from BCR and the FDE.

(5) Use funds from FDE and foreign loans for making loans, also cotton, coffee and sugar export & pre-export special lines of credit of BCR.

(6) Uses FDE, BCR special lines of credit and its own funds generated from operations (same as (3) and the sale of 5 & 10 year bonds.

Source: Structure of Financial Institutions that serve Agriculture in El Salvador, unpublished report to USAID/ES by Kenneth R. Krause, U.S.D.A., March, 1972.

of forcing the creation of ABC without adequately evaluating the capacity of these three agencies. This same report also states that the problems of ABC in the first three years of operation were a result of premature creation and a general lack of planning. As a result, this report would lead one to believe that ABC was imposed upon an existing institutional structure and that the funds could have been more effectively used had they been channeled through an existing institution.

The original president, Sr. Ricardo Cabezas Rivas, came to ABC from the Agronomic Research Unit of MAG where he was director. He had also been the director of the Dirección General de Obras de Riego y Drenaje, and the National School of Agriculture. The first manager, Ing. Hernán Tenorio Laguardia, came to ABC from the National Coffee Research Institute.

Agricultural Patterns and Potential

The principal crops in El Salvador may be divided into two groups. First are the traditional export crops: cotton, coffee, and sugar. The second group is basic grains including: corn, sorghum, rice and beans. In addition, El Salvador produces small amounts of fruit and vegetable crops, oil and fiber crops, and tobacco and supports a growing livestock industry. The traditional export crops are generally produced by the large producers and due to their importance to the national economy have received the bulk of the institutional credit. There have also been substantial research efforts in these three crops and, as a result, there have been large increases in productivity over time. The basic grains and other crops in El Salvador are being produced by the small and medium size farmers. Very little institional credit reaches these producers and the development and adoption of new technology has been very slow.

El Salvador is a small country with 2.1 million hectares of land and, currently, all available land is being utilized by the agricultural sector. This fact, coupled with the tremendous population pressure, makes the development and adoption of new technology imperative.

The technology will have to be oriented to labor intensive crops and will have to provide the means to more effectively use the scarce land resource. Table 5 illustrates production and yield levels for the 1970-71 year for the principal crops in El Salvador and also provides 1980 demand estimates which demostrate the severity of the situation. Given no yield changes by 1980, an additional 247 thousand hectares would be required to meet the demand. As indicated, all land is currently being used in El Salvador. Strong research, extension, credit, and marketing efforts will be required to provide the necessary growth.

Objectives

General Objectives

The original objectives established for ABC were as follows:

1. Through a broad supervised credit program, increase agricultural production and pr .vide higher incomes and a better standard of living for agricultural producers.

2. To convert the agricultural producer into an effective manager of his own enterprise, an active worker of the land and an effective producer by providing the necessary technical assistance and social and economic orientation to supplement his credit program.

3. Improve land tenure systems by granting loans with the provision that borrowers rights be expressely guaranteed in the land lease that they enter into with the landholders. This will also help increase, to the extent possible, the number of rural owners.

4. To encourage plans for land development and reclamation, soil conservation, and improved methods of operation, in order to adequately and effectively use the land.

5. Grant loans for the cancellation of existing debts which are detrimental to the operation and maintenance of the farm and home, provided that the loan granted for this purpose is not specifically for the cancellation of the debt but is also made to improve the borrower's existing operation.

6. To finance and give technical assistance for the development or improvement of agricultural industries.

7. To provide funds and technical assistance to agricultural cooperatives and associations, by promoting their creation with emphasis on multi-purpose cooperatives. This will be done in collaboration with other agencies of the government wich have the same objectives.

8. To help improve the marketing of agricultural products by providing funds and technical assistance for the establishment of rural markets.

Figure 2 - ABC Organization Chart
as of September 30, 1972

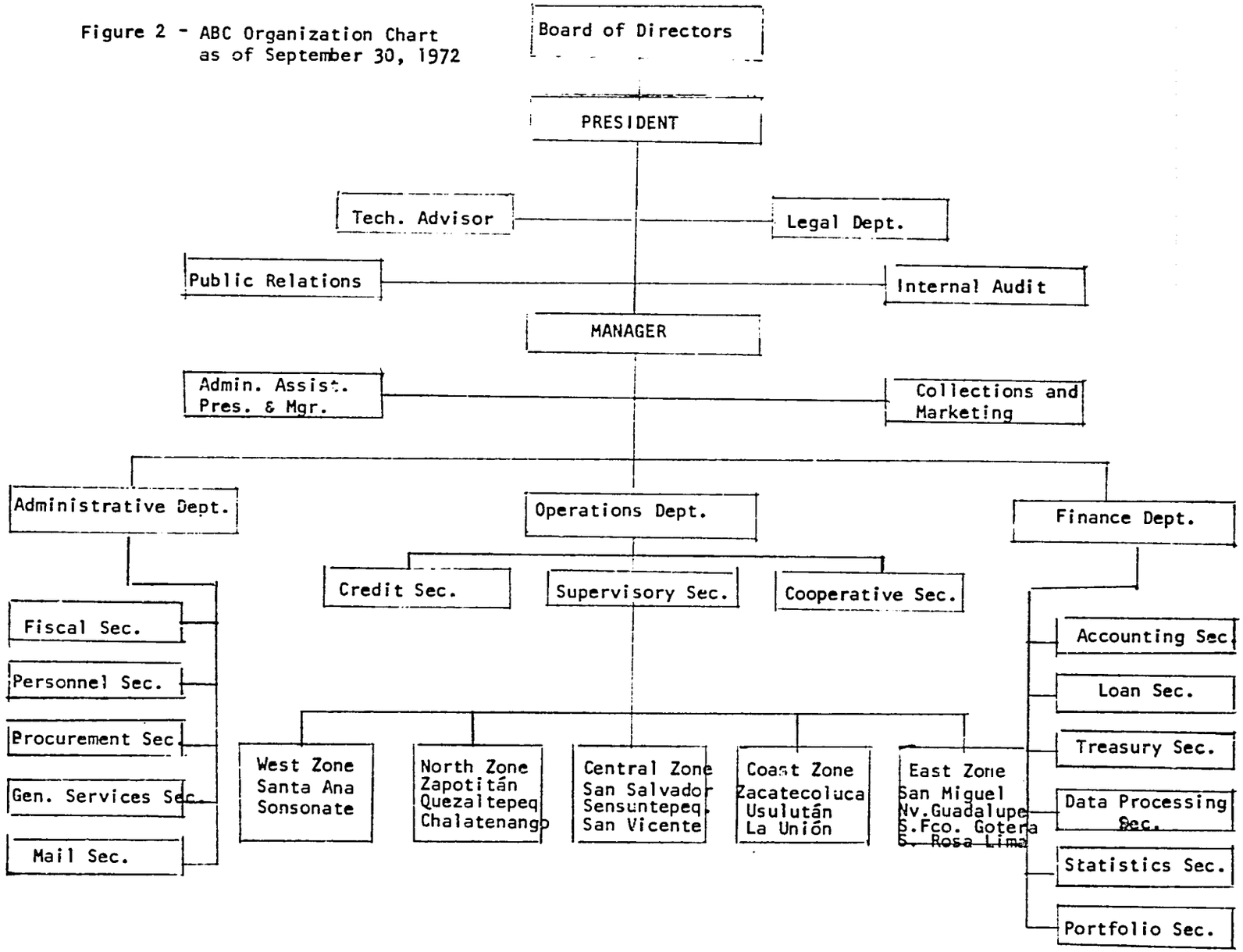


Figure 3 - ABC Organization Chart
1965

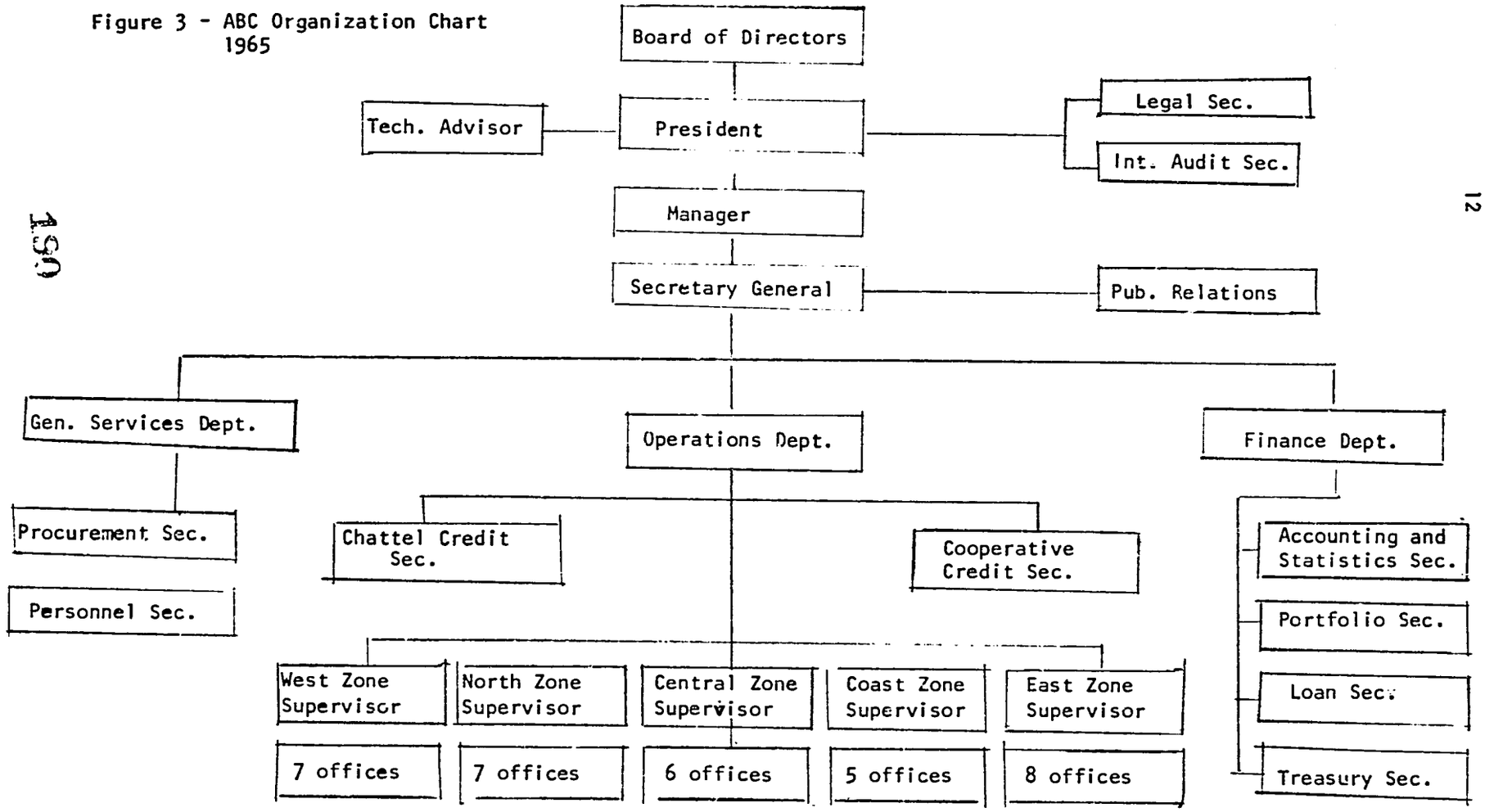
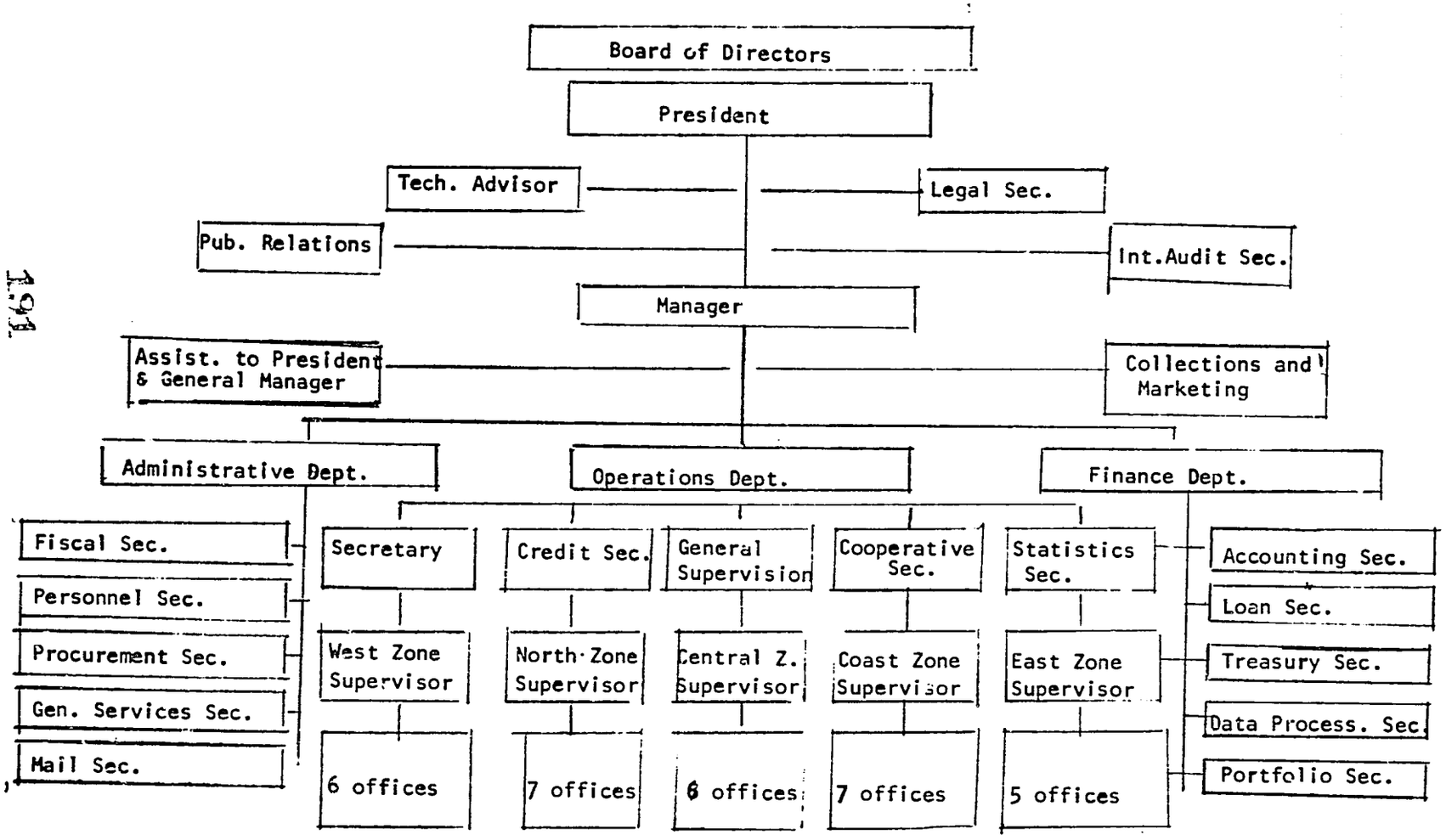


Figure 4 - ABC Organization Chart for 1971



Terms of Loans

The major focus of the ABC program has been on loans for productive inputs to individual farmers. They do, however, have the authority to make home improvement loans which are not classified in the production category. In addition, ABC makes loans directly to agricultural cooperatives. The loans for general agriculture are not restricted to specific crops or inputs with two exceptions: First are the in-kind loans which are basically short-term loans for fertilizers and insecticides. ABC has also allocated a portion of their portfolio to a cotton production program. (See Annex I for a detail description of the ABC loan programs.)

Over time, more than 90 per cent of the ABC loans have been short-term (less than 18 months) loans. However, the percentage of funds used for short-term loans decreased from 87.3 per cent in 1966 to 72.8 per cent in 1971. (Table 6). New policy changes which further emphasize large loans in 1972 will result in even less funds for short-term loans on a percentage basis.

Organization

ABC is composed of a central office located in the city of San Salvador and, as of September 30, 1972 had 15 local or field offices. The general and local structure of the agency is discussed in the following sections.

General Structure

The present organizational chart for ABC is presented in Figure 2. The basic structure includes a board of directors, a president (who is a member of the board), a manager, and three departments: Administrative, Operations, and Finance. The field offices are part of the operations department and are responsible to a supervisory section within this department. This same basic structure has existed within the agency since the beginning although there have been shifts within and between departments of various functions, additions of new sections, changes in the number of field offices, and increases in personnel. (See Figures 3 and 4 for 1965 and 1971 organization charts for comparative purposes.

There was a fairly substantial reorganization of the agency in 1972 which included a reduction in field offices from 31 to 15 (the central office maintains that the other 16 are retained as branch offices but at this time no physical facilities exist), the closing of the secretarial section, the transfer of the statistics section from the operations department to the finance department, and the removal of the USAID technical advisor (this decision was made by

USAID/ES) who has been replaced by a technical advisor from El Salvador.

The most significant change was the reduction of the number of field offices which was due, in part, to the need to reduce operating expenses and desire to move to larger, minimum supervision type loans. The change also expanded the authority of field offices to make loans. Currently, field office committees can approve loans up to $2,000. Loans from $2,000 to $4,000 must be approved by a central office committee, and loans over $4,000 by the Board of Directors.

Table 6.- Number and Amount of Loans by ABC by Term of Loan, 1966-1971

(U.S. dollars)

Year	Short 1/				Long			
	Number	%	Amount	%	Number	%	Amount	%
1966	2787	96.1	1,497	87.3	112	3.9	218	12.7
1967	5708	95.7	2,116	84.0	259	4.3	403	16.0
1968	8185	96.0	3,045	87.1	343	4.0	449	12.9
1969	7532	97.1	3,100	89.3	222	2.9	372	10.7
1970	6004	92.9	3,475	81.5	460	7.1	791	18.5
1971	7005	92.3	3,775	72.8	583	7.7	1,413	27.2

1/ Short-term loans are less than 18 months.

Source: ABC Memorias, 1966-71

Local Structure

The field offices of ABC are, as indicated, a part of the central office structure. A typical field office has the following personnel:

Chief of Agency	1
Supervisory Agents	4
Secretary	1
Office Boy	1

The chief of the agency supervises the work of the other personnel and is responsible to the central office operations department. The supervisory agents are responsible for making field contacts, preparing farm plans, monitoring,and collection.

The current structure of the agency has 49.9 per cent of the personnel in the field and 50.1 per cent in the central office. However, 18.2 per cent of field personnel are administrative which means that only about one-third of all personnel are involved with the technical aspects of the program.

Finally, plans are currently underway to change ABC to an agricultural development bank by early 1973. Details of the functions and structure of this bank are unknown at present.

Beneficiaries

Selection Criteria

In order to qualify for a loan a farmer must be 21, must be determined capable of managing a farm operation, must be a small or medium size farmer (less true now than in the past when there was an upper limit of 30 hectares), must have a good reputation in his community, and must obtain ABC approval of his farm plan. A cooperative must have a legal charter to qualify for an ABC loan. Specific collateral requirements are discussed in a later section. Lending terms are uniform among borrowers but may differ depending on type of project (i.e. crop, livestock, etc.).

The agency currently estimates that workable minimums in terms of farm size are 3.5 hectares for catle, 3.5 hectares for corn and other grains, 7 hectares for cotton, and 0.7 hectares for vegetables. Also, the production of given crops and livestock must be for commercial purposes rather than for home consumption.

The agency, to date, has no initiated pilot programs but has been a participant in such programs which were formulated and administered by the MAG. An example is the Zapotitán irrigation district. Another example is the working relationship established with the Price Stabilization Institute (IRA) which will be discussed in a later section.

At the end of each agricultural year, a review is made of each

Table 5.- Comparison of 1970-71 Production, Land Use, and Yields of Crops Produced in El Salvador

Crop	1970/71 Production	1970/71 Area	1970/71 Yield	1980 Requirements 1/	1980 Additional Area at current yield	1980 Necessary yield with same area Yield 2/	1980 % Increase
	QQ	HA	QQ/HA	QQ	HA	QQ/HA	%
Rice	625,000	11,900	52.5	2,047,343	21,997	172.0	228
Sorghum	3,200,000	123,900	25.8	2,788,002	-15,838	-	-
Corn	7,893,000	205,800	38.2	8,714,601	22,331	42.3	11
Beans	650,000	36,400	17.8	1,212,971	31,744	33.3	87
Cotton	1,200,824	62,475	19.2	1,521,340	16,761	24.4	27
Coffee	2,158,000	141,750	15.2	3,994,137	121,022 3/	27.8	83
Sugar Cane	33,437,840	19,625	1,704.0	62,389,814	16,989	3179.1	86
Panela (Cane)	5,972,684	4,740	1,260.0	5,107,442	- 686	-	-
Plátano	509,355	2,700	188.6	984,974	2,522	364.8	93
Bananas	996,660	7,910	126.0	1,732,689	5,842	219.0	74
Citrics	220,554	1,590	138.7	1,471,617	9,020	925.5	567
Cacao	6,615	400	16.5	37,265	1,858	93.2	465
Potato	61,740	400	154.4	315,536	1,644	788.8	411
Yuca	264,600	1,500	176.4	375,512	629	250.3	42
Other Vegetables	1,832,355	7,590	241.4	3,501,540	6,915	461.3	91
Other Fruits	2,787,120	9,070	307.3	4,178,034	4,526	460.6	50
Totals		637,750			247,276		

1/ Only cotton, coffee and sugar include export projections. The other crops are considered only on the basis of meeting domestic needs.

2/ In some cases, these yields are beyond what could be considered attainable by 1980.

3/ Coffee land has been reported by the GOES to be frozen at 141,750 hectares.

loan and causes of poor performance of default are analyzed. If the problem was a result of the producer not following recommendations of the agent in charge, he will be eliminated from the program. If his failure was a result of circumstances beyond his control, i.e. weather, markets, etc. he can be reconsidered for another loan.

Graduation Policy

A graduation policy by ABC does not exist at this time. This does not necessarily indicate a lack of desire to graduate borrowers, (although any agency plagued by high default rates and operational costs which were not being adequately subsidized would try to develop a core of reliable borrowers), but, more likely reflects the reality of the situation, in terms of the lack of a place to send successful borrowers.

The commercial banking system has not expressed any interest in taking successful borrowers from ABC and their collateral requirements are beyond the means of most ABC borrowers. This is especially true of the land ownership requirement for most loans since only 35 to 40 per cent of ABC borrowers are land owners. In addition, the ABC land owners are generally the larger farmers in the program which further complicates the problem with respect to small and medium size farmers, (In 1971, 36 per cent of the borrowers were land owners and they represented 67 per cent of the total hectares financed).

Other agencies within the institutional system likewise are not geared to accepting ABC borrowers. Also, these agencies, as with commercial banks, have more stringent collateral requirements. If the new agricultural development bank retains a "supervised credit window" it is possible that graduation can occur internally. Again, details are not available at present.

Number and Types

Table 7 contains the number of loan applications and the number of loans made by year since 1962.

Table 7.- Number of Loans Applied for and Granted by ABC, 1962-71

Year	Number of Loan Applications	Number of Loans Granted
1962	n.a.	12
1963	n.a.	872
1964	n.a.	2,413
1965	n.a.	3,345
1966	4,377	2,899
1967	8,412	5,967
1968	9,674	8,528
1969	10,102	7.754
1970	7,939	6,464
1971	8,557	7,588

Source: ABC Memoria, 1966-71.

More detail on the ABC loan program over time may be found in later sections.

Other Sources of Credit

Other sources of credit for small and medium size producers do exist within the institutional and non-institutional credit systems of El Salvador. (See introduction). The extent to which these sources are used by borrowers concurrently with ABC, prior to entering ABC, or after leaving ABC is unknown. However, within the institutional system ABC has the least restrictions on borrowers for qualifying for loan which implies that many ABC borrowers are there because they cannot qualify elsewhere and, therefore, are not and

were not using other sources. Also, interest rates on non-institutional credit are known to be very high (often in excess of 25 per cent) and ABC borrowers would likely avoid the use of such credit as a supplemental source.

Lending Policies and Procedures

Portfolio

Table 8 contains the number and value of loans by year by type of loan for those years in which data are available. ABC began operations in 1962 and built up to 3,345 loans for a total amount of $2,698,000 (Footnote 5, Table 8). However, their collection record was so poor in 1963, 1964 and 1965 that they were actually forced to reduce their operations in 1966. Following 1966 they have gradually increased their activities to the point that they made more than $5 million in loans in 1971. This was a result of a better collection record, increased use of the USAID loan funds, and a substantial increase in the use of lines of credit from the Central Bank.

Table 9 illustrates the number and value of loans by loan size group. Unfortunately, data exist only for 1970 and 1971. It can be observed that the bulk (More than 70 per cent) of the ABC loans are for less than $400. However, only about 15 per cent of the total amounts loaned in these years was for loans under $400 which are generally the type and size of loan demanded by the small producers in El Salvador.

Tables 10 and 11 contain data on the use of the ABC loan funds by the sub-borrowers and the number of hectares of each crop financed by year.

Farmers can have only one production loan at a time, but can, at the same time have a post-harvest marketing loan.

Interest Rates

The original charter of ABC specified that interest rate policy would be set by the Board of Directors but that interest rates could not exceed 8 per cent per year. The present rate is 8 per cent with a 2 per cent service charge. This compares with a market rate of usually 12 per cent per year. The only exceptions to this rate involve cooperatives who pay 6 per cent plus the 2 per cent service charge for working capital. Loans for equipment and machinery from a Central Bank Rediscount Fund which are made at 6-$\frac{1}{2}$ to 8 per cent.

Table 8.- Number and Value of ABC Loans by Type of Loan, 1966-1971

(In thousands of U.S. Dollars)

Type	1966		1967		1968		1969		1970		1971	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Regular	1675	$ 1,052	2070	$ 1,455	2841	$ 1,871	3400	$ 1,557	2380	$ 2,199	2410	$ 1,921
In-kind	1022	54	3588	222	5321	377	3588	306	3408	325	4400	424
BACEN 2/	202	610	309	842	366	1,246	410	1,387	454	1,617	759	2,396
Post-harvest 3/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	365	222	222	125	n.a.	n.a.
Cooperatives 4/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19	447
Total 5/	2899	$ 1,716	5967	$ 2,519	8528	$ 3,494	7754	$ 3,472	6464	4,266	7588	$ 5,188

1/ See Annex 1.

2/ Loan Funds from the Central Bank for cotton, coffee, and sugar cane. Also includes funds from the Central Bank Economic Development Fund. The bulk of the loan funds under BACEN were for cotton. In 1970, BACEN was for cotton and sugar: cotton - 367 loans for $1,520 and sugar cane - 87 loans for $97. In 1971, BACEN was as follows: cotton - 489 loans for $1,753, sugar cane - 153 loans for $70, coffee - 3 loans for $1, and Economic Development Fund - 114 loans for $572.

3/ Prior to 1969 and for 1971 loans for post-harvest were include in one or more funds of the other categories.

4/ Prior to 1971 loans for cooperatives were included in one or more funds of the other categories.

5/ Prior to 1966, ABC made the following: 1962- 12 loans for $9, 1963- 872 loans for $441, 1964-2,413 loans for $2,296, and 1965 - 3,345 loans for $2,698.

Source: ABC Memorias, 1966-71.

Since ABC began operations in El Salvador, inflation has not been a major problem.

Collateral

The borrowers of ABC must provide one of the following four forms of collateral:

1. A chattel mortgage on crops or livestock.

2. Co-signer.

3. Land mortgage.

4. A combination of the other three.

The basic requirements have not changed over time but, due to heavy default rates in the early years of operation, ABC has become more selective. This is especially true with chattels on crops or livestock and with co-signers since they are more risky than a land mortage. Although data are not available, it would appear that the combination category has been used more since the early years.

Until recently, the commercial law required that a loan not exceed 75 per cent of the value of the chattel mortgage. The new limit is 90 per cent.

Other Subsidy

The GOES has continued to subsidize the operating costs of ABC as a result of the heavy expenses involved with providing supervision of the loans. Without this subsidy, the continuation of the supervision at present interest levels would not have been possible without depleting capital available for lending purposes.

Appraisal Techniques

The first step in the process involves an interview of the prospective borrower by the ABC agent. If the borrower seems to fulfill the basic requirements, he is asked to complete an application form. He provides basic biographic data and, in addition, must provide personal and business references and names of friends who are ABC borrowers. If the information provided on the application appears to be satisfactory, the agent assists the borrower in developing a preliminary farm plan. He determines such factors

Table 9.- Number and Value of ABC Loans by Loan Size Groups, 1970-71

(In thousands of U. S. Dollars)

Loan Size Group	1970		1971	
	No.	Amount	No.	Amount
Up to $400	4607	$ 641	5716	$ 801
$ 401 - 1200	796	539	942	711
$ 1201 - 2000	174	240	187	303
$ 2001 - 3200	139	287	82	210
$ 3201 - 4000	39	142	59	216
$ 4001 or more	112	464	103	746
Cooperatives	8	308	19	448
Cotton	367	1,520	489	1,753
Post-Harvest 1/	222	125	n. a.	n. a.
Total	6464	$ 4,266	7588	$ 5,188

1/ In 1971, these loans were included in other categories.

Source: ABC Memorias, 1970 and 1971.

Table 10.- Amount of Credit Granted by ABC by Use, 1966-71

(In thousands of U.S. Dollars)

Use	1966	1967	1968	1969	1970	1971
Crops:	$ 1,457 1/	$ 2,124	$2.955	$ 2,786	$ 3,200	$ 3,771
Corn	n.a.	n.a.	n.a.	722	1,000	1,284
Sorghum	n.a.	n.a.	n.a.	149	29	47
Beans	n.a.	n.a.	n.a.	211	156	142
Rice	n.a.	n.a.	n.a.	160	173	244
Cotton	n.a.	n.a.	n.a.	1,360	1,520	1,827
Sugar Cane	n.a.	n.a.	n.a.	37	93	70
Vegetables	n.a.	n.a.	n.a.	133	58	102
Fruit	n.a.	n.a.	n.a.	-	146	31
Pasture & Others	n.a.	n.a.	n.a.	14	25	24
Livestock:	143	319	456	350	743	1,108
Dairy	n.a.	n.a.	267	230	484	795
Beef	n.a.	n.a.	84	85	210	250
Draft Animals	n.a.	n.a.	73	27	24	38
Poultry	n.a.	n.a.	20	3	9	20
Bees	n.a.	n.a.	6	1	5	1
Hogs	n.a.	n.a.	6	4	11	4
Farm Equipment & Improvement:	116	76	82	336	323	309
Farm Equipment	116	29	30	39	35	109
Farm Improvement	n.a.	47	17	165	52	84
Home improvement and other	n.a.		35	132	236	116
Total	$ 1,716	$ 2,519	$ 3,493	$ 3,472	$ 4,266	$ 5,188

Source: ABC Memorias, 1966-71.

1/ Due to the data presentation method in this year, it is possible that this figure contains a few farm and home improvement loans.

Table 11.- Number of Hectares of Crops Financed by ABC, 1966-71

Crop 1/	1966	1967	1968	1969	1970	1971
Cereals:	16,480	23,748	41,443	32,756	33,444	35,374
Corn	10,563	14,574	24,544	18,911	20,463	26,543
Sorghum	3,273	2,259	7,846	6,183	6,428	1,066
Beans	923	1,450	2,828	4,793	3,769	3,997
Rice	1,721	5,465	6,225	2,869	2,784	3,768
Vegetables:	234	350	1,139	892	1,354	823
Tomato	83	-	-	92	96	134
Onion	-	-	-	-	21	24
Chile	-	-	-	-	44	20
Potato	-	-	-	80	89	95
Cabbage	-	-	-	-	-	22
Cucumber	-	-	-	-	12	19
Melons	151	-	-	608	981	476
Others	-	-	-	112	111	33
Fruit	-	664	84	-	45	193
Citrus	-	-	-	-	19	67
Perennial Fruits	-	-	-	-	26	9
Plátano	-	-	-	-	-	103
Others	-	-	-	-	-	14
Pasture & Other:	353	1,547	883	335	708	624
Pasture	-	317	430	335	472	596
Other Crops	353	1,230	453	-	236	28
Export Crops	3,972	5,274	6,611	6,769	8,127	9,526
Cotton	3,258	4,433	6,205	6,511	7,416	8,827
Sugar	714	841	406	258	628	653
Coffe	-	-	-	-	83	46
Total	21,039	31,584	50,160	40,752	43,678	46,540

Source: ABC Memorias, 1966-71.

1/ Due to data presentation method in early years, "other" categories may contain some of the crops listed. For example, in 1966 ABC probably financed some fruit but included it in "other crops" under Pasture and Others.

as the existing tenure arrangement, family labor availability, amount of tools and equipment available, access to markets, and many others. From this he prepares a budget,specifies the borrowers contribution and estimates the loan amount and the amount of technical assistance needed.

The next step is to obtain approval from the field committee. This committe is composed of the Chief of the field office, the agents involved, and one other agent. If the application and preliminary farm plan are approved, the agent makes his first farm visit to verify the information and to prepare a more detailed final plan.

If the loan is rejected by the field committee (or is in excess of $4000), it is automatically sent to the Central Office Committee for review. It can reverse the field decision and grant the loan or also reject. A rejection (or a loan in excess of $2000) automatically requires consideration by the Board of Directors. At this point, a rejection by the field and the central office committees can be reversed or upheld. There are no data to determine the numbers of rejected field loans which are granted in the central office of by the board.

Collection

Repayment Record

Table 12 contains data on amounts loaned, collections, and the portfolio balance for ABC since 1962. Since its inception, ABC has experienced considerable problems with collection. This was especially true during the period 1963-65. Part of the reason may have been with the agency's collection methods but it was more likely a result of the agents making the loans during this period in terms of the screening procedures used. There was also a drought during this period which affected the ability of borrowers to repay.

Methods

Collections are generally made by the field agent who was responsible for supervising the loan. However, the producer may come to the ABC field office to make his payment. Field office personnel issue receipts for the funds collected and deposit them in the local bank accounts of ABC. Payment may be made only in cash (as opposed to in-kind).

The only exception to this collection procedure is in the case

Table 12.- ABC Repayment Record, 1962-71

(In thousands of U.S. Dollars)

Year	Number of Loans	Amount	Collections	Outstanding Portfolio Balance 1/
1962	12	$ 9	-	$ 5
1963	872	441	47	373
1964	2413	2,296	650	1,879
1965	3345	2,698	1,435	3,194
1966	2899	1,716	1,340	3,624
1967	5967	2,519	2,114	4,124
1968	8528	3,494	2,505	5,205
1969	7754	3,472	3,493	5,184
1970	6464	4,266	3,890	5,449
1971	7588	5,188	3,273	7,314

Source ABC Memorias, 1966-71.

1/ There are discrepancies in the data which USAID was unable to correct. For example, the balance in 1966 was $3,624. If one adds the amount loaned in 1967 - $2,519 and substracts 1967 collections - $2,114, ther result is $4,029. This should be the outstanding balance for 1967. The only explanation possible is that the figures given for amounts loaned may include some funds which were not completely disbursed during the calendar year. It is more likely a result of computational errors or the use of preliminary figures which were not changed later.

Table 13.- Status of Unpaid Balance as of March 31, 1972

ABC Portfolio

Calendar Year	Granted Number	Granted Amount	Unpaid Balance Outstanding	Amount not due	Status of unpaid Balance: Past due estimated to be collectable	Status of unpaid Balance: Past duse estimated to be not collect	Status of unpaid Balance: %past due of total granted
1962-1963	884	450,990	77,818		47,285	30,533	17.2
1964	2,413	2,295,759	631,346	575	239,267	391,504	27.5
1965	3,345	2,697,546	876,597	87,362	505,839	283,396	29,2
1966	2,899	1,715,454	190,902	68,284	89,958	32,660	7.1
1967	5,967	2,518,998	237,414	57,059	157,302	28,053	7.1
1968	8,528	3,493,766	272,186	74,335	184,239	13,612	5.7
1969	7,754	3,471,756	290,516	150,821	137,265	2,430	4.0
1970	6,464	4,266,126	704,454	544,731	159,457	266	3.7
1971	7,588	5,188,199	1.627,739	1.249,242	378,497	n. a.	n.a.
1972 (3/31/72)	313	329,925	213,287	213,287	n. a.	n. a.	n.a.
	46,155	26,428	5.122,259	2.445,696	1,894,109	782,454	10.0

Source: ABC Analysis of Portfolio as of March 31, 1972 by Statistics Section.

of borrowers participating in the IRA storage program (described in a later section). IRA sends the check for the product in storage directly to the Central Office. The Central Office deducts the loan amount and issues the borrower a check for the balance.

Special Enforcement Procedures

The field agent records all of his visits to a given borrower for supervision and collection purposes. He is supposed to make several visits before he declares the loan uncollectible from his standpoint. At this point the loan is referred to the Central Office Collection Section. The Collection Section sends a zone agent to visit the farmer and to check on the status of the collateral pledged to the loan. The zone agent will continue to make periodic visits using the threat of legal methods, etc. If, after all of this, the borrower still does not pay, his file is transferred to bad debts and referred to the Legal Department. The Legal Department will study the file to determine whether or not legal recourse is feasible. If so, the Department files a request with the President and/or Manager for approval to file suit.

Rescheduling

ABC policy has been to grant extensions or additional funds to those farmers who were unable to repay the loan due to circumstances beyond his control such as a drought. A minimum requirement would be a new chattel mortgage on the crops or livestock involved and, in addition, ABC would attempt to acquire more security to further guarantee that the rescheduling would result in no losses to the agency.

Costs and Finance

Status of unpaid Balance

Table 13 contains information on the number and amount of loans granted since 1963, the unpaid balance for each year, the status of the unpaid balance, and loan funds past due as a per cent of the total amount granted. During the period 1962-65, ABC had a substantial default rate in its loans. In 1965 for example, about 29 per cent of the loan funds granted were not repaid. Following 1965, ABC has shown steady improvement. The rate in 1970 was only 3.7 per cent. Most of the problems in the early years were due to the reasons cited earlier

in the section on repayment record. ABC personnel have broken the past due accounts into two categories; past due but believed to be collectible and past due and believed to be uncollectible. They include about 30 per cent in the latter category, but in reality the percentage is likely to be much higher.

Administrative Cost

The operating cost of the ABC program in 1971 was $938,198 (Table 14). The major items are salaries, services (including rent), vehicle maintenance, publicity, supplies and materials, and interest on money borrowed from USAID and the Central Bank. The average cost per dollar loaned has been reduced from $.47 in 1966 to $.18 in 1971. This is a result of several factors such as combining field offices with MAG extension offices, a reduction in field office numbers, more efficient use of personnel, etc. However, the biggest item, and the one which in a sense is defeating the original purpose, is the increase in loan size as a result of serving larger producers.

External Financing:

The initial capital for ABC came from a PL 480 loan to the GOES on August 21, 1961 of which ABC utilized $665,826. The interest rate was 3-5/8 per cent per year.

Table 14.- ABC Administrative Costs, 1966-71

(In U. S. Dollars)

Year	Personal Services (salaries, etc.)	Non-Personal Services (Rent, Maintenance)	Materials and Supplies	Interest Expense	Depreciation & Other	Total
1966	n.a.	n.a.	n.a.	n.a.	n.a.	771,569
1967	478,144	118,904	54,179	121,213	55,231	827,671
1968	485,028	89,276	58,298	121,564	55,819	809,985
1969	528,101	94,459	67,385	118,759	55,742	864,446
1970	554,023	91,321	80,796	125,750	53,728	905,618
1971	578,694	100,999	79,248	130,640	48,617	938,198

Source: ABC Profit and Loss Statements, 1966-71.

On September 18, 1963 USAID loaned the GOES $8,900,000. The terms were 40 years with a 10 year grace during which only interest was paid. The interest rate was 3/4 of 1 per cent per year, ABC received $254,820 for vehicles and equipment and also through the Central Bank, $5,000,000 which was to be used for relending. The terms on the $5,000,000 were 25 years at 2 per cent per year.

In addition, the GOES has provided budget support in the following amounts:

Calendar Year	Amount
1962	$ 47,493
1963	158,244
1964	395,667
1965	684,807
1966	678,117
1967	508,987
1968	200,000
1969	400,000
1970	400,000
1971	400,000
1972 (Budgeted)	400,000
	$ 4,273,315

Complementary Factors

Technology

ABC uses a portion of their portfolio for in-kind loans in order to tie them directly to new technology. Borrowers receive inputs such as certified seeds, fertilizers, insecticides, etc. based on the instructions of the field agent. This type of loan also prevents farmers from using funds for purposes other than which they were intended.

Prior to the planting season (during the dry season), ABC field agents hold conferences with farmer groups which include current borrowers and any other interested producer for the purpose of explaining the ABC program. This includes promoting the benefits of the supervisory portion of the program as a method of spreading the use of new technology.

The actual services provided by a supervisory agent include assistance in methods of soil preparation, planting, insect and disease detection, weed control, harvesting, and storage. Due to the number of producers in relation to field agents, the average agent will visit a given borrower about five times for an annual crop. When possible, additional visits are made to borrowers who are new to the program and have no experience with modern methods. The chief of the field office requires a monthly plan for each agent's visits in order to assure that he is reaching the maximum number possible.

As indicated earlier, the ABC field operational staff are now joint-housed with the MAG extension service. There has been speculation that the ABC field agents would, in effect, become loan officers with the extension service providing the supervisory services. Whether such a plan will be implemented or not is uncertain since ABC is currently being studied with a view toward changing it to an Agricultural Development Bank.

Development of technological packages for agricultural production in El Salvador has been a slow process. Such packages do exist for the basic grains and beans, but must be improved substantially with additional research and better research-extension coordination. This is critical because, at present, there is some question about their potential pay-off in terms of providing enough incentive to overcome risk factors associated with their adoption. Such packages for fruits and vegetables have really not been developed to date and major research efforts will be required. USAID has just made a $4,000,000 loan to the MAG for the development of research, extension and education.

The field agents for ABC are generally graduates of the National Agricultural School. This is a 3-year post-high school work-study program. They receive a degree equivalent to a Junior College Degree in the U. S. Therefore, it is felt that the agents are well-trained, but that there could begreater coordination with the research and extension services and that they must receive improved technological packages to disseminate.

Supplies and Sales

There are several large suppliers of fertilizer and crop chemicals operating in El Salvador. These firms sell through area distributors and local dealers and also will sell direct to large producers. The network appears to be large enough to provide access to most producers not located in extremely remote areas. Unless they are part of the in-kind program, ABC borrowers negotiate directly with the dealers for their supplies. In the case of the in-kind loans, ABC negotiates a volume price with a supplier. When the borrower picks up his supplies the supplier is paid immediately by ABC and the borrower then must pay ABC according to the terms of the loan.

Input prices are not subsidized by the GOES. However, IRA, the price stabilization institute, has recently been given the authority to import and sell inputs. This step was taken to provide more competition (or the threat of more competition) to private firms to assure that they do not engage in collusion on price-setting. Whether or not IRA will actually have to import and sell inputs to accomplish this is unknown at present.

ABC has not provided a great deal of capital for infrastructure. There have been a few loans for on-farm storage facilities and irrigation systems but this is a relatively small part of the program.

Although producer access to input suppliers is assumed to be fairly good in El Salvador there are still examples of producers who cannot obtain the particular fertilizer mix or type of seed and insecticide recommended by the credit or extension agents. This forces a substitution of a less desirable input which may result in a greatly reduced yield or it may cause a producer to abandon the use of some inputs which have been recommended. This type of problem undoubtedly has reduced the impact of the extension or supervisory credit programs and implies the need for greater coordination between the ABC, the extension service, and the major input suppliers.

ABC borrowers are not guaranteed a market for their products.

There is, however, an agreement between ABC and IRA whereby some ABC borrowers can deposit their products in the IRA warehouses and participate in the IRA price support program. Eligibility of a borrower depends upon whether he is producing a product which IRA will accept (currently corn, rice, sorghum, or beans) and whether or not IRA has remaining capacity to handle the product at the time the producer tries to sign a contract to participate. If the borrower qualifies he agrees to deliver all or some specified part of his production to IRA at harvest and this is credited to ABC. When IRA sells the products (or purchases them for their own account), they deduct storage and handling charges and pay the balance to ABC then deducts the loan amount, and remits the balance to the producer. In order to participate the borrower must agree to deposit enough product to cover the ABC loan. If he has more product than needed for this purpose, he is eligible for a warehouse receipt type loan from ABC to help meet current obligations.

The market system in El Salvador continues to provide numerous problems to producers, especially those who are small and medium size. These producers do, in fact, suffer a serious market access problem, especially in terms of having alternative outlets. At harvest, faced with limited market information, transportation, and storage, the producer generally turns to an independent trucker. The trucker generally is able to purchase the product at price levels which are below the already low harvest price levels. The trucker may further have increased his leverage by loaning the producer money during the planting season thereby committing the producer to sell to him at harvest. The IRA and ABC programs have been attempts by the GOES to help break this system but, to date, have been largely ineffective. There is no doubt that market access problems have seriously restricted GOES attempts to raise producer incomes.

The available cost and returns data on crop and livestock production are extremely limited. As a result, it is not possible to perform a detailed analysis on the profitability of technology without a major study. Experimental work with vegetables indicates that tremendous profit potential is available even discounting the risk involved, but data on actual on farm conditions do not exist.

EVALUATION

Performance

Apparent Uses of Credit

During the early years of the ABC program, sub-loans were not always used for the intended purposes. This was a result of the lack of experience of agents, the lack of effective controls, although controls had been established, and the pressure to move large sums of money as a result of the AID loan. Some of the funds were diverted to consumption items and some funds although used for input purchase were utilized poorly due to lack of knowledge by the farmer. These problems have been reduced to a minimum as ABC has matured over time and it is generally believed that the funds are being properly utilized at present.

Effects

There have been no studies of the ABC program which would show in a quantitative way the effects on the agricultural sector. However, from a production standpoint, the rather dramatic yield increases in the basic grains over the past several years are certainly attributable, in part, to the ABC efforts.

In terms of quintales per manzana in 1962-63 and in 1971-72, corn increased from 16.4 to 27.3, sorghum from 16.2 to 18.9, rice from 23.3 to 37.0, and beans from 8.5 to 13.2.

While there has been no study of income and net worth changes among ABC borrowers, informal visits to the various agencies and to beneficiaries indicate that there have been increases. The link between IRA and ABC has also had an income effect by providing an alternative outlet for some beneficiaries thereby eliminating the need to sell to an independent trucker at lower prices. On the other side, however, non-land owners have found that income increases generally lead to land rent increases by the land owner. The GOES has attempted to control this practice through legislation to stabilize land rents but it still exists in many parts of the country. The ABC program has no method of controlling producer land rental rates.

In 1966, ABC financed $713,362 of inproved seeds fertilizers

and pesticides. This has increased to $1,962,640 in 1970. The consensus is that without the ABC program, the bulk of the producers using these inputs would have produced using traditional methods. Also, many of these inputs were made available through the ABC in-kind program in conjunction with seven firms selling agricultural inputs in El Salvador. These seven firms have expanded their number of outlets from 117 in 1966 to 450 in 1970. Part of this expansion can be attributed to the influence of the ABC program and the increased access to all producers, regardless of credit source, and has resulted in additional impact on the agricultural sector.

The ABC program does not include a savings program and any influence of ABC on savings would be indirect. For example, agents encourage producers to save in order to reduce their future needs for operating credit or to purchase capital items for which they cannot obtain credit. There is no evidence to suggest that the ABC interest rates have discouraged savings use in the rural sector. This is not to say, however, that higher interest rates would not draw out more savings for use as a credit replacement.

Generally, the ABC program is believed to have had a positive effect on employment. This is generally because capital items which are financed by ABC are not used to replace labor. Examples are on-farm storage units, irrigation systems, etc. instead of tractors, harvesters, etc.

There are no data to suggest that ABC has influenced the political and social structure other than in the area of land rental where they have attempted to help producers find legal resource and pressure for new controls.

Image

The institutional image of ABC over time has been less than favorable. The heavy default rates and losses in the early years did not help the situation. Also, many fail to realize that a supervised credit program is expensive and at subsidized interest rates, the agency could not be self-sufficient even under ideal conditions. Even though the program has matured and is functioning smoothly now, it appears that ABC will soon be converted into a two-window Agricultural bank. One window will serve larger producers and the profits of this will be used for the supervized credit window. This will tend to eliminate the need for GOES subsidy in the future.

Evaluation Procedures and Feedback

Program Evaluation Procedures

In 1966, the first evaluation of ABC was made. About 10 per cent of the borrowers were included in this evaluation. Unfortunately, resources did not permit an indepth evaluation and the results were mostly confined to the problems with repayment rather than impact on income, employment, etc. Since 1966, ABC has conducted annual evaluations, but again largely confined to financial aspects and central office procedures.

Feedback and Changes in the Program

As a result of the evaluations mentioned above and informal suggestions by agents and other personnel, ABC has been changed and improved over time. As examples, there has been definite improvement in borrower screening procedures, collection methods, central office management, and technological packages recommendations.

Problems

At the goverment level the major problem has been the subsidy level. Many times it has been inadequate and at times the level originally promised was reduced after ABC had made committments based on the higher level.

At the institutional level, the problem with bad debts has been of major proportions. Other problems include inadequate transportation for agents and lack of funds to make longer term capital loans.

At the farm level, the fact that many of the borrowers lease their land is a problem. This makes total farm planning difficult in the sense that the tenure arrangements are never very secure and longer range planning thus becomes impossible. These producers are also the ones who cannot be graduated from the ABC program since other lenders require land ownership as collateral. Finally, low education levels of the producers serviced by ABC have substantially increased the supervision requirements and increased total program costs.

Conclusions

The small farmers of El Salvador continue to have the chronic

problems of inadequate technological packages, inadequate credit, poor market access, and small units with insecure tenure arrangements. In addition, they have low levels of education, poor diets, poor housing, and inadequate sanitary conditions.

The credit programs directed to small farmers (of which the ABC program is by far the most important) have attempted to assist the producers by providing credit, improve market access mainly through cooperatives, and to pressure for more secure tenure. The other problems are largely beyond the scope of the credit programs as it is now functioning in El Salvador.

Given the attitudes which prevail within the private credit system in El Salvador at present, it appears that future credit for small farmers will have to come largely from public institutions. Any new major influx of funds for this purpose will have to be tied to improved technological packages to provide the incentive to risk-taking on the part of small producers.

Generally, all things considered, the ABC program has been successful in reaching and improving small farmers in El Salvador, but the scale has been so small that the over-all impact has not been highly visible.

Suggestions for Improving the Program

1. Since it has been virtually impossible to graduate borrowers of ABC from the supervised credit system, the agency should be reorganized to provide for internal graduation. There are plans to do this in the coming year.

2. An analysis should be made of the evaluation system to provide more economic information for use in program structuring and evaluation.

3. ABC needs to expand and provide more in-depth training programs for their personnel.

4. ABC needs to review the administrative procedures involved in granting loans with a view toward simplification.

ANNEX I

The purposes and conditions of the different types of loans being made by ABC are as follows:

1. "Integral" credit (Regular credit)

These are credits for the purpose of financing family-type farms, that is, that will utilize family manpower as a minimum.

A. Sub-borrowers must:

1. Be a farmer whose project covers a minimum economic-sized farm unit that will utilize family manpower.

2. Be of age and legally free to contract.

3. Have attitude of cooperation with the ABC program by accepting techniques recommended to him.

4. Preferably live on the farm or close enough to work on it sufficiently to carry out the operation.

5. Have experience in farming and/or knowledge of the techinques required for farming.

6. Be a member of a family group and preferably the head of the family.

7. Be of good health, physical and mental condition and old enough to have the responsibility of developing the agreed plans.

8. Have a good reputation in his neighborhood and with persons or institutions he has done business with.

9. Submit a title to his property or a lease of the land where farming is going to take place.

B. Credit may be used for the following purposes:

1. Operating expenses of the farm for the year; i.e., animal feed, seeds, fertilizers, insecticides, weed killers, wages, lease of equipment, transportation,etc.

2. Purchase of machinery and equipment required for operation of the farm.

3. Construction, remodeling or repair of farm facilities.

4. Conservation and improvement of natural resources; i.e., soil conservation, irrigation, drainage, construction of farm ponds, planting and improvement of pasture, etc.

5. Purchase of cattle for production and for work.

6. Reasonable payments for lease of land.

7. Remodeling, small repairs or essential services to rural housing; i.e., electricity, potable water, toilets, etc. and purchase of equipment, appliances required in the home.

8. Procurement of machinery and equipment for the community; i.e., silos, grain storage, huskers, mills. etc.

9. Planting and improvement of orchards and for vegetables, spices and other products.

10. Processing, industrialization, transportation and marketing of agricultural products and sub-products, forestry and fishing.

11. Payment of debts to ABC or high cost debts that endanger the farm and the home, as long as the credit will tend to continue agricultural plans and help the sub-borrowers financial condition.

C. Amounts - "Integral" credits have no upper limit.

D. Disbursements - disbursements must be programmed according to project needs and may be made in kind or cash. The first disbursement will be made to cover immediate needs. Subsequent disbursements will be made if prior disbursement is supported by documentation (payrolls, invoices, etc.) proving its expenditure. In any case, the agent will determine the need for further disbursement.

E. Terms - Terms will be set in accordance with nature of the project being financed and sub-borrower's ability to pay as shown in the farm and home plan and his anticipated income stream. Preferably, repayments should be made from revenues of the project.

Loans may be made for:

1. Short-term - up to 18 months - for farm and home operating espenditures.

2. Medium term from 18 months to 7 years - generally for revolving type credits.

3. Long-term - over 7 years for capital.

F. Guarantee

1. Chattel mortgage on crop

2. Mortgage

3. Guarantor

4. Combination of above

Generally, ABC accepts the best guarantee farmer can offer. Also, the loan must not exceed 90 per cent of guarantee.

G. Interest

1. "Integral" credits carry a rate of 8 per cent per year on balance; also a 2 per cent loan fee must be paid when the contract is signed.

II. In-kind credits for basic grains and vegetables.

A. Sub-borrower must:

1. Be a small farmer with no more than five manzanas

2. Be of age and legally free to contract.

3. Have an attitude of cooperation with the ABC program by accepting techniques recommended to him.

4. Preferably live on the farm or close enough to work on it sufficiently to carry out the operation.

5. Have experience in farming and knowledge of the techniques required for farming.

6. Be a member of a family group and preferably the head of the family.

7. Be of good health, physical and mental condition and old enough to have the responsibility of developing the agreed plans.

8. Have a good reputation in his neighborhood and with persons or institutions he has done business with.

B. Purpose:

Financing of seed, fertilizer and insecticides for growing corn, rice, beans, sorghum and vegetables.

C. Amount:

Must be no more than $200.

D. Disbursements:

In kind through delivery orders.

E. Term:

According to dates of harvest, not to exceed 12 months.

F. Guarantee:

Preferably chattel mortgage on crop but any other permitted by ABC's charter.

G. Interest:

Eight per cent per year on balance; 2 per cent loan fee paid at time of signing the contract.

III. Credits to Cooperatives

A. Sub-borrower

Those Coops that qualify under the ABC Charter whose members produce goods and services that are eligible for ABC financing. (Instruction Bulletin - ABC 426.01, October, 1969, specifies special requirements that must be met).

B. Purpose

1. Basic or pre-agricultural for:

a. Payment of old debts with high interest rates

b. Preparation of land for agricultural purposes.

2. Economic development for:

a. Individual or community agricultural production projects

b. Procurement of machinery, equipment, inputs and materials required for the project including lease of land (especially under promise of sale)

c. Procurement of services, insurance, guarantees and technical assistance.

IV. Post-agricultural Credit

This credit is for financing marketing of products fo ABC sub-borrowers.

A. Sub-borrower:

ABC sub-borrowers that store their crops at ABC approved facilities and have warehouse receipts (IRA)

B. Purpose:

1. Payment of loan installments, balances and other charges.

2. Farm and home expenses.

C. Amount:

The Board of Directors will establish amounts for each product based on current market conditions.

D. Disbursements:

Full amount at time of loan.

E. Term:

Board of Directors will determine for each product.

F. Guarantee:

Chattel on warehouse receipt.

G. Interest:

1. To Coops - 5 per cent on balance

2. To individuals - 6 per cent on balance

Also, a 2 per cent loan fee at time of signing the contract.

V. Cotton Credits (for cultivation of cotton)

A. Sub-borrower must:

1. Be Salvadoran legally able to undertake credit responsibilities.

2. Cotton farmer with average production of 2500 pounds per manzana for last three years.

3. Work on farm most of his time.

4. Obtain most of his income from agriculture.

5. Not have credit available from other sources.

6. Be a member of the Cotton Cooperative and have a permit to plant cotton from the Ministry of Agriculture.

7. Operate a cotton farm not in excess of 100 manzanas.

8. Have desire and state that he wants to improve his standard of living.

9. Have attitude of cooperation towards ABC program.

10. Have a good moral and eterprising reputation.

B. Purpose:

Exclusively for cotton farming; i.e., land preparation, planting, growing, fertilizers and insecticides, harvesting, etc. but may include:

1. Procurement of equipment when its cost will equal or be less than cost of leasing it.

2. Payment of lease of land if

a. Rate is fair and reasonable

b. When payment is not accepted after the harvest.

c. When it will not contribute to raising lease rates

3. Lease of work animals, machinery, and equipment.

4. Financing of delinquent loans and/or onerous debts when Agent determines it is convenient for both parties.

C. Amount:

Maximum - $234 per manzana.

D. Disbursements:

Check will be deposited to a joint, supervised account (no exceptions) and disbursed according to needs. If amounts for other items are not exhausted, balances may be used for contingencies, if authorized by the cotton supervisor.

E. Term:

No later than February following date loan is made (one year or less)

F. Guarantee:

1. Same as for other loans; loan not to exceed 90 per cent of guarantee.

2. For credits for more than 50 manzanas mortgage on land or other real property required at option of ABC.

G. Interest:

Eight per cent on balance and a 2 per cent loan fee at time of signing the contract.

VI. Coffe Credits (for cultivation of coffee)

A. Sub-borrower must:

1. Be Salvadoran legally able to undertake credit responsibilities.

2. Be a coffee farmer with plantations not to exceed 30000 pounds processed coffee. Show evidence of last three crops for establishment of limit to be financed.

3. Not have credit available from other sources.

4. Have desire and state that he wants to improve his standard of living.

5. Have attitude of cooperation towards ABC program.

6. Have a good moral and enterprising reputation.

B. Purpose:

For coffe farming; i.e., replanting trees, permanent labor including administration; fertilizer, insecticides, temporary labor, and 5 per cent for contingencies. Also annual type operations; i.e., pruning harvesting, trasportation, etc.

C. Amount:

Sixteen dollars per cwt. processed coffee based on last three year average.

D. Disbursements:

Supervised joint account, to be disbursed as required.

E. Term:

No later than March 31 following date loan is made (one year or less).

F. Guarantee:

Same as for regular loans.

G. Interest:

Eight per cent on balance and a 2 per cent loan fee at time the contract is signed.

VII. Credits for Sugar Cane (cultivation of sugar cane for sugar production)

A. Sub-borrower must:

1. Be Salvadoran legally able to undertake credit responsibility.

2. Be a farmer with experience in sugar cane.

3. Have a good moral and enterprising reputation.

4. Show attitude of cooperation with ABC program by accepting technical assistance and supervised bank account.

5. Be of good health and physical condition to carry out the plan.

6. Have a sales contract for raw sugar cane to a sugar mill that will accept an irrevocable order to pay ABC.

7. Own land to be planted or have a base for a period equal to or greater than that required for harvesting.

B. Purpose:

New planting or maintenance of cane fields two or more years old. Also to pay debts to ABC (refinancing amounts will be financed with ABC funds).

C. Amount:

Farms of up to 50 manzanas: for new plantings - $200 per manzana; for fields of two years or more - $120 per manzana. In all cases financing will only cover farmer's needs.

D. Disbursements:

In-kind or cash. Cash to be deposited in a supervised joint account.

E. Term:

Program repayment to coincide with amrketing dates (one year or less).

F. Guarantee:

Same as for regular loans.

G. Interest:

Eight per cent per year on balance plus a 2 per cent loan fee at the time of signing the contract.

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COUNTRY PROGRAM

THE NATIONAL DEVELOPMENT BANK OF HONDURAS

by:

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COUNTRY PROGRAM

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1. Introduction

In Honduras, no classification system has been established that really defines what is meant by small, medium or large farmer, even though these terms often appear in studies, reports and newspapers. We know, of course, that a scientific classification of this nature is given to many judgments and variations and to a large number of limitations. We can nevertheless try to give a more or less acceptable definition of our main character: "the small farmer". The main factors are Capital Stock, Gross Annual Income and Size of the Farm plus the evaluator's experience and observation. This producer can be found within the following maximum limits:

a) Capital Stock - up to a maximum of $10,000
b) Gross Annual Income - up to a maximum average over time of $15,000
c) Size of the Farm - up to a maximum of 15 hectares

It should be pointed out here that, first, the typical small farmer does not approach any of these limits and, second, a farmer exceeding any one of these limits is not considered to be a small farmer for the purposes of this analysis.

Further on we shall relate this small farmer to the country's credit system, but we would first like to make some observations on the general system of institutional credit for agriculture and related sub-sectors. At present this system is composed of a central bank, a development bank, private commercial banks, cooperatives, agriculturists, associations and business companies. (There are no rural banks, only offices of commercial banks in various towns in the country). The Central Bank finances the agricultural producer in an indirect way through the other organizations in the system. The other institutions assist the beneficiary both directly and indirectly, although some are more active than others. Private banks, for example, focus their service and resources on the financing of commercial and industrial operations and are very cautious when it comes to the agricultural sector. Their participation in this field is therefore very limited to separate circumscribed types of loans and to selected farmers and companies. This conservative policy of the private banks toward the financing of agricultural activity is the result of factors such as the lack of secure farm property titles, the lack of government incentives, and the fact that commercial and individual operations are more appealing. Although there seem to be some signs of evolution towards more commercial bank activity in this sector, significant changes will come about only slowly and gradually.

On the other hand, the other financial organizations of the system (the development bank being an exception) are relatively new. In spite of the other financial institutions being active and aggressive in their policies towards agricultural financing, their coverage and extent of participation have not yet reached outstanding levels, although their growth rates (especially for the cooperatives and associations) make them potentially viable credit sources and promoters of agricultural development.

The institution that has taken care of most agricultural financing process is the Banco Nacional de Fomento (BNF), founded in 1950. Its service is channeled through a main office and twenty branches in almost every farming center of the country. BNF functions, although they include commercial and industrial operations and services similar to those of the private banks, have been essentially directed toward the

promotion and financing of the agricultural sector. The greatest part of its agricultural financing takes the form of direct credit to producers, although most of the funds that cooperatives and associations use for relending to their members come from the BNF itself. This increases the real scope of BNF's action. Present statistics do not show the complete situation. The table below gives a partial view:

TABLE No. 1

DISTRIBUTION OF INSTITUTIONAL AGRICULTURAL FINANCING IN 1971

(1)	(2)	(3)	(4a)	(4b)	(4c)	(5)
			B N F PARTICIPATION			
Item	Total of the Institutional System	Total of the Banking System (Inc. BNF)	Magnitude	% of IS (4a)÷(2)	% of BS (4a)÷(3)	Coop.Assoc. and Others
A-No.of loans	38,903	32,103	29,007	77%	93%	6,800
B-No.of borrowers	18,384	12,054	10,012	54%	83%	6,330
C-Amount Financed	$59,351,004	$55,895,700	$13,692,570	23%	24%	$3,455,304

IS = Total Institutional System BS = Total Banking System

According to the above table, the participation of the private banking system in the amount of financing provided is very high. The real figure is uncertain, however, but lower, because private banks give "agricultural" financing for uses that others would not classify as agricultural (e.g. banana companies, agro-industrial equipment and machinery). The number of loans and borrowers handled by private banks is very low.

The participation of cooperatives, associations and other similar organizations is high as far as the number of beneficiaries and loans goes, but low regarding the amount financed. This shows that the clients involved are very small as credit users, a reflection of their small size as farmers. A closer analysis would reveal that a high proportion of such customers are indirect clients of the BNF, since these organizations get most of their funds from the BNF. Consequently, the figures listed under column (2) of the table should really be smaller, and the figures under the BNF column should be larger.

Although up to a few years ago the BNF was evidently the dominant agricultural credit organization, its relative participation in this particular field has slipped. Nevertheless it is still outstanding. Although the relative reduction would be highly desirable if it goes along with an increase in the activities of the other credit organizations, the need for a greater agricultural financing means that the BNF should have the long term goal of expanding its operations. This is especially true in light of the potential demand that exists for agricultural credit.

In Honduras there are approximately 178,000 farm owners and operators. Of these, only 18,384 or 10.3% make use of institutional credit. Even though the exact number of farm owners properly qualified as "potential subjects to institutional credit" is unknown, generally speaking the institutional agricultural credit system is far from reaching an adequate proportion of farmers, nor has it achieved a satisfactory rate of growth. The above situation is even more critical with regard to the "small farmer"

There are around 148,000 small farmers operating under various claims to property title who represent 83% of the total number of farmers. Institutional credit does not appear to cover more than 10-12% of this small farmer volume, this being caused by several factors. Many small farmers that do not benefit from institutional credit are forced to search for resources from unscrupulous sources in order to finance their agricultural operations. There exist in Honduras a large number of "money lenders", and small farmers are generally their most profitable clients. Past studies have estimated that small farmers pay non-institutional sources effective interest rates of close to 40 percent per year, counting nominal interest rates and inflated prices on inputs and deflated prices on outputs.

To a great extent the BNF centers its operations in the agricultural sector on the small producer, even when proportion of credit to small farmers has gone down somewhat. The proportion of small farmers in the total of direct clients of the BNF ranges from 80% to 82% in recent years. As a result, the BNF is the leading organization in the institutional credit system.

Two years ago the BNF started a new, small-farmer supervised credit program, using an AID loan of $4,500,000 plus BNF funds of $2,900,000. Supervision was to have come primarily from DESARRURAL, the GOH extension service. The results to date of this $7,400,000 program have been positive, with an annual average of 5,250 farmers being handled. That number, together with the number of normal BNF clients, gives an approximate total of 8,700 small farmers getting credit from the BNF. This represents about 6% of the total small farmer producers in the country. The institutional credit system for the small farmers thus is serving only a small proportion of its potential clients. The reasons for this problem deserve an in-depth analysis, but it is obvious that the most important factors limiting the financing of small farmer operations are: (a) lack of orientation, instruction and motivation on the part of the government servicing institutions or, in other words, a lack of institutional initiative; (b) insecurity and lack of initiative on the part of the farmer; (c) nature of land tenancy, that is, a lack of proper and legal land titles of the farmers; and (d) the high cost of small loans which generally become very expensive even for the BNF, which must consider a break-even point. The solution to the problem of providing credit to the small farmer is complicated and depends essentially on the ability of the government to apply an aggressive policy. At the same time, however, we all recognize that credit in itself cannot do everything, but it is a necessary element. In this sense, credit must be accompanied by other complementary factors, such as technical assistance, education and motivation. Therefore, concurrence of the most influential organizations is needed to initiate a vigorous all-inclusive program so that a higher proportion of small farmers can be served.

II. Program Characteristics

A - Background

1 - Historical Summary:

Sufficient data do not exist to trace the history of institutional financing for the small farmer in Honduras before 1950, the year in which the National Development Bank (BNF) was founded. This Bank, though it also finances various other operations such as industry and commerce and provides many of the services of a commercial bank, has traditionally concentrated its resources in the financing of the agricultural sector, especially of the small farmer. As pointed out in the Introduction, the BNF is the institution which plays the most significant role of all financial organizations in financing small farmer operations.

Institutional credit for the small farmer, which we shall call the Program, began in 1950 with the founding of the National Development Bank. If we were to trace a graph describing the first seventeen years of the Program we would note that it has registered a significant increase at a more or less stable rate in relation to the number of credits, clients and average amount per credit. This development in a straight line means there were no drastic increases, but rather that growth was induced during this period and that the credit action of the Bank was, in general terms, limited to the demand expressed by the clients. There are no significant changes in the policy, management and organization of the institution. Throughout the 17 years of the Bank's life, capitalization depended almost exclusively on funds contributed by the Central Government and by financing granted by the Central Bank. This explains the straight line growth experienced during that period.

A Supervised Credit Program was formed in 1952, but it disappeared without having produced positive results. The Interamerican Development Bank (IDB) made a small contribution to the BNF in 1968. Although important changes in the policy and operational system of the institution were not suggested, the injection of capital funds was an important factor in enabling the Bank to serve a greater number of clients in the Program. The IDB loan was not given for the sole purpose of small farmer financing. The intensity of the suggested Program change was not sufficiently serious to qualify it as the final chapter of the history of a traditional and routine system in the financing of our producers.

The third and most recent stage of the Program began in 1970, when the BNF negotiated a $4,500,000 loan with USAID, destined for the financing of small and medium farmers. Although it had the goal of having an impact without precedent, only minor changes in the policy, management and organization were needed to create a "Program of Supervised Agricultural Credit" (SAC) with funds from the BNF and the AID loan. A distinctive characteristic of this new Program was

the determination to limit the financing each borrower could obtain and to limit the range of financiable items. Furthermore, the offer of technical assistance at the beneficiary level was another exclusive characteristic of the Program.

The results, according to a recent evaluation, have been positive. Significant increases in the production of financial items (general livestock, corn, beans, rice and sorghum) have been observed, especially in the basic grains. The total number of credits and of beneficiaries of the Program increased at a higher rate than traditionally had been registered. Even when the supervised credit included the "medium farmer", the majority of these fell within the limits established for our small farmer. The statistics of the Supervised Credit Program show that annually an average of 5,000 small farmers received credit. Adding this number to the annual normal number of BNF credit clients, we arrive at the approximate number of 8,700 beneficiaries who demand around 16,000 loans per year. In effect, the Program consists of two complementary portions: the "Supervised Agricultural Credit Program" and the credit which the BNF traditionally grants to small farmers.

The scope of actual Program activity cannot be quantitatively described easily due to the lack of consistent data. Nevertheless, it is possible to come up with some approximations. The Program is open and flexible for financing of almost any item of agricultural production that the small farmer may decide to use in almost any part of the country. From the 2-3% of the total small agricultural producers that participated in the traditional BNF Program, the number has increased to approximately 6% of all the 148,000 farmers in the country. This is still a small portion of the potential that exists for major credit demand, and makes one think that the Program must aim for much higher levels of participation in order to have its impact felt among the great mass of small farmers. Credit alone will not solve the agricultural development problems of Honduras, but it is one of the very first resources that ought to be brought to bear.

BNF plans for achieving more coverage contain some alternatives that could work out separately or in a complementary form to present Program operations. The Bank will soon obtain an IDB $ 9,200,000 loan which was originally assigned to finance big, medium and small farmers with no distinct limits for any of these groups. As a result of interest recently expressed by the Central Bank, it looks like Honduras will be able to obtain funds from the World Bank to be used for sub-loans to medium and big producers. A large part of the IDB loan funds could be switched in this case to concentrate on small farmer production. This would mean a significant growth of the Program, and would be highly desirable since sub-loans will also include the granting of technical assistance through the agricultural extension agencies (basically DESARRURAL). Another approach currently under study that could be used by the BNF toward financing small farmers is to increase and itensify loan concessions through farmer cooperatives and associations. The BNF has created twelve special commissions (work groups) to analyze its entire present structure and recommend possible solutions to policy and administrative problems. One of the more important topics being discussed is their experience in financing small farmers.

2 - Relation to National Credit System:

As pointed out in the INTRODUCTION of this report, the Central Bank

does not directly grant loans to agricultural producers. Instead, it operates through other credit organizations of which the most important and aggressive is the Banco Nacional de Fomento. The Central Bank does not define or impose conditions on the Program.

The private banks are not linked to the Program in a well defined way either. There is no formal policy agreement or operational arrangement between private banks and the BNF to distribute participation in the Program. Since few loans that are granted by private banks to "small farmers" generally have the same characteristics (term, interest rate, collateral, etc.) as those granted to bigger clients, it is easy to underestimate the possible tie that might exist between this type of credit and the Program. The very few costumers of private banks that are small farmers might be called "symbolic users" of the Program (the term "symbolic users" identifying those small farmers that obtain institutional credit outside the BNF).

From another point of view we find that the participation of cooperatives, associations, etc. in financing small farmers is helping to fill a gap of considerable importance. The credit beneficiaries of these organizations, who are mainly small farmers, are also "symbolic users" of the Program. The BNF directly finances most of the sub-loans granted by those institutions.

In the statistic Table No.1-A that follows we can see the magnitude of the Program's distribution compared to other credit sources of the small farmer:

TABLE No. 1-A

DISTRIBUTION OF INSTITUTIONAL CREDIT GRANTED TO SMALL FARMERS IN 1 9 7 1

INSTITUTION	No. of Borrowers	% of Total	Approved Amount US$	%of Total	Average per borrower
A-Private Banks	1,000	5.95%	1,800,000	16.25%	$ 1,800
B-BNF	9,470	56.37	5,822,370	52.55	565
C-Coops & Assoc.	--	--	--	--	--
a) Coffee Coop.	1,152	6.86	1,511,250	13.64	1,312
b) ANACH Assoc.	496	2.95	135,999	1.23	275
c) INA	1,882	11.20	1,556,564	14.05	827
d) FECOAGROH	2,800	16.66	251,491	2.28	90
Sub-Total C-	6,330	37.68	3,455,304	31.20	545
TOTALS	16,800	100.00%	11,077,674	100.00%	$ 659

The prominent role of the BNF in small farmer credit is obvious from the above table. Nevertheless, the figures do not tell the whole story. For example, it is very possible that the real participation of the private banks is even smaller than that given in the table, since sometimes what the private banks call a "small farmer" does not meet our description.

With respect to the average loan per user, it should be noted that the highest (private banks) is three times larger than the BNF average. Some cooperatives and associations have higher averages than those of the BNF because occasionally their beneficiaries are groups that require a larger amount than that usually financed for most BNF clients.

In number of farmers serviced, the BNF has first place, followed by cooperatives and associations, with private banks in last place.

Table No. 2 below gives us some objective information comparing the Program with the institutional agricultural credit system.

TABLE No.2 Comparative State of the Small Farmers Credit and the Credit System for Farmers of all sizes.

	Loans for Farmers of all sizes		Small Farmer Program		
	Total Instit. System (2)	Total Banking System (3)	Magnitude (4)	% of Inst. System (4)÷(2)=(5)	% of Banking System (4)÷(3)=(6)
a) No.of Borrowers	18,384	12,054	16,800	91.0%	139.4% *
b) Financed Amount	$59,351,004	$55,895,700	$11,077,674	18.7%	19.8%
c) Average Amount/ client	3,228	4,637	659	20.4%	14.2%

*Note: This is higher than 100% because sub-loans of cooperatives and associations are included in the Program, but only primary loans in the banking system.

The more important conclusions from Table No. 2 with respect to the relation between the Program and the overall agricultural credit system are the following:

a) 91% of all the institutional agricultural credit users in the country are small farmers;
b) The total number of the Program's clients exceeds by 39.4% the total number of all types of users financed by the banking system (this is a consequence of the participation of cooperatives, associations, etc.);
c) Of all agricultural loans of the institutional system, the Program only absorbs 18.7% of total resources, using $11,077,674;
d) Of all agricultural loans of the banking system, the Program absorbs 19.8% of the amount; and
e) The average amount financed per farmer under the Program ($659) is only 20.4% and 14.2%, respectively, of that of the institutional and banking systems.

With the above statements the following conclusions may be drawn:

Private commercial banking has a very insignificant part in the financing of agricultural development of the country, especially that performed by the small farmer. At the same time, however, there are signs that commercial banks will significantly increase financing to that sector.

3 - Other Program Activities:

The BNF is comprised of two large service units: the Credit and Operations Department and the Development Department. Though many times it is difficult to delineate the participation of each one, because they are complementary, the main responsibility for the development of new activities and new enterprises of the agricultural sector falls on the development department. Therefore for the purpose of this brief commentary we are going to include it in this section

of our report, and no distinction shall be made between the functions that pertain to each department; we shall simply say BNF.

The Bank has various divisions and departments that are in charge of realizing feasibility studies and the investigation and promotion of projects that foster progress in the agricultural sector (besides the industrial sector) of the country. In keeping with this mission, the Bank develops and finances agricultural, cattle and agro-industrial projects. Among the most important BNF programs and activities are the following:

1) Improved Seed Production Program:

This Program began to operate in 1967 through the combined efforts of the BNF (60% of funds), the Ministry of Natural Resources (through DESARRURAL) and USAID. These last two organizations donated 40% of the funds. The program is oriented toward the production and supply of improved seeds of basic grains (corn, rice, beans and sorghum) for farmers, the distribution of informational material, and the provision of short term training. This program has had good results and it is hoped that it shall promote a greater impact on the agricultural sector, especially among the small farmers who are the ones who most demand and utilize this service.

2) Cattle Development Program:

Within this program priority has been given to dairy herd promotion projects that supply the milk producing plants of Honduras. To this end, development is taking place in 14 projects in the country. The results to date have been satisfactory. Although small farmers have the same opportunities as other producers, from the point of view of financing and BNF policy, the principal beneficiaries of this program are medium and large farmers. The small producers participate in a limited proportion; plans exist to assist them in a greater degree in the future. The cattle improvement program includes the reproduction of pure bred animals. The BNF imported and continues to import high quality stock for sale and financing to its clients. Because the benefits of this program are numerous, the Bank is stepping up the program and is developing and financing four projects in the production of beef.

3) Poultry Program:

The year 1970 marked the re-birth of poultry development, especially egg production, in Honduras. The BNF has developed and financed 12 projects of this kind. Statistics indicate that already the country is no longer an importer of chickens for meat. Furthermore, the importation of eggs has decreased to a more favorable level. Medium and small farmers are benefiting from the program, as have the big farmers.

4) Honey Program:

The production of bees' honey is becoming an important adjunct to field crops and livestock. International demand for this product has risen,

prompting the BNF in recent years to take the initiative in fomenting and financing this item. Small farmers are the greatest beneficiaries of the program. There are a number of important bee projects dispersed throughout the country. The possibilities for success and continued increases in volume for the producers are magnificent.

5) Tobacco Development:

Tobacco production became an important commercial activity in 1962 but did not become important to the national economy until 1965. From the beginning the BNF has offered development and financial support. This program has benefited producers of all sizes and they have moved to higher economic levels.

Some farmers no longer are financed by the BNF. Financing now comes from commercial banks and processors. There are good prospects for this program.

6) Credits for inputs for small producers:

This program is aimed at providing inputs that increase productivity (fertilizers, improved seed, insecticide, etc.) to corn producers that do not receive credit from the BNF or other institutions.

The program is under an agreement between the BNF and the Ministry of Natural Resources (through DESARRURAL). The Bank provides the improved seed and markets and the Extension Agency provides technical assistance and supervision. The program has had several positive results but it could be improved. In 1970, 391 producers benefited from the program.

7) Marketing and Storage of Cereals (CCC):

This program seeks the solution to a problem of great importance to producers of basic grains. The BNF, as the price control body, has constructed and is operating grain storage facilities in the principal production areas of the country. The program has encountered serious problems and, as the program is so important for the protection of the producer and consumer, the BNF is searching for strategies to fulfill their responsibility.

This program benefits all sizes of producers.

8) Research and promotion activities:

The BNF considers that one of its more important tasks is the discovery of production activities which could be profitable. The Technical Division of the BNF is constantly carrying on feasibility studies of different crops whose potential production could be benefitial to the country. There are many noticeable examples. Many successful firms were studied and financed by the Bank. For example, the production and marketing of sesame and african palm (for vegetable oils) that were recently started. In both cases the majority of the participants will be small producers.

9) Sales Section of the BNF:

Twenty strategically placed sales offices distribute production inputs to producers. A large variety of articles may be purchased in these offices (fertilizers, insecticides, equipment, etc.). There is a close relationship between credit and financed supplies available in the BNF stores. This service is given to all producers, regardless of size.

Summarizing No. 3, the role of the BNF is not limited to credit, rather its role is comprised of multiple services directed toward the majority of production activities found in the country. The "credit program for the small farmer" maintains a close relationship with the panorama of services offered by the Bank. These services are within reach and easily accessible to the small farmer.

4 - Relation to Pre-existing Local Institutions:

As we have pointed out in previous sections of this report, there are no other institutions like the BNF in Honduras. The Bank, which was not founded upon a pre-existing institution, is the only one that maintains an active service policy for small farmers. Even the cooperatives and associations that provide credit to small farmers do not have a range of action comparable to the BNF. It is, nevertheless, present BNF policy to foment the creation of more cooperatives and associations. The Bank could thereby reach a greater number of clients and also decrease costs. From this point of view, the BNF would benefit from having more competition from other institutions in the Program.

In the formation, organization and management of the BNF and its Program, participating officials have made a great contribution. Traditionally the Bank has had at its disposal the services of foreign technicians who have collaborated at the various operation levels. The BNF has taken advantage of the foreign technical assistance that it has had at its disposal to the benefit of the Program. The administration of the institution, of course, has always been in the hands of local officials. One important factor that has contributed in the steady improvement of Bank operations is the employment security of its personnel, which has given stability to the Bank.

5 - Agricultural Patterns and Potential:

Some studies of Honduras show that the country has an approximate area of 11.2 million hectares of which 40% is occupied by forests, 16% is adequate for crops, 19% can be utilized for cattle raising and 25% is inadequate for agricultural purposes. Only 800,000 hectares are actually being worked for crop production, leaving some 1,000,000 hectares suitable for agriculture. Of the total land fit for cattle raising only 50% is being used, leaving some 1,000,000 hectares unused. Of the total number of existing farms (around 170,000) more than 85% belong to small and medium farmers under diverse tenancy form and claims to title. There are an estimated 65,000 farmers in the country that are suitable at present for institutional credit, of which around 50,000 are small producers. Of these small producers, only a third are actually getting financing from the Bank, (BNF), commercial banks, cooperatives and associations. An additional 95,000 small farmers could be incorporated into the institutional

credit system if various field problems were involved. In total, then, some 145,000 small farmers could potentially receive institutional credit. Our data indicate that only 11.6 percent of the potential clientele are participating. This certainly means that the Program faces a great challenge.

Program beneficiaries are scattered throughout the country and most of them concentrate on the production of basic grains (maize, beans, rice, sorghum), cattle raising and other livestock operations. The production of these items has increased acceptably in the last years which has permitted an overall reduction in imports (rice) and an increase in exports (such as maize and beans). When it comes to basic grains, the country is only deficient in rice production, but the country has good potential for rice and good prospects for becoming self-sufficient in this cereal. Logically the Program has contributed to production increases.

With respect to productivity levels, we can say that some steps are being taken in that direction, but there is still a good deal to be accomplished. Although the process of changing obsolete techniques and traditions is generally very slow with small farmers, in Honduras this is not a very difficult obstacle in light of a recognized willingness on the part of farmers to accept change. The fact that no further advancement has been made toward productivity is due to the influence of other factors (insufficient technical assistance, inadequate infrastructure and economic resources, etc.). These factors surely limit the introduction of the new technology, but the mentality of the people is favorably changing toward the acceptance of new strategies. The adoption of new technology strategies will permit a significant increase in production, giving rise to a desire for a better standard of living. The potential that exists is enormous and the Program could be a central resource in promoting these changes.

B - Objectives

1 - General Objectives

a - Announced:

The main objective of the Program has always been the betterment of the socio-economic standards of the small farmer. Other secondary objectives have been brought into focus to complement the scope of the principal objective. In recent years, these have been of an agronomic and technological nature, aimed at introducing improved cropping methods, better management and administration practices and better use of profits. Goals of a political nature do not seem to be included within this chart of objectives.

Given that in Honduras 75% of the population lives in rural areas and 66% of the economically active population is closely connected with agriculture, the concomitant low rural incomes make it necessary that credit be oriented toward increasing production. It is estimated that about 40% of the Gross National Production (GNP) of the country comes from the agricultural sector. Although there exists a Supervised Agricultural Credit Program (Programa de Crédito Agrícola Supervisado), which focuses on various objectives, the financing has undoubtedly resulted in increased production, thus identifying itself as

"production credit". Technical education through the Program has received less emphasis and less resources.

In general terms, the official objectives of this Program are being achieved at an acceptable rate. One should not doubt that one of the best ways to raise the socio-economic standard of farmers is through higher incomes. Nevertheless, in order to make this attainable at a significant rate, the small farmer needs education, technical assistance, supervision and good market accessibility for this production. For this reason the BNF wishes to continue supervised credit while at the same time trying to get more extensive participation from cooperatives, associations, etc.

The Government's and BNF's objectives to continue emphasizing the improvement of the socio-economic standard of farmers seem to be firm and decisive. If changes were to occur, they would not be in the objectives but rather in the strategies and methods of achieving the established objectives, which are in full agreement with the Government's plans and priorities.

b - Apparent:

The BNF definitely thinks that the objectives that have established their policies are fully justified and deserve not only its total assistance, but also that of the State and of other service organizations. The Government also is firmly convinced of the importance and utility of the objectives of the Program, and therefore, has given financial support to the BNF.

This evaluation does not see any discrepancies between reality and the official statements of BNF policies and objectives for the Program. All social and political groups of the country recognize the generally good work that the BNF has done for the benefit of all farmers. Neither the BNF nor the government plans to decrease the resources destined to improve the lot of the small farmer. Nor is there a conscious bias to give priority to higher level farmers. There exists a general opinion, on the part of the private sector as well as officially, that small farmers need more intense assistance in the form of institutional credit and complementary services.

2 - Terms of Loan

a - Purpose:

Generally the Program provides financing for almost all agricultural operations of small farmers. That part of the Program described as the "Supervised Agricultural Credit Program", however, does have certain restrictions. Supervised Credit is limited in use in financing the production of four basic grains (maize, beans, rice, and sorghum) and livestock (bovine, cattle, poultry, pigs, etc.).

Expenses for the beneficiaries consumption is prohibited. There are some instances among beneficiaries of the traditional BNF lending service where part of the credit funds is used for family support. In these cases the beneficiary and his family carry out manual labor in the production and thereby "sell" their own work rather than buy outside labor.

The Supervised Credit Program also requires that the loan application specify the distribution of the funds to be used in the investment (labor, soil preparation, purchase of seed, fertilizers, insecticides, etc.).

b - Period:

Maximum limits are established in the terms of the loan contract, according to the production cycle of the financed project and the resulting revenues flow to the borrower. Some examples are given below:

(1) Basic grains - maximum term is 18 months, but the majority are granted for a 12 month term.

(2) Working capital - 18 months maximum.

(3) Investment capital - 7 years maximum.

The operations of the Supervised Credit Program have resulted in the following distribution of funds by term:

Short Term (Up to 2 years)	Medium Term (2 to 5 years)	Long Term (5 to 7 years)
US$ 3,320,266	US$ 2,877,446	US$ 1,555,332

One will note the predominance of the medium and short-term loans over long-term loans. This is one indication that most customers are basic grain producers.

C - Organization

1 - General Structure

In enclosure No.1 of this report the BNF's organization chart is given in complete form. The Program does not have a separate chart but rather is distributed in the different operational units of the Bank.

The Program operates in the BNF's Main Office and in 20 of 22 branches. The twenty Bank branches can grant credit to the applicants for items of different sectors (agriculture, industry, etc.), but within an authorized maximum. A "Credit Committee" at each branch is in charge of approving or disapproving applications. If the sum in the loan application exceeds the maximum amount authorized for that branch, the case is transferred to the Main Office of the BNF for final resolution.

Although the agencies have not been limited to granting small farmer loans, most of their funds are earmarked for these farmers.

Supervision of the Program and of other BNF operations at a local level is the responsibility of four supervisors who occasionally visit each branch. Nevertheless, the number of supervisors is very limited given the scope of BNF activities. The supervisors' functions do not include that of auditing because there are sixteen auditors. Some agencies are visited from time to time by

Bank officials from other levels (loan analysts, etc.)

In general terms supervision at the local level is not yet sufficient to meet the present need.

2 - Local Structure

Staffing patterns vary from one agency to the other, not only in number but also in capability and title of the positions. The difference in the size of the agencies is determined by volume of loans. For example, in larger agencies (3-4) the staff is composed of: a manager, a credit official, an accountant, various accounting assistants, a cashier, one or two credit analysts, secretarial personnel and field appraisers. The first three positions form the Credit Committee which is in charge of local decisions (approval, disapproval, reschedulings, etc.). In other smaller agencies there are no credit officials and he is replaced by the cashier on the credit committee. In some cases the manager has to fulfill the functions of other officials. There are no intermediate levels between the Bank and field offices.

D - Beneficiaries

1 - Selection Criteria

In the Supervised Credit Program (SAC) criteria for client selection can be used, because the BNF, through the other programs, accepts almost every credit application. There is no screening committee to determine prior eligibility of the applicant.

In Supervised Credit, limits have been established on size of the applicating farmer, gross annual revenues and the item that he wishes to finance. Land tenancy is also a limiting factor.

No other selection criteria such as academic training level, agricultural experience, family size, etc. are used. Financing under this program is granted only for basic grain production, livestock and farm related investments (fences, milking stablrs, equipment, tools, etc.).

Repayment terms are primarily determined by the production cycle of the financed crop. Dates on which the borrower regularly receives revenues are also taken into consideration. Personal considerations sometimes influence the terms and conditions of the loans.

The BNF does not have a clear and defined policy that states an eligibility chart for the different farmer groups. The farmer, size of the farm, and the potential for development are not often used for selecting clients.

The Program was not designed as a pilot project, therefore it does not contemplate area selection nor special eligibility standards other than

those that have been mentioned above. In the Supervised Credit Program some criteria have been used to turn down loan applications; some of these are given below:

(a) The minimum loan amount should be $150.
(b) The applicant's active gross income be not more than $5,000 and not less than $100.
(c) When the applicant is raising other crops different from those financed by the Program, the gross revenues from those activities should not be more than 100% of the gross revenues from the production to be financed by the credit program.

The BNF is flexible in its loan concession and special eligibility criteria are, practically speaking, undefined. Nevertheless, one should not forget that all BNF credit applications undergo an analysis process before final approval to determine guarantees, payment capability, applicant's moral solvency, etc.

2 - Graduation Policy:

The BNF has not established a well-defined policy to graduate borrowers to private banks. This is due to various factors, among which the following may be pointed out:

(a) Private banking is not well identified with programs and policies for agricultural financing.
(b) Clients that have used assistance of the BNF prefer to continue with that service because there is always the chance that private banking will not serve them adequately.
(c) The BNF views these clients as a potential capitalization factor and a source of strength for balancing its financial position and neutralizing the losses from uncollectable loans.

There are exceptions where borrowers have graduated and have later become stable clients of private banks. Others, once having been clients of private banks, have returned to the BNF because of the unsatisfactory service.

Because the BNF does not have a stable system that includes channeling credit through (specialized credit) (supervised, administered, commercial, cooperative, etc.), internal client graduation, going from level to level, is not defined.

The client graduation policy of the Program is no different from that of the general policy of the BNF.

3 - Number and Types:

Due to the lack of data, it is impossible to present a complete and accurate breakdown of the number and type of clients the Bank has financed according to size of the farmer, farm size, and yearly crops. In spite of this some statistics are available.

Following is Table No.3 that summarizes the breakdown of the BNF's clients in some of the more important years.

TABLE No. 3

New Loans of the BNF (includes all items)

YEAR	Total No. of Clients	Big Clients $ 5,001..	Medium Clients $1,251-$5,000	Small Clients: up to $1,250	
				No.	% of Total
1950	193	13	27	153	79.3
1952	1187	17	87	1083	91.2
1955	3523	73	130	3320	94.2
1959	4187	97	165	3925	93.7
1962	5117	191	484	4442	86.7
1963	5650	201	514	4935	87.5
1964	7149	226	655	6268	87.7
1965	8578	346	471	7761	90.5
1966	10235	321	1063	8851	86.5
1967	10433	365	1246	8822	84.6
1968	11247	405	1403	9439	83.9
1969	11310	400	1523	9387	83.0
1970	9655	354	1339	7962	82.5
1971	10865	407	1460	8998	82.8

As noted from the Table above the number of small borrowers has always been the highest percentage of its clientele, over 79%. This proportion should really be higher due to the small maximum limit of $1,250.

Although this Table covers financing for all items the small client column is not affected by non-agricultural uses as more than 95% of the small loans are used for agriculture. It is very unusual to find small loans in the BNF that are not for agriculture. For this same reason it is stated in this report that the Program for small farmers has an approximate register list of 8,700 participants.

The decrease of 1655 clients in 1970 is a consequence of the 1969 war with El Salvador. Notice that the greatest reduction was in big and medium clients which demonstrate that non-agricultural items (industry,commerce..) were the ones mostly affected.

An additional breakdown on the Program and BNF's beneficiaries per items and years is not possible but the table below is limited to the Supervised Credit.

TABLE No. 4

Supervised Credit Program (2 years' action: August 1970-July 1972)

ITEM	GRANTED LOANS Number	% of Total	AVERAGE AMOUNT PER LOAN
Corn	4611	43.86	$ 398.50
Beans	860	8.18	327.00
Rice	592	5.63	950.00
Sorghum	32	0.31	146.00
Poultry	17	0.16	4,306.00
Livestock	4400	41.86	1,135.00
Total	10512	100.00%	$ 737.50

According to the above Table, Poultry has the highest average loan from the Supervised Credit Program, $4306, and this exceeds the limit currently used by the BNF for small farmer credit. In spite of this, it is believed that this "high" average does not basically vary the concept of a small farmer. It is known that the minimum investment in this activity is higher than for agricultural crops. Also, loans for poultry are generally granted for long and medium terms with the participant receiving propotioned disbursements over the years. Thus the average becomes typical of small credit.

4 - Other Sources of Credit:

There is not enough information on the loan history of the borrowers but in general it is believed that the great majority of clients have very few debts. They have become traditional clients of the BNF and renew their loans year after year. The non-existence of other comparable institutions in agricultural financing insures that the clients of the Program are well-known by the Bank. Therefore they have to maintain an acceptable credit history in order to continue receiving loans.

Some Program clients have access to credit from other sources (cooperatives, associations, etc.). This is limited and especially when these sources can offer technical assistance.

In general Program clients do not have access to credit granted by private banks.

5 - Profile of Farm Community:

Program participants are not located in concentrated areas but are scattered throughout almost every part of the country. In some exceptions small participant centers exist especially when they are part of an Agrarian Reform settlements. In these cases relative homogeneity farm size, socio-economic standard and development potential exists. Among other Program clients the socio-economic standard is the common factor.

According to various studies, there are about 50-60,000 small farmers who are credit-worthy (potential clients). In the past year, the BNF Program assisted an approximate number of 8,700 of these farmers which represents 14.5%-17.4% of the eligible total. If we were to include the "symbolic users" of the Program, a total of 16,800 participants (small farmers), (28%-33.6%)would be serviced by credit.

Most of the small client farms of the Program are located in areas with medium and large farms that often have easy access to other sources of institutional credit. Nevertheless, many other small farmers without institutional credit have their farms in areas isolated from progressive farms. There are also large farms, with good development potential, that are not eligible for institutional credit because of the lack of proper titles.

E - Lending Policies and Procedures

1 - Portfolio:

Because the BNF has not had a good data processing system to maintain information on loans it is impossible to offer a description of the complete Program. Nevertheless, the following gives some basic information on the Supervised Program.

TABLE No. 5

Loan Action of the Supervised Agricultural Credit Program (Aug. 70-Jul. 72) - Distribution of Amounts:

Purpose	No. of Loans	Total Amount	Distribution of Amounts		
			Machinery and Equipment	Construction & Installations	Working Capital
Corn	4611	1,837,421	67,721.63	235,706.00	1,533,993.73
Beans	860	281,235	6,075.00	9,232.00	265,928.37
Rice	592	562,440	3,000.00	49,860.00	509,580.27
Sorghum	32	4,668	---	420.00	4,247.50
Sub-Total Agric.	(6095)	(2,685,764)	(76,796.63)	(295,218.00)	(2,313,749.87)
Poultry	17	73,200	1,860.00	35,147.20	36,193.50
Livestock	4400	4,994,079	156,837.50	1,434,093.35	3,403,148.12
Sub-Total Anim.Ind.	(4417)	(5,067,279)	(158,697.50)	(1,469,240.55)	(3,439,341.62)
TOTAL	10,512	$7,753,043	235,494.13	$1,764,458.55	$5,753,091.49

Many borrowers have more than one loan at a time. Often the BNF treats them as one especially when small investments are involved and/or they are complementary.(E.G. purchase of barbed-wire and pasture planting). In other loans from the BNF (outside the program) there is approximately 2.3 loans for each borrower, but this varies constantly.

The traditional clients of the BNF account for 75-80% of the program participants; 20-25% are new clients. In other programs of the BNF, credit repeaters comprise approximately 85-90% of total clients.

In the Supervised Credit Program there are no restrictions on the number of loans that the same farmer might have in spite of the maximum limits that have been

established on the amount of loans.

2 - Interest Rates:

The determination of the rate of interest for the loans granted by the BNF has always been controlled by Central Bank policy. In the first 12-14 years the BNF had a rate of interest which varied according to the amount of the loans and the purpose of the investment. During that period the interest on the loans ranged from 8 to 12%. Since then the rate of interest has been standardized for all BNF's loans at an annual rate of 9%. The Supervised Credit Program continues to charge 9% interest on loans granted.

There is not sufficient data to estimate the credit cost for all the borrowers of the Program.

3 - Collateral:

The type of guarantee for the loans granted by the Program varies according to the individual characteristics and a system similar to general BNF policy is used for determining criteria. In the first years the BNF gave greater emphasis on mortgage guarantee (real property), especially when the amounts of the loans were medium and large. In recent years the Bank has been more flexible in guarantee demand (requirement) allowing a greater absorption of potential clients.

In the Supervised Credit Program the most common forms of guarantee are: chattel, mortgage, and a combination of these. In very few cases fiduciary and pledging guarantee are required.

4 - Other Subsidy:

The most popular form of subsidy for the BNF and other credit institutions (cooperatives, associations), apart from the line of financing that the Central Bank concedes through re-discounts, is through low interest rates some international organizations (IDB, USAID) charge for loans. Easy terms from international creditors can also be included.

There isn't a policy or definite program for subsidizing institutions that finance agriculture in the country. Exceptions are few.

The BNF attempts to balance its financial position with funds that the State provides, the profits from savings deposits and banking operations, and profit from the Development Department through such operations as the milk plant (the BNF is the largest stockholder), the sales office (equipment, machinery, goods, etc.) and the graneries and grain storage silos.

5 - Appraisal Techniques:

The normal procedure utilized by the BNF in the analysis and evaluation of the loan requests is the following: the farmer visits the local office (Agency) of the Bank where basic information is received. Later, the field appraiser makes a visit to the farm in order to verify the information (confirm references, guarantees, feasibility, etc.). When the application is complete it is reviewed in relation to guarantee, personal references (moral, pay record), financial situation, capacity to pay, amount of the investment , investment plan, etc. In the Supervised

Credit Program the loan applications require more information and the review is conducted more carefully than other applications from the BNF. Before analyzing the application a single inspection visit is normally made to the farm.

The loan application forms used in the Supervised Credit Program contain a majority of the basic information that a loan of this type should contain. The deficiencies that impede the review process are due to the omission of information by Bank personnel that is required for determining the feasibility of the loan.

Normally three or four visits are made to the farm annually after the loan is approved.

F - Collection

1 - Repayment Record:

Due to a lack of information we are unable to present all of the statistical data of the Program for the small farmer in relation to the recuperation and delinquency portfolio (mora) classified by farm size, harvest and other variables. In their absence we are presenting some details of the Supervised Credit Program (as representative of the whole Program) in the Tables that follow:

TABLE No.6-A

RECUPERATION AND MORA - SUPERVISED CREDIT PROGRAM
(Up to May 1972)

ITEM	Value in US$	Related with...
(a) Total amount disbursed	7,174,008	...(a) 100%
(b) Total matured amount	2,852,991	...(a) 40%
(c) Total recuperated amount	2,329,642	...(b) 81.66%
(d) Total amount in mora	523,350	...(b) 18.34%

TABLE No. 6-B

DISTRIBUTION OF THE DELINQUENCY PORTFOLIO ACCORDING TO AMOUNT OF TIME OVERDUE
(Supervised Credit Program) Up to July 1972)

TIME OVERDUE	Value in US$	% of Total
...up to 60 days	126,728.00	24.22%
61 to 90 days	201,162,97	38.45%
more than 90 days...	195,321.21	37.33%
TOTAL US$	523,212.18	100.00%

Because it has not been possible to describe the Table of mora by crops, number of loans, and size of the loan, one cannot deduce the tendency of the producers to pay their loans nor to determine the potential for continuing to receive financing. Experience and observation, nevertheless reveal that the small farmer who makes use of credit for livestock production, generally is a larger producer (has a larger patrimony) than the small farmer who only produces agricultural crops. From a theoretical point of view, the profitability of agricultural projects generally is greater than the profitability of livestock raising. In practice this varies greatly, depending on the degree of technology that is utilized in the agricultural projects. Many of the Program clients who grow agricultural crops do not apply modern technology,

therefore, their project profitability is inferior to that of the livestock farmers. In spite of the fact that some livestock clients have a tendency to delay payment on their credit (for the purpose of re-investing the returns in order to capitalize their business), the probability of loan recuperation is greater for the livestock farmers than for the agricultural farmers. The tardiness of some livestock farmers in paying their loans is due many times to the lack of control (little or no supervision) by the Bank, even when the majority of clients are able to pay. Other times this tendency to not pay punctually is due to the fact that the livestock farmer by being more solvent economically than the agricultural farmer, has less need for new financing from the Bank on a continuing basis.

2 - Methods:

The form of recuperation of the Supervised Credit Program loans is the same that has been utilized traditionally in the Bank. The borrower has to go to the agency where he obtained the loan in order to make the payments, receiving official receipts immediately. Even though exceptions exist (not authorized by the Bank-BNF), this is the only acceptable form of payment. Field personnel are not authorized to receive payments.

Special collectors do not exist in the field. Payments of loans are made essentially in cash and not "in kind".

3 - Special Enforcement Procedures:

When loans have fallen behind the BNF generally sends two or three notices by means of form letters. If the borrower does not satisfactorily respond, a field appraiser is sent to investigate the delay and invites the client to visit the BNF agency to arrive at an agreement when possibilities for recuperation within a short time exist. The more commonly agreed-upon arrangements are concession of extensions and payment plans. In the Supervised Credit Program re-financing is not authorized.

When the BNF has tried all initial means of recuperating the loan, without success,the following alternatives may be chosen (a) submit the case for recuperation by judicial means; (b) postpone the case indefinitely without reaching an agreement; (c) liquidate the value against the reserves.

Experience reveals that the best methods for recuperating loans should emphasize tactics such as: well planned visits to the farmer and his farm, instruction on the terms and conditions of the loan contract, and constant motivation of the client. If the field appraiser were authorized and trained to collect payments in the field (according to a well disciplined system) recuperation could be higher than present (that of the Supervised Credit Program is 81.66% and that of the BNF in general is 79%) because appraisers would consider a collected loan as a personal achievement (this stimulates competition among personnel).

In the case of loans granted by cooperatives, association, etc., there exist examples of group sanction for delinquency. This is not so in the BNF and its program.

4 - Rescheduling:

The Supervised Credit Program does not permit refinancing concession but it does allow extensions and the rescheduling of payment plans. The BNF permits almost all kinds of known arrangements to delinquent clients, however, it does not have its loan recuperation policy well defined which has made it a tolerant institution in this respect. Consequently this relaxes the moral acquiesence of the client.

When these delinquencies (moras) occur, frequently they are caused by the carelessness of the Bank itself, because it does not take sufficient initiative in this respect. On other occasions they try to find a solution for the case by means of an extension, altered re-payment plan, and/or the Bank's direct intervention in the administration of the enterprise.

When rescheduling arrangements are conceded, generally a process and method very similar, but simpler to that used for the concession of a new loan, is followed.

G - Costs and Finance

1 - Portfolio Profits and Losses

Due to the fact that the credit program for small farmers is founded within the BNF (it does not operate with a separate portfolio), it is impossible to make a detailed description on this topic, however, some information on the Supervised Credit Program related to this is given below:

TABLE No. 7-A

SUPERVISED CREDIT PROGRAM PORTFOLIO June 1971

(a) Item	(b) No. of Approved Loans	(c) Approved Amount US$	(d) Disbursed Amount US$	(e) Recuperations US$	(f) "Net Loans Balance Outstanding"
Rice	248	208,280.32	98,431.12	35,858.80	62,572.32
Beans	173	97,914.45	93,639.72	37,860.14	55,779.58
Corn	2212	648,395.61	463,231.26	187,26-.54	275,961.72
Sorghum	25	3,695.00	3,144.74	2,472.03	672.71
Poultry	5	8,779.20	6,755.85	2,041.68	4,714.17
Livestock	2580	2,798,419.81	2,450,450.43	535,828.18	1,914,622.25
TOTAL	5243	$ 3,765,484.39	3,115,653.12	$ 801,330.37	$ 2,314,322.75
Total Matured (estimated) Amount: Recuperation + Mora:					$ 866,618.38

TABLE No. 7-B

DISTRIBUTION OF THE APPROVED AMOUNT BY TERMS (SAC) June 1971

Short-Term	Medium-Term	Long-Term	T o t a l
up to 2 years	up to 5 years	more than 5 years	
$1,326,660.28	$1,549,871.75	$888,952.36	$ 3,765,484.39

TABLE No. 7-C

MORA DISTRIBUTION BY AMOUNT OF TIME OVERDUE

June 1971

No. of Loans	Time Overdue	Value in US$	% or Total
67	...up to 60 days	10,144.42	15.54%
156	61 -- 90 days	25,494.77	39.05%
182	more than 90 days	29,648.82	45.41%
405	Totals	$65,288.01	100.00%

Percentage of Mora with respect to Matured Amount = 7.53%

The three Tables given above (7A, 7B, 7C) reflect important details on the Supervised Credit Program after the completion of an operational year. In order to establish a relation that permits observing some changes, these Tables should be compared with those of No.1 - letter F - Collections (Tables 6A, 6B, 6C).

In the following Table (No.8) the actual mora of the Supervised Credit Program can be analyzed, distributed by crops and amounts.

TABLE No. 8

MORA DISTRIBUTION (SAC) BY ITEMS AND AMOUNTS

Up to July 1972

Item	Value in US$	% of Total
Rice	17,561.50	3.35
Beans	6,708.00	1.26
Corn	80,071.71	15.34
Poultry	9,056.00	1.73
Livestock	409,814.97	78.32
TOTAL	$ 523,212.18	100.00%

According to the statistical Tables that we have presented on the Supervised Credit Program (SAC), the percentages of loans recuperated has decreased from 92.47% in June 1971 to 81.66% in May 1972. The percentage of delinquent funds has increased from 7.53% in June 1971 to 18.34% in May 1972.

Delinquency risks with reference to specific crops/livestock cannot be established with certainty, however, based on measurements of collections it has been established that cattle raising and corn have produced highest percentages, jointly contributing more than 93% of the total.

It is worth pointing out that the high percentages of actual delinquencies could

be potentially less dangerous than that which is reflected by the figures, since there are various loans with high amounts due whose recuperation is relatively certain.

The experience obtained during the two years of operation of the SAC Program, indicates that the BNF has the capability for granting more than 5,000 loans annually for small farmers, involving around $4,000,000 in credit for the small producer. These limits actually are greater when you include all of the small farmers that the BNF assists outside of the SAC Program. The potential absorption of clients of the Bank (small farmers) is much higher than the actual volume and there exists the general opinion that if the BNF were to have more personnel (especially in the field) its ability and capacity to utilize capital assistance (like the USAID loan fund) would be much greater.

2 - Administrative Costs:

There isn't sufficient information nor processed data to permit the determination of the cost of operation of the Program (the Supervised Credit Program utilizes the same administrative personnel that assist with other BNF programs). Nevertheless, it can be pointed out that the most important components of the cost are the administrative expenses, field supervision and fixed costs. Due to the fact that the technical assistance (field supervision) is administered by the Agricultural Extension Agency, the loan cost cannot be estimated with any degree of certainty. We do not have the elements necessary to judge nor compare the costs of loan administration and the costs of administering the technical assistance (farm supervision).

The BNF for its part is emphasizing the policy of channeling the loans to small farmers through the cooperatives, associations, etc. so that the high costs and personnel requirements necessary for this type of financing will be reduced. To achieve this, loans to these institutions are being made at an interest rate lower than the usual. The contributions of funds that the State makes to the BNF has its justification in compliance with the governmental policy of providing financial help to agriculture and, of course, to the small farmer.

3 - Beneficiary Savings:

The borrowers of the BNF are not obliged to deposit savings nor "equity investment" as a requisite for receiving benefits from the Program. At one time the Bank required this condition for the financing of the cotton program (medium and large farmers). These requirements (savings, counterpart funds) have never constituted a resource for the internal re-financing of the Program.

4 - External Finance:

Apart from the internal financing of the BNF, the Program has been supported from various sources, among which the following are the most important:

(a) Subsidies from the Government of Honduras.
(b) Re-discounts by the Central Bank.
(c) Loans from the Interamerican Development Bank (IDB)
(d) Loans/Grants from the Organization of American States (OAS)
(e) Loans from the Agency for International Development - USAID (especially the most recent loan for Supervised Credit)
(f) Loans from private banks.

The latest source of capital assistance was a loan from the USAID ($4.5 million - disbursement began in August 1970). Repayment of this loan is guaranteed by the Government of Honduras.

Subsidies of the Central Government to the National Development Bank have been a most important source of funding throughout the Bank's history. These funds have made it possible for the Bank to cover operational deficits which the Bank has incurred annually. They have also served to capitalize the institution. The financing for the small farmer depends to a great degree on these donations, however, the participation of external funds such as those of the IDB and the USAID have played an important and vital role. Due to the fact that the BNF is involved in a number of activities other than credit and is constantly expanding its operations, apart from financing, its own capital resources do not provide more than a small proportion of the total capital needed to continue its operations. For this reason, capital assistance from outside sources is essential.

Though it appears that a well defined policy has not existed where the intentions of the Central Bank are reflected in order to decipher and determine the magnitude of the help that should be given to the BNF, during almost all of its history - this Bank has received financial support through the benefits of "re-discounts and advances" of the Central Bank. In general terms it can be pointed out that the BNF has made use of the services and privileges, even though in recent years it has reduced the proportional rate of demand. As an example of this in 1962 the BNF received $2.5 million in "advances" and "re-discounts" from the Central Bank, which represented 37.3% and 32.3% of the new loans and of the total loans (balance at the end of the year) of the BNF respectively. In 1971 the BNF received $7.1 million in "advances" and "re-discounts" from the Central Bank, which represented 36.8% and 19.7% of its new loans and its total loans (end of year balance) respectively.

The Government does not offer any guarantee in the re-discounts and loan transactions that the BNF receives; it is the BNF itself that backs and guarantees its commitments.

5 - Institutional Solvency:

Although complete statistical data of BNF operations does not exist, important conclusions can be made regarding the performance of the Bank in terms of earnings and losses (and its solvency) with information that has been obtained over the last five years. Table No. 9 presents a synopsis related to this topic. The economists of the Bank concur in the conclusion that the BNF has reduced its rate of incident losses, which means that the institution has the potential to convert itself into a financially independent and solvent entity.

TABLE No. 9

COMPARATIVE STATE OF PRODUCTS AND EXPENSES IN THE "CREDIT AND OPERATION DEPARTMENT" OF THE BNF DURING THE LAST FIVE YEARS (FIGURES IN THOUSANDS OF DOLLARS)

Products	1971	1970	1969	1968	1967
Gained Interests	3,062.40	2,755.50	2,249.80	*	*
Revenues for services	158.45	168.45	183.30	*	*
Other revenues	32.10	32.70	32.85	*	*
Total Products	3,252.95	2,956.65	2,465.90	4,214.00	3,446.05
Expenses					
Personnel Expenses	625.30	815.40	789.75	1,541.95	1,394.00
Operational Expenses	198.60	282.80	247.35	911.15	819.10
Depreciation, amortization and reserves	877.85	752.70	826.25	*	*
Interest and Financing	238.55	1,098.40	961.35	933.70	794.90
**Shared Service Expenses	1,909.85	382.85	367.60	*	*
Total Expenses	3,850.15	3,332.20	3,192.30	4,735.30	3,801.30
Net Utility or Loss	(597.20)	(375.50)	(726.40)	(521.30)	(355.25)

() Indicates Loss
* There is no data
** Within the BNF exist service expenses that must be shared between both Departments.

6 - Foreign Exchange Balance:

For lack of sufficient statistics and complementary information it is impossible to present a reliable quantitative analysis about this topic. Some observations however can be made in order to form a general opinion.

The credit program for the small farmer has undoubtedly contributed to the maintenance of agricultural production for national consumption (domestic) and also for exports. There exists a high proportion of small farmers in Honduras; principally among the producers of basic grains. Honduras exports part of its production.

In the case of the Supervised Credit Program (SAC) there exists the general opinion that it has had a positive effect on the equilibrium point of the holdings of the country. It has provided important increases in the production of basic grains and cattle. Producers have been motivated to continue to produce exportable surpluses of corn, beans, and beef.

The Program has also stimulated importation of agricultural inputs (fertilizers, insecticides, etc.), machinery and equipment, which to a certain extent can be identified with the outflow of capital. Nevertheless, estimates show that there has been an overall favorable balance in foreign trade as a result of the credit program.

H - Complementary Factors

1 - Technology:

a - Directing, tying and packaging

In the Supervised Credit Program, loans are distributed in cash. The client is free to use the loan proceeds according to the agreed upon investment plan. However, in some cases, these disbursements are controlled through coordination with the sales office of the BNF (using "delivery orders" for inputs). In some cases "letters of credit" are used. A "delivery order", issued by the BNF, permits the client to obtain supplies from private firms with the prior presentation of a price list and sales slips.

In some cases, where the agricultural agency provides technical assistance, the agronomists coordinate the acquisition of supplies that the client will use according to the investment plan.

The investment plan is generally simple and is not as detailed as a "Farm Plan"; emphasis is not given to the development potential of the farm or the farmer, nor are the reasons for the present status of the farm analyzed.

b - Program Extension and Supervision

The technical supervision services provided through the loan are scarce compared to the need that exists. These services probably do not cover more than 20% of the borrowers. It was expected that supervision would be an important part of the technical assistance, but this has not been the case.

Supervision is normally carried out by the field appraisers of the BNF and to a lesser extent by DESARRURAL, extension agents (Agricultural Extension Agency). The farmer that receives the most supervision is visited 3-4 times a year. The average number of visits per client is approximately three. The quality and quantity of the supervision services cannot be considered excellent.

A program for special training for farmers does not exist. Several short training courses have been organized and conducted with groups of farmers at local and regional levels. Some extension agents have also managed to gather groups of farmers in their zones in order to demonstrate modern agricultural techniques. Examples of this, however, are very scarce.

Apart from visits by field personnel farmers have been visited and supervised on occasion by different officials from institutions linked to the small farmer credit program (BNF, DESARRURAL, USAID).

The exact number of this kind of visits could not be determined, but about 10% of the clients have been visited. Visits have been made to small groups of farmers and individual farmers, the latter being most frequent.

When loans have been granted to associations and small farmer cooperatives, supervisory visits have been made occasionally. This has permitted a better use of the little time that the personnel has for visits. There are also some examples of supervision being provided by agricultural personnel who were hired by farmer

cooperatives and associations.

c - Other Arrangements for Technical Transfer

During the history of the Credit Program for small farmers technical assistance has been sporadic and had little impact on changing the producer and his farm. This is due, most likely, to the fact that the extension service has functioned apart from the credit program. Nevertheless, the Supervised Credit Program has caused a favorable change in the coordination of technical and loan assistance. Although extension services are not offered by the same institution that provides the loan (the BNF), a better arrangement in the combination of both services has been achieved. Perhaps the most important factor that has prevented the use of technical assistance more effectively is the lack of funds by the Extension Agency and its limited number of field personnel.

We have pointed out previously that some institutions (cooperatives, associations, National Agrarian Institute) are giving a certain degree of technical assistance to different groups of farmers (some Program beneficiaries are among them) but their participation is still very small. This technical assistance is not covered by an agreement between those institutions and the BNF.

Technical assistance provided to the beneficiaries of the SAC Program is offered under a special agreement between the BNF and the Extension Agency. These services have not increased notably. Personnel size has remained the same. The extension and credit services has little coordination between headquarters and regional levels. The coordination between the extension agents and other field personnel of the program is somewhat good (it varies from totally inefficient to remarkably positive) but due to various factors, (lack of personnel, poor budget support to pay per diem, lack of access roads, extensionists' limited radius of action, etc.) the quantity and quality of technical assistance is not sufficient. Logically, this situation has prevented borrowers from receiving more benefits from these services (increase in production, productivity improvement, etc.) which are vital for change. It is known that small farmers need not only the financing but also new technological practices.

d - Nature of Technology

The nature of the new technology that should be incorporated in the "SAC" Program is limited to a small number of crops that do not imply, necessarily, a drastic change, but rather improvement. Most of the participants have a basic knowledge of the production process of their crops, which combined with teaching on more specialized subjects (administration, agricultural knowledge), would allow them to progress to levels a great deal higher than present.

The nature of the technology is very similar in the different basic grain crops. The greatest need of the farmer lies in the use of modern inputs (fertilizers, insecticides, herbicides, etc.) storing and profitable marketing of his product.

Cattle raising and poultry requires a technology much more elaborate and specialized; the farmer needs a great deal of knowledge about the production, administration (records, planning, etc.) and other related practices.

The majority of the existing group of agricultural technicians (excluding BNF field appraisers) has sufficient preparation to introduce the type of technology needed in the Program. The number of these technicians, however, is very limited in comparison with the real necessity. Special training courses have been given and will continue for all personnel related to the technical assistance service of the Program (field appraisers from the BNF and extensionists from DESARRURAL).

The Supervised Credit Program policy was conceived as part of a campaign to increase the production of specific crops and to increase the socio-economic standard of the participants. This was based on the use of improved agricultural techniques (fertilizers, improved seeds, etc.), but unfortunately this use has varied tremendously (as a consequence of the lack of technical assistance) and in many cases the financing has become routine credit.

Within the services necessary for helping small farmers, it is worth noting that technical assistance is the most important factor that should complement credit. This assistance is considered in terms of its influence in increasing production and improving productivity. In other words, technical assistance is directed towards production and productivity. It should not, however, be limited to just this role. Farm management and marketing guidance are elements of development that should be included in the role of technical assistance to the degree that when problems arise in administration or marketing, such as in the case of overproduction, that the service be sufficiently flexible to provide help to the farmer.

What would happen if we were to offer adequate technical assistance that produced a substantial increase in the production? Could the increased output be favorably marketed? A great deal of time and space would be required to give a clear, elaborate and technically supported conclusion. Nevertheless, in outline we can make some observations.

First of all, credit and technical assistance should be offered in an organized and well oriented manner. Certain skills are necessary to detect the possible results and situations that could arise as a consequence of the use of these resources (credit and technical assistance). If an increase in production is realized without the corresponding marketing facilities, the problem of raising the farmer's income has not been resolved. Conversely, with greater production and the corresponding markets, technical assistance has a good chance of paying off.

2 - Supplies and Sales

a - Program Supplies

The inputs and other supplies financed by the Program reach the borrower in different ways. Sometimes the client comes to the Sales Office of the BNF or to the private firms to relieve items acquired with the loan. At times the extension agents and/or the credit agents give special assistance to borrowers (and borrower groups), transporting and delivering supplies bought with the loan proceeds. Thus, extension and credit agents sometimes participate in the handling of supplies.

Some commercial firms, associations, cooperatives, etc. have installed supply distribution points in farm-concentration zones, which often makes it easier for the participant to obtain needed supplies for his farm.

When the BNF (and Program) clients buy inputs and supplies in the Sales Office of the Bank itself, the price is generally lower than that of private commercial stores. The sale prices of the BNF are lower because (among other factors) the government assists the bank through exemption from various duties (tax on property, municipal tax on the volume of the sale, post stamps and telegraphic charges). For some time the BNF enjoyed the privilege of exemption of custom duty. At present the BNF is attempting to renew that concession to obtain imports cheaper and offer supplies at lower prices to its clients. The Bank is also inquiring about the possibility of acting as a distribution agent and representative for foreign trademark products.

b - Program Infrastructure

The Program does not contemplate nor include the construction of access roads, irrigation works, storage facilities, etc. for common use of the beneficiaries.

At times improvements of that nature have been financed for the benefit and exclusive use of the borrower.

c - General Access and Availability

The degree of accessibility and availability of supplies at the BNF Agencies for the borrowers can be generally described as satisfactory. Although there are some exceptions (mainly the shortage of improved seed), agricultural production has not been adversely affected due to the inadequate accessibility and availability of supplies.

On the other hand, we could not consider excellent nor satisfactory the accessibility and availability of other services such as construction of storage facilities at a local level, construction of transportation routes (roads, etc.), technical assistance, marketing and others. One exception is the large and modern silos and graneries constructed by the BNF at central and regional levels which have assisted the agricultural producer.

The private sector is spontaneously intensifying its participation, encouraged by the potential demand that exists.

In conclusion there has been some limitation on the access and availability of various services. Its repercussion has been noted in the Program's impact on production and productivity (the accessibility and availability of supplies and inputs is not included).

d - Guaranteed Sales and Price Supports:

During the life of the BNF, clients have not had guarantee of a secure market to sell their product. It is unknown if there have been sporadic attempts in this respect. However, on occasions the Bank has collaborated with producers to remove this uncertainty. The Bank does not offer a marketing guarantee but it does offer a guaranteed purchase price for some products of a minimum quality. At present, minimum purchase prices for grains (maize, beans and rice) are guaranteed. This guarantee is open to all producers.

To facilitate marketing of basic grains the BNF has a network of graneries and silos (more are needed) distributed in the most important production centers. The form of commercialization used most often by small farmers involves a middleman who subsequently sell the goods to the Bank or in private markets. Very rarely does the BNF make a purchase from a client on his own farm. When done, it is almost always when the grains are in storage or being processed.

The BNF conducts a price control system (for some agricultural products) through one of its department "Conservation and Commercialization of Cereals - CCC Section). In spite of not having a large impact the system has favorably contributed to achieving some important objectiv This price control service is for every basic grain producer.

e - Insurance

The institution (BNF) and the Program do not have insurance for the protection of crops and products against damage and loss.

For some loans that include purchases of equipment and machinery, the borrower is required to obtain insurance for protection of the loan. These are obtained from private insurance companies.

f - Other Program Marketing Arrangements

It has been stated that Program clients have the same opportunity to use the Bank's silos and graneries as other clients. This service is not free however. The advantage of the BNF's and Program's clients is that they have priority over other non-client producers for this service.

The generally low prices at which the BNF Sales Section sells supplies is open to the general public. No preference is given to any party.

Through special arrangements BNF clients have benefited from low rates of collective transportation of their crops.

There is no other known type of special service related to marketing arrangements for the participants of the Program. The only exceptions are the few examples where some government offices (DESARRURAL) have promised to buy part of the harvest that meets standards for use as selected seed for future plantings.

Another situation exists that effects the small farmers and general clients (not just for the beneficiaries of the Program). The BNF is developing the production of sesame seed and african palm in selected zones of the country, financing the operation, and guaranteeing the purchase of the harvest. This special situation was created very recently.

There are also cases of private firms that guarantee the purchase of tobacco to different sized producers (big, medium and small) but not specifically to the clients of the Program. This participation is incidental and is not part of the Program.

g - General Marketing Conditions

From comments and observations made above it can be deduced that the "general marketing conditions" of the country for Program participants, for other BNF

clients, and for producers in general are not adequate to produce satisfactory benefits or large impact. Data does not exist which permits us to determine a degree of market accessibility of the participants. Based on the estimates and opinions of well-informed sources, it can be affirmed that inaccessible markets have negatively influenced higher earning for the producer but its influence has not damaged drastically the economic status of credit users nor their capacity to continue in agriculture. The increase in production induced by the program has been assimilated in normal marketing system. The increased production has not caused drastic price changes in internal or external markets.

h - Profits and Risks

It would have been useful and profitable to assimilate, through technical assistance, the technology that was expected to be incorporated in the "SAC" Program. The few cases that exist demonstrate the benefit of modern technology even in short periods. Some Program participants that have received specialized technical assistance have moved to higher economic levels.

Unfortunately, as explained above, the quantity and quality of the technical assistance offered has been scarce and has not produced the expected changes. The "SAC" is a new program, however, and changes in policy, strategies, and availability of economic resources are possible. These changes would be to intensify and increase the technical assistance. A favorable attitude for change is noticed in the participating institutions.

Some clients that have received and applied the technical assistance of Program have profited. However, this is not the rule but rather the exception.

III - EVALUATION

A - Performance

1 - Apparent Uses of Credit:

In the sub-sections that follow, we [illegible] refer to the Supervised Credit Program (SAC) and not to the entire BNF program for [illegible] farmers.

Because the Program is "supervised" do[illegible] necessarily imply that it is an integrated program (where the development of the farm, the farmer and his family are considered a unit for technical assistance, education and financing), where the term is used to identify different characteristics of agricultural credit. The most widely known and popular of these is the "credit for production".

This Program is classified as production credit. There have been some cases where part of the loan proceeds have been used for consumption by the family. This is seen in cases where the client includes as a cost family labor. This is in accordance with the specifications of the loan contract.

2 - Effects

The effects of the Program (by examining changes in production, gross income, etc.) have not been measured. Nevertheless, based on observations, some

surveys, and the experience of the author the following is offered.

a - Production

Based on recent surveys of SAC (the document is not yet complete) around 28-30% of the clients increased the volume of corn, rice and bean production when compared to historical rate.

Production increased as follows: corn 18% - rice, 23% and beans 12%. It was not possible to estimate changes in the other financed items. In cattle and poultry for example, it was not possible to measure the increase but it is known that there have been important increases in milk production (and its by-products), animal population (for meat and reproduction), and egg and chicken production for consumption.

The above production increases have stimulated the volume and rate of farm sales and have augmented the gross returns to the participant as only a small quantity of this increase is allocated for home consumption (his family and/or his farm).

In summary, the greatest impact of the SAC Program has been on production.

b - Farm Income

In cases where there has been an increase in production, it has also coincided with an increase in the gross income of the farm. The net return has also increased but at a lower rate than gross income. Of about 30% of the farmers that increased their gross returns, approximately 60% (18% of the total) managed to increase net returns (in some cases the net return doubled.)

These increases in the beneficiaries' returns stimulated by production changes are absorbed almost 100% by the farmer himself, since he is not likely to use non-institutional financing with high rates of interest or obligations to share the increased production. The Program has helped significantly to reduce costs of financing.

c - Technology

An estimated 20-30% of the clients have changed production techniques. Even when technical assistance has barely reached the participants, a number of them have become acquainted (and/or adopted) with new technologies provided by the Program. Some of the changes are partial; use of herbicides, insecticides, fertilizers, improved seed, animal vaccination, etc.). It is felt that without the influence of the Program most of the farmers would have continued using the same old-fashioned techniques that have traditionally characterizedthem. This positive impact of the Program refers to the exception and not the rule, since only a small proportion of the participants have received technical assistance services.

Generally it can be said that the Program has induced a higher degree of willingness to adopt new technology. Of course, the rate and dispersion of these modern practices has not yet reached desired levels.

d - Savings and Other Sources of Finance

The Bank has not adopted practices that require the reporting on use of private savings in conjunction with loans. For the same reason the Program has not provoked changes in the saving habits of the beneficiaries, apart from those that may come about from the voluntary initiative of the borrower himself. The Program has indirectly stimulated the participation of other financing sources (cooperatives, associations, etc.) which has permitted an expansion of the operations. This expansion has not been widespread but it is important.

As the interest rate (9% annual) charged by the Program and the BNF in general cannot be considered low nor preferential, the flow of savings of the farmers has not changed, as a consequence of the opportunity of the program.

e - Employment

The Program has induced an increase of hand labor and employment in general (apart from the increase in family labor) especially in the cases where technical assistance has been offered. These effects cannot be quantitatively described. The nature of change, however, includes more employment in operations such as land preparation, use of fertilizers and other inputs, and labor for harvesting. If an increase in the use of credit and in agricultural production has occurred, it is logical to expect an increase in paid employment. A significant substitution of manual labor for machinery has not taken place.

In some cases where technical assistance and more specialized labor (herbicides, vaccination of animals, and others) has been used it is possible that an increase in wages has also occurred.

f - Political and Social Structure:

Information is not available to evaluate the influence that the Program has had on the political and social structure of rural groups. Nevertheless, in the Program it has been observed that in areas where participants have improved their situation (due to the use of new technology) neighboring farmers have taken special interest in the acceptance of new agricultural practices. Of course these examples are not common, but are valuable for stimulating change in groups of farmers.

With the increase in earnings forthcoming from increased production, examples have been observed where the farmer has bought more land in order to increase his production unit. This change has at times led to a greater participation in his community. This has allowed these progressive farmers opportunity to work with groups of more successful farmers.

3 - Progress Towards Other Objectives

One of the implicit objectives of the Program is to clearly show that through the application of modern practices and proper financing the small farmer can evolve, even in a short period of time, toward higher socio-economic levels. Although this has not been demonstrated categorically the examples of the impact of the Program are a convincing proof of the potential that the Program has for achieving this objective.

Another benefit of the Program has been the introduction of improved breeds of domestic animals. In this field the effects of the Program have been convincingly positive.

Finally, Program training has been beneficial to the majority of the personnel that work directly in the Program, especially for the BNF field appraisers.

4 - Image

a - Farmer Attitudes

The general attitude toward the Program and the stated goals is positive, especially by those farmers that have received adequate technical assistance and have had success.

Participants have been reluctant to express complaints about the Program. Nevertheless, in general the majority passively demand a substantial increase in technical assistance and better marketing facilities for their product. They have also demonstrated interest in broading the table of "financeable items" in order to have a better selection and possible diversification (purchase of farms for example).

b - General Image of Program (SAC)

The general impression indicates that the Program is an indispensable necessity for channeling financial help and complementary resources to help the small farmer reach a significantly higher socio-economic levels. The impact already induced by the Program has been favorably evaluated, (from "moderate" to "outstanding", depending on the evaluations).

The impression is that the Program is a good method for reaching several objectives related to the small farmer; it has had a positive impact, but is in need of more resources (economic and other kinds) to cover a much higher percentage of the total small-farmer population. In conjunction with more resources, it is necessary to improve the organization, regulation and operational system of the Program.

B - Evaluation Procedures and Feedback

1 - Program Evaluation Procedures

The SAC Program from the beginning had a procedure evaluation system that would permit measurement of different action areas and the Program in general. However, the records system which the Program uses does not differ a great deal from that traditionally used by the Bank, which without a doubt, does not include the basic information needed.

As a consequence of this deficiency, the evaluation carried on during the last two years has been based primarily on questionnaires, interviews, observations and the experience of the authors. One weak point during the first years of the Program has been the lack of system and procedure for obtaining and processing data that would permit rapid and precise evaluations. This situation is due more than anything to the fact that the BNF is not prepared to adopt a modern method of statistics

and records. However, the Bank has begun to experiment in one of its agencies with the processing of data by means of IBM equipment.

The different evaluations completed have not followed the same guidelines, but recently an official of USAID, located in the Bank developed various questionnaires that will serve for data collection and basic information in order that future evaluations will use the same criteria.

The BNF is complying satisfactorily with AID reporting requirements that, although useful, only begin to provide a system for evaluation.

2 - Feedback and Changes in Program

Completed evaluations of the SAC have revealed different problems that negatively affect participants. For example, it has been noted that the degree and quality of technical assistance offered has been limited and had little impact. This has motivated a search for solutions by new procedures. Nevertheless, these modifications have been rather superficial.

Two special situations that required corrective measures were: (1) the lack of trained personnel and (2) the weak coordination at the level of the field personnel. In both cases initiatives were taken to improve the problem: training courses and periodic meetings with the respective personnel involved.

C - Problems

The basic problem of the SAC Program (and of small farmer credit in general) has been the lack of technical assistance to produce positive and constructive change for the participants. This major and very complicated problem manifests itself at various levels and in distinct forms and is closely associated with other problems.

The principal cause that has limited the role of technical assistance has been the lack of economic resources of the Agricultural Extension Service Agency (DESARRURAL).

The most important problems that have affected the SAC are discussed below.

1 - Government Level

The Government has not clearly defined a policy regarding the nature and magnitude of its participation in small farmers' problems. For this reason, Government institutions have not been able to specify their role in the Program for helping the small farmer.

Funding contributions that the State has provided the BNF have been small with respect to the need that exists. Therefore, the Bank has been unable to expand its help to the small farmer. Financing this class of producers is very expensive.

The Government has not conducted an Agrarian Reform compatible with small farmer needs; there is a great deal of land which lack property titles and

preclude credit.

The existing structure has been limited on reaching, supervising and recuperating the loan. The lack of secure markets has decreased possibilities for loan recuperation and motivation to increase the volume of loans.

2 - Agency Level

At the institutional level, the most acute problems are the lack of economic resources and personnel.

For example, technical assistance and supervision were not sufficiently offered because DESARRURAL did not have funds to cover per diem expenses of field personnel. Also, due to lack of personnel the BNF could not give sufficient supervision or attention to the recuperation of loans.

The volume of work that field personnel (appraisers from the BNF and extensionists from DESARRURAL) generally has outside of the Program does not allow them to devote enough time to the participants. For example, extensionists have an Annual Work Plan (prepared and required by the Main Office) which does not permit them to service a number of participants: generally they are limited to a 30 Km. radius from their home station.

At the beginning of the Program lack of organization, training and coordination resulted in negative effects. At the present date these problems have been resolved almost completely.

3 - Farm Level:

Technical assistance aside from being insufficient, at times produced worse results that those obtained by the farmer by means of old-fashioned techniques. These were exceptions.

The lack of development plans for participants farms with respect to the needs and potential, without any doubt, made it impossible to benefit fully from the credit offered by the Program.

In some cases the lack of improved seed and/or inputs, impaired the production and consequently the effect of the loan.

Absence of greater control and supervision has induced an incidence of a delinquency portfolio (mora) in the Program and has limited the effects of the technical assistance and general financing.

D - Conclusions About Small Farmer Credit

The role that credit should perform for small farmers involves difficult factors which would have to be included in any analysis. Without this complete analysis the case of Honduras demonstrates sufficient evidence to affirm that credit constitutes one of the most indispensable resource in the effort to change the small farmer and his socio-economic standard. Because of the great proportion of small farmers in this country and because of their problems, credit should receive greater emphasis.

For a credit program to produce the best results for the small farmer it must function orderly with definite policies that clearly show the strategies and goals in the future. Thus, it is necessary to establish short, medium and long-term priorities, insuring that all personnel have an understanding of the program. It is also an imperative that financing be channeled through specialized credit (supervised, administered, cooperative, etc.) which would permit concentrated effort resources according to homogenous groups of farmers. In this way the degree of emphasis given to the different producer needs can be better examined.

In general terms, credit for Honduran small farmers should be geared toward socio-economic progress through substantial increases in production and productivity. This would certainly imply an impending need for giving adequate technical assistance to achieve desired goals. It is, therefore, for this reason that the initiative to help the producer, through credit, should come from the Government. This initiative should come in the form of an active policy and should then be executed by national institutions under an integrated, planned effort.

We are positive that if the organizations of the Agrarian Reform, Agricultural Extension, Loaning Sources (private banks, BNF, Cooperatives, etc.), had defined their roles and coordinated their efforts the actual situation of the small farmer would now be much more favorable.

1 - Major Problems of Small Farmers

The main problems of social, economic and political types that affect the Honduran small farmers are closely interrelated, often having a common base. The following are summarized:

(a) Poor distribution of Land;

The Agrarian Reform has not yet dealt sufficiently with this problem. There is a great deal of national land which could be used profitably by peasants.

(b) Nature of land tenancy;

A high proportion of operating owners of small farms do not have legal titles which prevents them from obtaining institutional financing for their operations.

(c) Governmental Policy;

There isn't an active government policy that continuously promotes the inclusion of the mass of small farmers into the productive economy by means of active participation of the different public institutions (education, health, etc.).

(d) Insufficient infrastructure

The services that could reach the farmer(credit, agricultural extension, etc.) are constantly hindered by lack of facilities (roads, irrigation systems, etc.).

(e) Cultural and educational level;

As a consequence of a series of factors that maintain the cultural and educational levels of the farmer at a generally low level, a conformist and traditionalist attitude is produced which limits participation in the services offered to this sector.

(f) Institutional Policy and Bias;

In many cases the policy and attitude of the institutions is relatively passive in the execution of the existing programs to promote small farmer development.

(g) Lack of economic resources;

This is possibly the common factor in the incidence of the other problems. Due to insufficient budgeting resources the institutions and government take a conservative attitude toward participation in the solution of the small farmers' problems.

2 - Role of Credit Meeting their problems;

Traditionally, credit granted to the small Honduran farmer has not been as fruitful as possible. Its role has been limited to operating capital (small amounts) and has not allowed exploitation of resources to the degree where not only survival is guaranteed but also progress to higher socio-economic levels. There are, of course, exceptions that demonstrate opposite results to those observed routinely.

Credit has helped to induce favorable changes in production methods of the small farmer, especially in the cases where technical assistance has been available. Without any doubt, this has, in some occasions, resulted in greater production and greater returns for the producer. There exist some exceptions where small farmers who haven't received credit have obtained similar or better results (production, productivity) than those farmers (also small) who have received credit for financing the operations of their projects. Generally, when this occurs the logical and accurate explanation is that in the first case important production factors (technical assistance, good management, available markets) have been present, while in the second case credit was not accompanied by these complementary factors.

The credit has also decreased the proportion in which the small farmer demanded non-institutional financing (e.g. money lenders) and has increased his returns.

The importance of agricultural production has been stimulated and the total volume of this sector has also increased.

In some cases the credit has indirectly influenced improvements in the infrastructure and in other cases it has produced infrastructural changes at the farm level.

The introduction of new technology for the small farmers has certainly been facilitated by credit even if it has not reached the necessary levels.

Credit has also assisted in the solution of some problem areas related to marketing.

In a general sense credit has helped to improve the cultural and educational level of the small farmer and his family.

Summarizing the role of credit in the small farmer problem it can be said that it has been an important factor that allowed potentially marginal farms to compete in the national economy.

3 - Credit and New Technology

a - Triggering Small Farmer Development

In order to induce a substantial change in small farmer development, various factors and resources must come together. In order to raise the level of technology that can assist the progress of the farmer, greater doses of institutional credit, carefully channeled through the most effective organizations (BNF, private banks, cooperatives, associations, etc.), are indispensable. There is a great challenge to try to absorb a larger number of small farmers in the credit system.

b - Sustaining Small Farmer Development

The lack of institutional credit is not the only factor that limits the capacity of the small farmer for continuing to acquire and introduce new methods and practices. The scarcity of financing is the first factor that must be resolved in order to allow the use of new technology by small producers that are potential institutional credit users. Other important factors that limit this change are the lack of legal title to land and the absence of technical assistance at the producer level.

Credit is relatively easier to introduce in the package of resources that is necessary for promoting agricultural development but certain other conditions are necessary.

4 - Conditions of Success or Failure

Limiting ourselves to the case of the SAC Program it is necessary to recognize that its role has not been completely successful nor a failure. If the technical assistance had been expanded the impact of the Program could have been more satisfactory. Other factors have demonstrated the potential and capacity for achieving goals and objectives linked to the development of the small farmer. Perhaps it is still early for the Program to show convincing evidence for success, but it can be noted that the results are much closer to success than failure. The prognosis, therefore, is favorable if some deficits are resolved (intensify technical assistance, increase personnel, improve the collections, etc.).

5 - How could the Program be Improved

This section is limited to indicating some of the measures that could be taken to improve the SAC Program.

a - In order to improve loan collection and reduce the mora, technical assistance should be significantly intensified. Supervision is a complementary element important to achieving this objective. The field appraiser of the BNF should be authorized to collect loan payments (following a training plan about the modern methods of recuperation).

b - An increase in technical assistance would induce an increase in production and productivity.

c - It is necessary to increase the number of the Program's personnel at different levels of participation. The actual number of the BNF's appraisers and DESARRURAL's extensionists is very small and overburdened.

It is highly desirable that permanent personnel be assigned to the Program by the participating institutions.

d - Location of the 4 to 5 technical advisors at the regional level (covering 4 to 5 agencies of the BNF and DESARRURAL offices) is one of the better strategies to improve and/or form an effective spirited team.

e - In order to take advantage of technical personnel, zones should be delineated in order to concentrate resources and allow group participation.

f - The channeling of credit through cooperatives and associations is one of the better strategies for decreasing the administrative and supervisory costs of the loans. They are also effective means for increasing the number of clients of the Program.

g - The Program needs new initiative in political re-orientation, objectives, goals, procedures and operational systems. It needs greater economic support and better inter-institutional coordination.

h - Pilot projects are needed to demonstrate the potential of the Program.

IV. Role of Technical Assistance

A - A.I.D. Inputs

This section is a separate volume and was prepared by USAID officials.

B - Other Donor Inputs

During its history, other organizations have offered economic assistance (loans, donations) to the BNF to be used for sub-loans to farmers of all sizes, especially to small and medium farmers. Apart from financial help, these organizations have contributed technical assistance advisors, consultants and experts.

The present SAC Program has technical and financial assistance from the USAID as the only external resource. The other credit programs that have assisted the small farmer have received financial and technical help from international

organizations such as: Interamerican Development Bank (IDB), FAO and OEA. Among these, the most important has been the IDB. The IDB has contributed enormously with a large number of technicians and experts who have advised and assisted the BNF's programs and officials. The IDB's loaning fund to the BNF has also been the most outstanding among all the donating organizations (not taking the USAID into consideration).

C - Effects

The effects of the advise provided at the institutional level of the Program can be considered beneficial and compatible with the conditions and necessities of the country. Nevertheless, the institutions and the Program have not received all the benefits of this service due to various limiting factors: Lack of personnel to put into practice the recommendations and designs of working plans, lack of greater economic resources to introduce changes, etc.

Technical assistance provided by the advisors has had positive effects on the progress of the Program. Evidence does not exist that show problems in the Program due to the phylosophy or assistance of the advisors.

A case related to this topic, which would be important to the Program is the use of technicians at the regional level. Regional problems at times cannot be resolved at the Central Office.

D - Recommendations

The BNF and its programs demonstrate the need for technical assistance to make changes in different operational levels. The present system is fairly traditional. The assistance that international organizations could offer should cover the most important faults.

Special consideration should be given in the distribution of technical assistance. Specialists and advisors can perform a much more positive role when they are located in different regions of the country. There they can deal directly with existing problems. In order to induce real change in the BNF it is essential that a combination of technical and financial assistance be provided. A tem of experienced people (7-8) would be the central core for introducing desired changes. To change the special policies of the BNF and the programs for small farmers a minimum team of capable people is needed to motivate the Bank to a more beneficial role.

The introduction of specialized credit (administered, supervised, cooperative, etc.) into the BNF would be one of the most effective strategies and means to provide help to small farmers and induce development of his socio-economic status. A system like this would include and imply the stating of priorities of the needs that exist (priority production items, selected zones, farmers selection, etc.). Channeling credit and techni al assistance through cooperatives, associations, etc., is a strategy that could help but which to date has not been utilized a great deal.

There isn't an easy solution to the problems of the small farmer and one organization could hardly be responsible for the complete problem. For a credit program to eradicate the malgnant socio-economic status of the small farmer it would have to be closely tied to other resources; technical assistance is one of them.

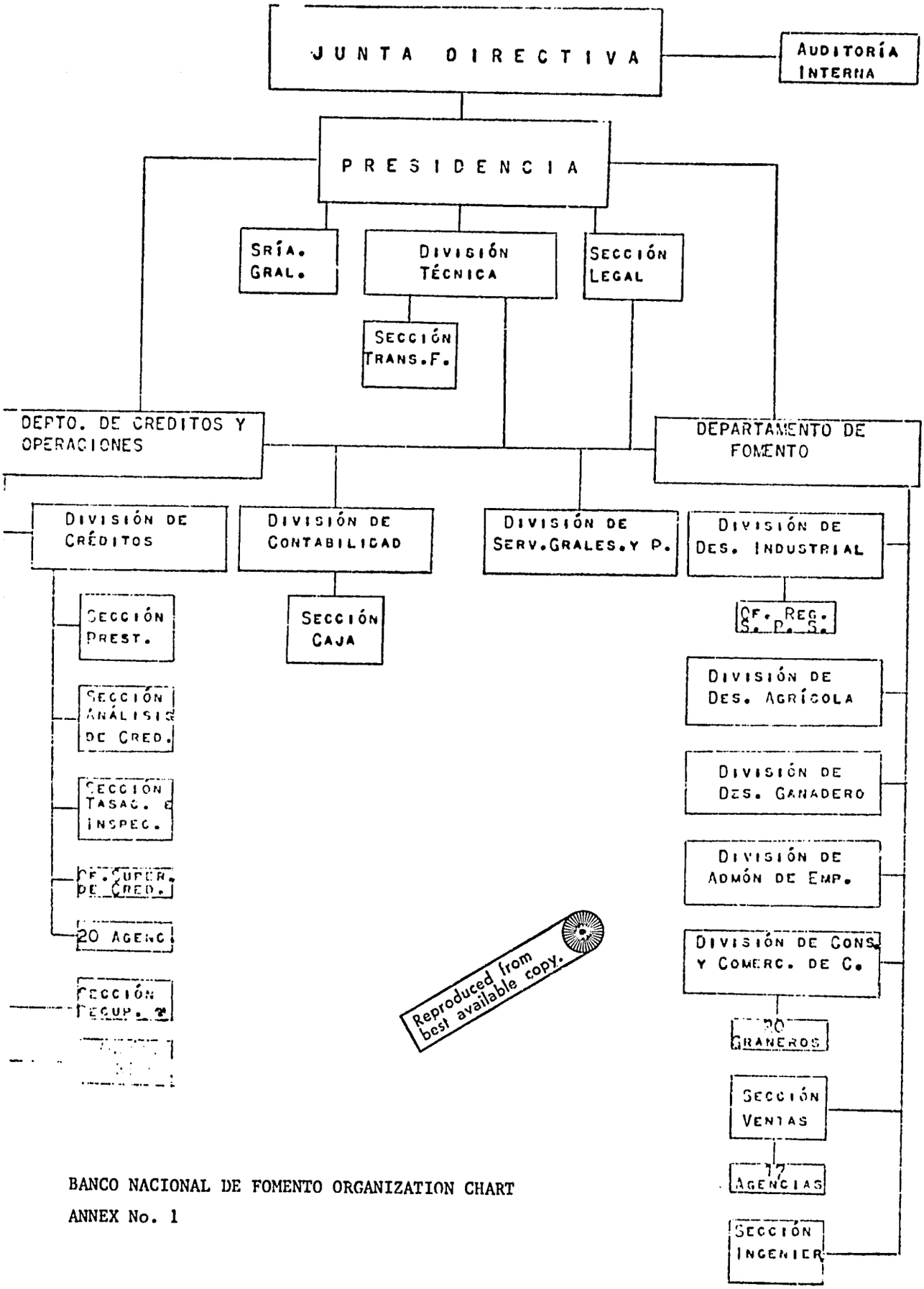
A firm commitment by the Government and institutions in agriculture is needed to design and implement an ingenuous and dynamic integrated policy that would create dedication to the task. This is required to revolutionize the present status of the small farmer.

The credit programs for small farmers should build their own image based on efficiency in order to demonstrate their capacity to solve their problems and thus acquire the necessary support of the other organizations of the country.

USAID could take steps to promote small farmer credit. Well administered and conducted pilot projects, placed in strategic zones are one of the best means of attaining this objective.

Reinaldo W. Santos Santiago
October 1972

Translated to English: Ronald Curtis
Ray Waldron



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BANCO NACIONAL DE FOMENTO ORGANIZATION CHART

ANNEX No. 1

ANNEX 2

Source of Information and References utilized in the preparation of this study (Spring Review - CPP)

1 - BNF Annual Memoirs

2 - BNF Accounting and Statistical Reports

3 - BNF Technical Division

4 - FECOAGROH and BNF Officials

5 - Special Studies and Surveys

a - "An Agricultural Credit Program for Honduras" - June 1965

b - Action taken by BNF in Economic Development - July 1969

c - BNF Financial Resources - July 1972

d - Appraisal Reports of SAC Program (Vol. I, Jan. 1971
Vol.II, Aug. 1972)

e - Reports submitted by the Work Groups to the BNF (March-August 1972)

6 - Miscellaneous BNF Reports

Part IV. A.-

HISTORY OF AID PROGRAMS: AGRICULTURAL CREDIT IN HONDURAS

The USAID Mission and its agricultural programs began together in 1951. The emphasis in agriculture throughout the first decade and a half was on research, extension and livestock services - in fact the first U.S. credit technician to be assigned to the major agricultural banking institution, the Banco Nacional de Fomento (BNF), arrived in Honduras in 1968. Two types of USAID credit programs began to develop in the mid 1960's, one involving BNF's credit activities for small farmers, the other involving credit unions and coops, also directed at small farmers. Both programs, previously coordinated by different divisions of USAID, are now partially financed by a $9,500,000 agricultural loan signed in April 1969. In 1971 USAID project management for the two activities was merged and assigned to the Rural Development Division.

Visiting U.S. teams had reported on BNF operations in 1956 (U.S. Federal Reserve) and 1960 (Stanford Research Institute). The first U.S. team to study exclusively the agricultural activities of BNF (International Development Services, Inc.) visited Honduras between November 1964 and June 1965, when its report, "An Agricultural Credit Program for Honduras" was released. USAID financed the IDS study, but assumed then that primary technical and capital assistance to BNF would continue to come from the Inter-American Development Bank. (The latter had made a $2,500,000 loan for small farmer production credit to BNF in 1962 (Social Progress Trust Fund)).

In 1967 discussions began that involved direct AID support, and a $9,500,000 loan was authorized in June 1968 (loan #018). The loan was signed in April 1969. Of the the total, $4,500,000 was assigned to food grain and livestock production credit for small and medium farmers, $3,000,000 was assigned to BNF's central grain storage construction project, $1,500,000 was assigned to agricultural coops for grain production credit and storage facilities, and $500,000 was assigned to agro-industrial credit. USAID has had a substantial influence on BNF procedures and agricultural activities in the last few years, encouraging the reorientation toward smaller farmers, basic food crops, and price stabilization of basic grains. A U.S. supervised credit advisor under a USAID contract with Agricultural Cooperative Development International (ACDI) has been attached to BNF since 1970.

USAID has provided annual budget support and fairly continuous advisory aid to two cooperative federations (FACACH - a savings and loan federation and FECOAGROH - an agricultural Cooperative Federation. Few AID Americans were involved - the jobs were handled mainly by Honduran staff, financed by the USAID with technical assistance provided by under the ACDI and a fairly large contingent of Peace Corps Volunterrs. The $1,500,000 loan component assigned to agricultural coops will be largely managed by FECOAGROH, aided by ACDI professional guidance.

SUMMARY OF AID INPUTS

(Numbers of Persons, thousands of dollars, fiscal years for FECOAGROH)

	Pre 1964	64	65	66	67	68	69	1970	71	72
I. Technical Assistance										
A. Technicians (resident)										
Direct Hire										
Contract										
B. Consultants					1	2	2	2	2	1

approx. 1 man year since 1967

	Pre 1964	64	65	66	67	68	69	1970	71	72
C. Participants										
U.S.								1	2	1
Third Country										
II. Capital Assistance										
A. Grants										
$										
L.C.				66	105	110	85	120	143	
B. Loans										
$						1,500				
L.C.										

COUNTRY PROGRAM

THE RURAL CREDIT PROGRAM

OF THE

NATIONAL BANK OF NICARAGUA

Report on Credit to the
Small Farmer in Nicaragua

by:
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National Bank of Nicaragua

September, 1972

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I. INTRODUCTION

Governmental institutions, particularly the National Bank of Nicaragua (NBN), are the most important sources of agricultural credit in Nicaragua. Nevertheless, commercial agriculture and cattle-raising receive financing to a lesser extent from private banks and other financial institutions.

Between 1965 and 1970 the amount lent to the agricultural sector rose from 421 to 798 million cordobas. The National Bank accounted for 67.2% and 70.0%, respectively, INFONAC for 5.0% and 12.8%, and private banks for the rest.

The downward trend in financing by private banks is striking. It reflects the uncertainties of agricultural production, which is exposed to fluctuations in climate and price.

To alleviate these deficiencies, the responsibility has been assigned to governmental lending institutions, which implement the government's policy of accelerating development of the agricultural sector. Similarly, the Central Bank, which governs monetary policy, endeavors through its instruments to channel resources toward medium and long-term investment projects and productive activities. Specifically, the Immediate Action Plan was put into effect in 1966. Implemented through the Production Development Fund (FDP), it channeled resources, obtained through bond issues and acquired by private banks with their surplus resources, into such products as rice, bananas, tobacco, coffee, and cattle.

In this way, the Central Bank made 78.1 million cordobas available through the FDP. This sum was lent to the NBN and INFONAC between 1966 and 1969.

In addition, the influence of foreign resources channeled to the agricultural sector is significant. In the same period, the Inter-American Development Bank (IDB), Agency for International Development (AID), and the International Bank for Reconstruction and Development (IBRD) made loans totaling about 329.7 million cordobas (47.1 million dollars) to Nicaragua.

Since the NBN is the most important source of agricultural credit, its loan policy should be described. This development-oriented lending institution makes two types of loans:

(a) Ordinary or bank credit, extended to producers classified as medium or large, whose production is intended primarily for export (cotton, coffee, cattle); and

(b) Rural credit, designed to meet the credit needs of small farmers.

Loans granted under this formula, for development of production, are cheaper. The interest rate is 9% for short-term and 10% for long-term

loans. The chief purpose is to finance the production of basic grains for domestic consumption. The purchase of draft animals and milk cows is also financed; 75% of the cows are used for family consumption and 25% as a means of generating income for families in areas where cattle-raising is the principal activity. In the country as a whole, there are 28 agencies and 16 branches serving the financing needs of the small farmer.

From 1965 to 1970, both the amount of bank-type financing (farming and cattle-raising) and the amount of rural credit doubled, with slight differences. Bank-type credit rose from 380.6 to 717.0 million cordobas, and rural credit from 40.8 to 80.9 million.

In relative terms, rural credit absorbed 9.6% of NBN loans to the agricultural sector in 1965 and 11.2% in 1970.

With the external resources received by the Program, together with the local contribution, the credit needs of some 24,000 families have been met. It should be pointed out that generally speaking, the Program has enabled families to raise their levels of capitalization and income and, hence, their living standards, despite the erratic fluctuations to which agricultural activities are subject and despite the grave marketing problems besetting the large 1968 harvest, which had been stimulated by the easy credit which the NBN had extended under the Program.

The recent construction of 100 silos with a capacity of 2.4 million quintals, under the control of the Institute for Foreign and Domestic Trade (IFDT), is facilitating the storage of basic grains. At the same time, this will enable it, with its greater resources, to regulate prices effectively and help the farmer avoid losses.

II. PROGRAM CHARACTERISTICS

A. Historical Summary

Prior to 1959, the Government, acting through the National Bank of Nicaragua (NBN), tried in various ways to assist the small farmer with credit programs, the purpose being to incorporate him in the national economy. The legal formalities and guarantees required by the Bank had the effect of preventing the small farmer from enjoying access to this or other/institutional sources of credit. Only in special cases could he obtain one-year loans, secured solely by his crops. Consequently, the condition of the small farms continued to worsen, at least in relative terms, in the absence of increased capital formation, and they could not achieve participation in the market economy.

In 1959, the NBN initiated a Rural Credit program with a pilot agency in Ticuantepe, Masaya Department, utilizing new principles and close supervision, but applying more flexible guaranty requirements, in order to give small farmers access to credit. In that year, 138 families were granted loans, with satisfactory results, and all loans were repaid.

In 1962, the Government of Nicaragua authorized the National Bank of Nicaragua to obtain a loan of U.S. $2.5 million from the Inter-American Development Bank (IDB). The purpose was to expand the Rural Credit program, which would grant loans of up to U.S. $1,500 to small farm producers and serve 12,500 families in three years.

The loans were for a 20-year period at an annual interest rate of 1¼%, with an annual service charge of 3/4 of 1 percent. These favorable conditions, together with the country's economic tranquility resulting from the extraordinary growth of the agricultural sector in the early sixties, motivated the Bank to carry forward the difficult task of modernizing subsistence agriculture. To this end, it adopted new organization charts and employed and trained new contingents of agricultural experts. In 1965, the funds provided for had been disbursed, and so the contribution that was to have been made to the Bank was increased from US$ the 1.5/sic/million provided for in the loan agreement, to US$ 3.5 million. At the time, 5.4 percent of the Program's short-, medium-, and long-term portfolio was delinquent.

A new rural development effort began in 1966 with loan 118 SF-NI, by which US$ 5.1 million was obtained, repayable in 20 years, at 2¼% annual interest, a service charge of 3/4 of 1 percent and a commitment fee of 0.5 percent. The goal of the Project was to give technical and credit assistance to 17,000 farmers with net assets of no more than $7,200. Agricultural cooperatives and plots of the Nicaraguan Agrarian Institute (NAI) were also to be beneficiaries of the loan.

The local contribution of US$ 6.8 million added 57% to the foreign funds for financing medium- and long-term investments and current production. By December 31, 1969, the entire loan had been disbursed, and the national contribution to the program was US$ 4,010, (that is to say, US 4,010,875) above the amount originally contracted.

Finally, in September 1968, the NBN signed an agreement with the NAI under which the Bank would act as administrators in the management and financial control of the Supervised Farm Credit Program. The Program had been initiated by the NAI with the proceeds of a loan of up to US$ 2 million from the United States through AID. When transferred to the Bank, the sum was reduced to US$ 1 million. Moreover, when the Program was transferred to the Bank, 52% of that million dollars had already been disbursed by the previous administrative agency. The Supervised Farm Credit Program is administered under the Rural Credit Division and has continued its action jointly with the Rural Credit program. But it maintains a separate operating administration and records.

B. Objectives

1. Objectives and Policy

The Rural Credit Program, through its credit facilities and technical assistance, seeks to raise the small farmer's productivity in

order to boost the farm's production and income level, with a view to making it eligible for commercial agricultural credit.

To these ends, the National Bank of Nicaragua deemed it necessary to define the policy to be followed in the Rural Credit Program in the following terms:

(i) The Rural Credit Program primarily emphasizes efforts to raise the nation's production of corn, beans, sorghum, and sesame through the intensive use of fertilizers, improved seeds and insecticides.

(ii) Investments in cotton, nonirrigated rice, coffee, and sugar cane are not promoted. Rather, new loans, for the same area and amount, are made to farmers who have paid their rice and cotton debts. As to the other crops, only spontaneous loan applications are considered, and in the case of coffee, loans are only for maintenance.

(iii) Rural Credit activities are limited to the level of the human resources available, so that the work to be done by the users may be assisted, planned, and supervised appropriately through short-term, medium-term, and long-term planning that will truly improve their economic dondition.

(iv) Technical assistance to the farmer is provided through at least four home visits annually, when advice, information, and help in the over-all planning of farm work are furnished, investments are supervised, and the collateral is closely checked. Massive technical assistance, fundamental to the Program's success, will continue to be vigorously promoted.

(v) Owing to the special characteristics of the Atlantic Coast, credit to small farmers in that region has aspects that do not fit the Rural Credit Program. Therefore, loans in that region are extended under special conditions.

(vi) Through the Rural Credit Program, the National Bank of Nicaragua has continued to facilitate the financing of NAI from settlements. The two organizations coordinate their efforts to assist farmers coming under the IAN land-title program, provided that they meet the conditions relating to individual guaranties and ability to pay, and provided that the area sown by each farmer is at least one manzana /1.74 acres/ per crop, except for intensive crops such as vegetables.

(vii) The region served by each rural credit agency depends on the accessibility of the users, departmental political boundaries not being taken into account.

(viii) The Rural Credit program does not make loans for cattle breeding or for the production of milk or milk products (for retail sale) when the applicants merely rent the land.

(ix) Regional Committees chaired by the Branch Director are empowered to grant short-, medium- and long-term loans in amounts authorized in annual regulations. Local committees chaired by the local agent are authorized to grant short-term loans of up to $10,000. Each loan decision is taken by the Committee as a whole; loans may not be authorized by only one or two members.

(x) The Rural Credit Program provides financing only to persons who not only are eligible for rural credit, but whose investments can be efficiently supervised, considering the distances and the existing roads involved.

(xi) Financing of annual crops invariably has the goal of improving productivity and production, and therefore includes adequate sums for improved seed, fertilizers, and insecticides. Cash disbursements are scrutinized to make sure that the small farmer does not receive more than he needs for his subsistence, since it is desired that he and his family contribute their own labor.

(xii) The founding of Farm Clubs is promoted preferentially among persons receiving rural credit, and their activities are directed toward production and marketing.

(xiii) The Bank agronomists who work in an area where a Bank-financed club or cooperative is operating are responsible for assisting and supervising the operations of those organizations with the advice of the staff of the Bank's Cooperatives Section.

(xiv) In order to enjoy the Bank's technical and financial assistance, farm clubs and cooperatives must adhere to the standards and regulations of the Bank's Board of Directors.

(xv) Efforts are made to relate and coordinate activities with those of other organizations connected with rural credit as much as possible, particularly the National Institute for Foreign and Domestic Trade and the Ministry of Agriculture and Livestock.

2. Loans

To reach the objectives of the Rural Credit Program, sub-loans are made in accordance with the provisions set down in detail in the Rural Credit Regulations of the NBN, based on general loan principles. These sub-loans are: (i) pre-crop or basic loans, for preparing the land; (ii) enabling loans, which provide funds for working capital and investment capital; (iii) loans to build farmhouses and other buildings under the self-help and mutual assistance system; and (iv) loans for marketing.

Amount: In view of the Program's social character, the top limit for sub-loans was initially set at US$ 1,500 per farmer for agricultural development. The limit was subsequently raised to US$ 2,000. A limit of US$1,200 was set for the construction of farmhouses and farm buildings. The sub-loan maximum for home improvement is $US600. With Loan 118/SF the upper limit per beneficiary was raised to US$4,300.

Due Dates and Guarantees: Due dates for loans are set as follows: (i) up to 18 months for sub-loans intended to finance the period required for the production and sale of crops and animals, which is ordinarily completed within the time frame. Collateral consists of the crops or animals or other assets; and a co-signature or other type of collateral may also be required. (ii) Between 18 months and 15 years for financing investments in drainage, implements and tools, water supply system, permanent cross, purchase of livestock and draft animals, establishment of pasture, installing fences, purchase of carts, etc. When the loan is for five years or less, in addition to pledging the assets to be required, additional collateral in the form of animals or movable property is required, in which case the amount of the sub-loans may not exceed 70% of their value; and further collateral may also be required at the option of the NBN.

If the loan is for over five years, a first mortgage is required as security. The sub-loans are limited to 60% of the value of the security.

Interest and Commissions: Short-term sub-loans draw 9% annual interest, as well as a 1% annual commission payable in advance. Since disbursement of these loans is normally made in several very small installments, the interest is paid on the total amount when the loan falls due, computed from the date of the first installment. This is to facilitare bookkeeping, in view of the numerous transactions handled by each agency.

For medium- and long-term sub-loans, interest is 10% per annum, and there is an additional 1% annual commission. On housing loans, the commission is charged the first year only. Delinquency leads to an interest penalty at the rate specified in the contract, plus a surcharge of $\frac{1}{2}$ of 1 percent monthly. The variation in the interest rates charged over the years is shown in Table No. 1.

The interest rates charged by Rural Credit may be considered generally satisfactory, since they are lower than the rates charged by private banks.

C. Organization

1. General and Local Structure

Implementation of the Program was entrusted to the Rural Credit Division, which is part of the Credit Department. Rural Credit is extended through 44 agencies around the country.

The Division began in 1956 as a Rural Credit Section added to the structure of the NBN in order to start a loan program to benefit as many small producers as possible. It was made a Department in 1959, and its funds for medium- and long-term loans were expanded in 1961 when the NBN

TABLE NO. 1

INTEREST RATES AND COMMISSION UNDER THE RURAL CREDIT PROGRAM SINCE ITS INCEPTION

YEAR	Short-term		Commission	Medium- and Long-term		Commission
	Current	Delinquent		Current	Delinquent	
			/Figures in percentage/			
1959	6	3	1	6	3	1
1960	6	3	1	6	3	1
1961	6	3	1	6	3	1
1962	6	3	1	6	3	1
1963	6	3	1	6	3	1
1964	6	6	1	6	6	1
1965	6	6	1	6	6	1
1966	6	6	1	6	6	1
1967	6	6	1	6	6	1
1968*	8 and 9	6	1	6	6	1
1969	8	6	1	8	6	1
1970	9	6	1	** 8 and 9	6	1
1971	9	6	1	9	6	1
1972	9	6	1	10	6	1
				10	6	1

* The 9½% interest rate was applied to loans for cotton.

** 8% was charged at the beginning, but instructions to charge 9% were received in the middle of the year.

was given the status of a development agency. Rural Credit began work with a single office in 1959. The number rose to 14 in 1960 and 1961, to 25 in 1963, and to 28 specialized offices in 1971. As IDB loans increased, the Department was reorganized with respect to regulatory policies, investment supervision and control, and technical assistance to beneficiaries. To carry out these functions it needed experts in administration, planning, credit, and cooperatives. It organized a group of supervisors for the six geographic regions to which the offices had been assigned. Local, regional, central and special committees were also established to approve loans. The agronomists were relocated in cantons (a political sub-division of the country) in 1967, and the position of the Departmental Supervisor was created to supervise activities; mobile units were set up to extend the services of the Rural Credit Department to the more remote areas; and the Department's experts were combined with those of the Bank Credit Department, on the grounds that the personnel were more efficiently /sic/ if their efforts were limited to small farmers. The Rural Credit Department lost status in 1968 when it was reduced to a Division of the Credit Department in order to achieve better guidance and supervision of credit policies. The experts were again divided, so that some of them would work only on the Program.

D. Beneficiaries

1. Selection Criteria

The National Bank of Nicaragua has established the following principles, characteristics, and requirements for small farmers in the Rural Credit Program:

(i) That the regular work on their farms be done directly by them and their families, though hired labor may sometimes be used as well.

(ii) That they live permanently on their farms or very close to them.

(iii) That their farms be their means of livelihood of source of income, and that this income be sufficient for their family's needs and for paying off their obligations to the NBN.

(iv) That they be of good character and diligent, show a desire to improve their standard of living, and be ready to follow the guidance given to them.

(v) That they be small farmers, with no more than C$50,000 in capital and with an asset-liability ratio considered to be favorable by the NBN.

No farmer may obtain loans totalling more than C$30,000 (US$4,286), including the balance on outstanding loans and sums not yet withdrawn.

In addition, the size of the borrowers' farms is not a limiting factor in the extension of credit. For information purposes, it should be pointed out that the small farmers of the Pacific region have parcels of about 5 to 10 manzanas of level, good quality land.

In the central and northern regions, the farms have areas of between 50 and 100 manzanas of slightly hilly but arable land.

Farms in the Atlantic region, most of them uncultivated, have an average area of 200 manzanas.

The following are the types of land tenure of small farmers who may enjoy the benefits of the Rural Credit Program by receiving short-, medium-, and long-term loans:

(a) Owners with:

(i) A public deed of purchase or of award registered for over 10 years, certifying them as owners;

(ii) Suppletory titles registered for over 10 years.

(b) Farmers using public lands leased from municipalities or Indian communities. Such titles are registered, and the farmers have a right to possession of the land.

(c) Renters, that is, small farmers occupying land leased by public or private contract.

(d) Farmers permanently established on a parcel of national land without any documentation attesting to their ownership.

2. Graduation Policy for Borrowers

Designed to move people upward, the Program has adopted policies that promote its borrowers to more advanced credit facilities, either within the same agency or in the private sector. By 1971, the Program had graduated some 457 Rural Credit borrowers who at peresent are enjoying the benefits of commercial or bank credit. Potentially there are about 700 who have already reached the point of qualifying for ordinary bank credit. However, one of the main obstacles to the transition is the inaccessibility of commercial banks or NBN bank credit for reasons of physical distance and processing time. Many farmers therefore try to stay in the NBN program, even at the cost of obtaining less credit than they could really use. In indicators which determine a borrower's qualifications to graduate to another type of credit come down basically to the amount of his assets; that is, when the farmer has achieved a capital investment that exceeds the limits set by the credit regulations, he should be promoted; and similarly, the beneficiary may have reached a level

of activity in which the needs of his farming can no longer be met by the sums available under Rural Credit lending rules.

3. Families Served

As a policy, the Bank has decided to strengthen the Rural Credit Program with a view to:

(a) Offering better technical assistance to every borrower;

(b) Increasing the use of chemicals;

(c) Controlling investments more efficiently;

(d) Expanding the areas under cultivation and raising the production and productivity of the families receiving financial assistance, so as to increase per capita income and thus improve the living standards of many rural families, in proportion to the Bank's technical assistance personnel.

The Program is now operating according to the following guidelines:

(a) The number of families now being served (24,000) will not be increased; that is, no new borrowers will be added except:

(i) To replace borrowers who have graduated to ordinary credit facilities as a result of the growth of their capital;

(ii) To replace borrowers who have not been meeting their obligations;

(iii) To replace borrowers who live in extremely remote areas, where supervision is difficult;

(iv) Borrowers who do not wish to utilize financing.

Under these guidelines, technical and credit assistance can be given to farmers who receive property titles from the NAI without increasing the number of Rural Credit borrowers.

(b) The geographic areas under each of the Rural Credit offices will remain unchanged.

The Program will continue to finance the same number of families, i.e., 24,000, with short-term loans and will gradually extend fixed- and semi-fixed investment loans that require periods of over 18 months to the 16,000 families that have not yet received this type of financing.

4. Other Aspects

The National Bank of Nicaragua, through its Rural Credit Program, is serving all of the nation's Departments with 28 Rural Credit agencies located in rural areas. In addition, the Bank's branches in each of the 16 Departmental capitals make Rural Credit loans to small farmers who for some reason find it easier to deal with the branches.

The characteristics of Rural Credit borrowers vary with the region. Yet it is possible to divide them into three major groups: those of the Pacific area, those of the North Central area, and those of the Atlantic area.

Those of the Pacific area are better acquainted with modern agricultural techniques and work their land more efficiently.

Those in the North Central area have larger farms but fewer access roads, and this makes the marketing of their produce difficult. They are rapidly assimiliating modern techniques because of interaction with the Pacific area and the technical assistance they receive from the agronomists of the National Bank of Nicaragua and other governmental agencies.

The use of chemicals is difficult in the Atlantic area for the following reasons:

(a) There are very few distribution centers for inputs.

(b) The roads are poor. This makes it difficult to transport supplies to the places where they are needed.

(c) The farmers resist the use of chemicals, arguing that the land is new and fertile.

The parcels are larger than those of the other areas, but are largely uncultivated.

As regards the ability of borrowers to pay back their loans during the years the Program has been in operation, it can be stated that a high percentage of the small farmers have been meeting their credit obligations satisfactorily. Repayment for the years between 1959 and 1965 was over 90%. In the last three years, 1969-71, delinquency in the portfolio has increased somewhat.

Delinquency in the past three years has been due essentially to:

(a) The irregularity of the winter rainfall, abundant in some areas and very scanty in others.

(b) Instability of marketing and prices of agricultural products.

(c) Crop pests and diseases.

It has been demonstrated that small farmers are good credit risks, and that when their crops develop normally, they achieve the ability to pay that their obligations require.

E. Lending Policies and Procedures

1. General Regulations

As administrator of the Program and pursuant to the special conditions established, the National Bank prepared regulations to govern the use of funds. The regulations have been modified as the requirements of the Program's operations have become clear. There are now simple manuals which stipulate the technical requirements and conditions of the different types of loans, disbursement procedures, systems for control and technical assistance, and the granting and repayment of loans. Since these regulations have evolved under the influence of IDB loans, they reflect IDB's policies with regard to the sub-loans made to small farmers.

The planning of loans for individual farms is the responsibility of the agronomists, but in view of the scope of the Program and the administrative and promotional work load they have, this basic work for the advancement of farming is done without much consideration of the various alternatives available.

The granting of sub-loans is the responsibility of three committees established for that purpose. These are the local committee, the regional committee of each branch, and the central committee of the home office. Amounts above US$4,300 must be approved by the Board of Directors.

In calculating sub-loans, production costs for each of the basic crops (corn, beans, sorghum, rice) are figured for the various areas, based on the cost of labor. Other crops are figured on the basis of three years of the borrower's production or the averages for the area. There is no agricultural insurance for individual farms in Nicaragua. It is offered only to cover risks for crops stored on the farm, a small sum being charged when the loan is paid off.

2. Extent of Delinquency in the Portfolio

The extent of delinquency, which was moderate until 1966 (7.5%), rose considerably (33% in 1970 and 31.5% in 1971). The causes were organizational deficiencies stemming from the reorganization of the NBN and outside factors, such as political and climatic conditions and weaknesses in the marketing system. There is reason to believe that the difficulties that have been cropping up under the Program [some words apparently omitted], and that the low incidence of delinquency in the early years was due to the Bank's rigorous control of loans and collateral,

which forced the producer to be more careful about keeping up on his payments. In more recent years, on the other hand, the integration of the agronomists with Bank credit personnel reduced supervision and control of collateral, causing a higher incidence of default. (See Table No. 2.)

Another major common cause of widespread delinquency is the disasters--large and small--which affect harvests: drought, floods and pests. Since there is no provision for the NBN to cancel debts when such disasters cause crops to fail, and since there is no crop insurance, farmers are usually in a desparate situation if their crops fail in a given year (and particularly in successive years). For most Rural Credit borrowers, this situation causes grave problems not only in paying off their loans, but also in supporting their families.

Of course, NBN agencies ordinarily extend debt payments to the following year, and even grant new loans in such cases. Still, income from the following harvest is often insufficient to pay off the two debts with the accrued interest, and the farmer tends to fall into a permanent state of delinquency. This prevents him from obtaining further loans to continue developing his farm. Furthermore, even if the NBN should agree tacitly to regard his original loan as irrecoverable, the laws require that it continue to be recorded in the Bank's portfolio as a delinquent debt, and the funds involved are considered frozen.

TABLE NO. 2

INCIDENCE OF DELINQUENCY OF RURAL CREDIT PROGRAM LOANS

Biennium	Loans (in cordobas)	Balance due (in cordobas)	Percentage
1959-60	117,000.00	---	---
1960-61	2,125,273.00	---	---
1961-62	4,025,688.00	5,774.73	0.1
1962-63	9,182,494.00	43,237.48	0.5
1963-64	13,526,397.00	238,455.39	1.7
1964-65	27,357,712.00	644,921.10	2.3
1965-66	39,880,436.66	3,202,738.52	7.5
1966-67	45,204,546.91	7,098,497.36	16.0
1967-68	66,664,807.48	15,204,204.85	23.0
1968-69	76,194,150.48	18,907,127.12	25.0
1969-70	25,007,000.00	7,608,997.72	23.0
1970-71	23,147,000.00	7,295,075.41	31.5

Source: National Bank of Nicaragua, Rural Credit Division.

3. Rules governing Loans

Crop Loans. These are short-term transactions for financing seasonal crops and permanent and semi-permanent crops that are in the production phase. The amount of such loans is adjusted to the budgets which the Bank has put into effect for that purpose and which are spelled out in Table No. 3.

TABLE NO. 3

NBN: TYPICAL BUDGETS FOR RURAL CREDIT

Crop	Farm labor	Inputs	Total
Corn	225	215	$ 440
Sorghum	200	170	370
Sesame	165	185	350
Beans	190	160	350
Nonirrigated rice	225	300	525
Cotton	420	555	975
Coffee	470	80	550

Source: National Bank of Nicaragua.

Under the above provision, the NBN contributes, in cash or in inputs, 80% of the real investment cost, while the farmer contributes 20% in the form of labor. The sums provided also include money to pay land rental for farmers who:

(a) Do not possess land, or whose farms have small arable areas;

(b) As users of Rural Credit have met their obligations for at least two previous seasons.

The amount for land rental has been set at C$75 per manzana for well qualified land in the Pacific area departments, and at C$50 in the rest of the country, when basic food crops are involved.

When the land is rented for cotton production, the allocation reaches a maximum of C$100 per manzana in the western zone and C$75 in the eastern.

The higher sum for rental of land for cotton production is due to the fact that leasors charge more when they know that cotton, which is more profitable, is to be the crop.

For medium- and long-term loans, the regulations permit financing up to 100% of the real cost of investments. This provision results from recognition of the economic conditions of the small farmers, who are unable to contribute cash.

Bee-keeping loans. The limit on these loans is C$5,000 per family for periods of not over one year.

Loans for raising pigs. These loans are made to the owners of farms or parcels in rural communities for a period of not over six months if the purpose is fattening, and for up to 24 months if for the purchase of piglets for growth and fattening or breeding. The upper limit is C$10,000 per person or family, and collateral is required.

Poultry loans. For the purchase of chickens for fattening, a loan may not be for over six months. If for egg-laying, the limit is 18 months. The maximum loan is C$5,000 per family, and collateral is required.

Cattle loans. These loans are in the following categories:

(a) Loans for the purchase of dairy cows to produce milk for home consumption.

Financing is granted for the purchase of one or two cows to produce milk for family consumption. The maximum loan is C$1,500 per family for a period of up to five years, to be paid off in equal annual installments, and collateral is required.

(b) Loans for breeding

The purpose of these loans is to finance the purchase of calves or heifers up to six years old, born in Nicaragua and preferably crossed with zebu or zebu descendants. The loans are for up to eight years, with a grace period of one to three years, depending on the age of the animals.

(c) Purchase of breeding animals

The loan is for five years, with the animals as security. It is intended for the purchase of breeding animals up to four years old, preferably zebu or zebu descendants, at least 7/8 to 15/16 pure blood.

(d) Dairy loans

These loans are for the purchase of producing cows, or heifers that have been bred to produce milk for retail sale. They are five-year loans, repayable quarterly, with the animals as collateral.

(e) Loans for growth and fattening

These loans are for the purchase of male calves of good blood lines between one and two years old. The loans are for up to two years.

(f) Loans for the fattening of young steers

These loans are to finance young steers for meat production. They are six-month loans for a mazimum amount of C$500 per animal.

Equipment loans. This includes purchase of farm implements, agriculture machinery and tools, draft animals (oxen and mules), motors, well pumps, and other items for the production or processing of raw materials produced on the farms. The loans are for up to five years, and the items purchased serve as security.

Farm improvement loans. These are long-term financing operations for the construction and installation of fences, land terracing, barns, sheds, stables, hog houses, chicken houses, wells, troughs, and the construction, enlargement, or repair of farmhouses. The loans are for up to 15 years. In the case of wells, troughs, and farmhouses, there is a grace period of up to three years for repayment, according to the ability to pay. The maximum loan for housing is C$8,400 and the security is a first mortgage on the farm. If the loan is for less than five years, it may be backed by collateral.

Permanent crop loans. These are loans for perennial plantings and the loan period depends on the type of crop.

Loans to cooperatives. Among the different types of credit operations to Rural Credit users are loans to cooperatives, provided the members are eligible for Rural Credit and provided the cooperatives meet the requirements for such organizations.

The National Bank of Nicaragua continues to assist in the financing of NAI farm settlements, provided they meet the prerequisites relating to individual guaranties and ability to pay and provided that each farmer has at least one manzana sown to each crop, except for intensive crops such as vegetables.

F. Complementary Factors

1. Technology

(a) Type of technical assistance

Technical assistance is currently given through meetings with farmers and at Rural Credit fairs. Technical assistance on an individual basis is the responsibility of NBN agronomists by means of four annual visits to each farm. The fact that the same visits are used for supervision, checking of collateral, delivery of funds, collections, etc., interferes with the giving of technical assistance to the borrowers.

It is assumed that a farmer who attains an economic level above the Program's limits should advance to the regular programs of the NBN or of commercial banks. Unfortunately, this is not occurring to the extent hoped.

The Program has expanded so greatly in recent years that individual technical assistance has had to be replaced more and more by group assistance, whereby farmers are brought together to hear explanations of modern production techniques, the mechanics of credit, rural organization, etc. Very good results are attributed to this system, for it provides a large number of farmers with technical assistance at low cost.

Rural Credit fairs are another means of reaching small farmers in groups. The fairs are held in the rural communities where the NBN is financing the purchase of animals and equipment for up to 100% of their value and for up to five years. The assets purchased serve as collateral, and additional security valued at 50% of the loan is required.

In the 1964-1971 period, 120 rural fairs were held; sales totaled over a million dollars. Among the activities in which the fairs have made most progress is the introduction of thoroughbred breeding stock in place of native bulls.

(b) Technical personnel

The Rural Credit Division now has 120 experts throughout the country to assist small farmers. Among the problems faced by the experts are the poor communication and low receptivity of the borrowers, because of their lack of education. These are sufficient reasons for seeking to obtain maximum advantage of the experts' teaching through a system of mass dissemination for farmers organized in cooperatives or some other kind of farmer organization.

The high turnover in technical personnel adversely affects the provision of technical assistance and adds to the cost of training and supervision. The turnover is due to:

(i) Constant shifting to other organizations in the sector, in view of the higher salaries they offer and the national shortage of experts.

(ii) Promotion to higher positions as a result of the expansion of the Program itself.

(iii) Changes in personnel who do not meet the Program's minimum requirements and who, given the Program's operational mechanics, are constantly being hired.

(iv) The rigor of work in certain areas, which leads personnel to try constantly to obtain transfer to other better areas.

(c) Training program and preparation level of personnel

From the start, the NBN has emphasized the preparation and training of its personnel at all levels and has especially encouraged them to try to understand the many problems of the small farmer and to help him solve them. The training has been in the form of international seminars, courses abroad, and short training courses organized by Rural Credit.

Since 1963, the short courses have been providing theoretical and practical instruction to technical and administrative officials. Other organizations have cooperated in this work; for example specialists of the IDB, IICA, etc. assisted in one short course last year.

The table below shows the training courses conducted by the Rural Credit Program in the 1959-71 period.

TABLE NO. 4

NUMBER OF COURSES FOR PROGRAM PERSONNEL

Number of courses	Category	Number attended
11	Agronomists	352
2	Area Supervisors (Agronomists)	12
2	Office Workers	40
15		404

Source: Rural Credit Division, NBN Credit Department.

(d) Supervision

The Program is supervised by Area Supervisors. In watching over the functioning of Rural Credit in the jurisdiction of each branch office, they conduct counseling work that is of major importance to the development of the Program. They check on administrative and credit activities, assist the agent in program preparation and in the planning of visits, meetings, and the development of clubs and cooperatives, promote technical assistance to beneficiaries, and try to coordinate services to agriculture in the area they serve.

(e) Coordination of assistance

While the Rural Credit Program provides technical assistance services, other agencies are working in the same field. The Ministry of Agriculture and Livestock, for example, offers assistance in the agricultural field to small farmers through the Agricultural Extension Service, which has agencies in each department of the country. As a result, the two organizations have tried repeatedly to establish a coordination mechanism that would unify their technical assistance efforts, particularly in those geographic areas where agricultural credit must be supplemented by other similar services. Though some progress toward coordination of technical assistance has been made, much remains to be done. Very possibly a real integration of policies and services of the agencies involved in the development of the agricultural sector will be achieved in the future through the National Agricultural Committee.

2. Supply and Sales of Inputs

(a) Supplies of agricultural inputs

When the Program began, there was no definite plan for meeting the needs of Rural Credit users for agricultural inputs. Conscious of the magnitude of the problem with respect to the objectives of the Rural Credit Program, the NBN succeeded in obtaining authorization from the Ministry of Agriculture and Livestock for acquisition of the corn seed produced at the La Calera Agricultural Experiment Center, especially the selected native varieties that have a short growing period. To this end, the NBN agreed to provide cash funds to La Calera to cover the general expenses of planting, as advance payment for subsequent purchases by NBN. At the same time, appropriate quantities of the long-growing varieties produced by private farmers were reserved sufficiently in advance. Efforts have also been made to have distributors of fertilizers and insecticides set up distribution centers in the localities where the Program's credit agencies are located, so that the farmers may purchase the fertilizers and insecticides which their small farms require. Results have so far been positive, since sales centers for such chemicals now exist in almost all the agencies. This service is still lacking in a few places, but it is hoped that this gap will soon

be breached, either by the distributors or by the farmers themselves, organized in cooperatives so that they can acquire these inputs on more favorable terms.

(b) Access to roads

This is definitely another of the factors limiting the expansion of the program. Whether or not the access roads to the farms are passable depends in part on the season. The problem is worse in the Central, North, and Atlantic regions during the rainy season, when the roads are so bad that it is difficult to reach the farms in motor vehicles. This situation makes it impossible for technical and administrative personnel to make the required visits to give technical assistance and supervise the credit received by farmers. The roads present a problem to the farmer as well in his efforts to market his products, for he has difficulty reaching the closest markets and his use of fertilizers and insecticides is restricted because of the difficulty in transporting them to the farm. In the last five years, however, significant progress has been made in development of infrastructure, for the government is carrying out road-building programs in strategic regions of agricultural production, especially in the North where projects requiring good roads are under way. This will contribute much to achievement of the objectives and goals of the Rural Credit Program, which will in turn lead to better control and hence a favorable portfolio situation.

(c) Marketing and the fixing of support prices

The National Institute for Foreign and Domestic Trade (INCEI) is responsible for setting minimum support prices for basic domestic consumer products (corn, beans, rice, and sorghum). Under its Organic Law, the Institute must publish each March the prices that are to be in force for the harvests to be gathered in August and December and in January and February of the following year. Though INCEI's objective is to regulate prices for both producer and consumer, the policy was applied in the early years of the Rural Credit Program only to a small number of the Program's beneficiaries, due in part to INCEI's lack of storage facilities throughout the country.

Consequently, the Government decided to build 100 small elevators and five warehouses with a capacity of 24,000 and 200,000 quintals, respectively. The aim was to distribute these storage centers so as to cover the areas with a higher potential for the production of the basic grains. The 100 small elevators have now been built, thus increasing INCEI's storage capacity by 2,400,000 quintals. This should enable it to:

(i) Operate the units economically enough so that they will at least cover operating costs.

(ii) Implement price support mechanisms at levels attractive to producers and consumers according to sound principles of economic stability.

(iii) Provide the services required for the production and marketing of storable products, considering not only that the stored products must be sold at INCEI prices, but also that the producer should have the chance to sell them at the price most satisfactory to him, for which purpose the elevators will also provide services similar to those of general warehouses. This is a means of encouraging all producers to store their storable products at the Centers.1/ Application of the "General Warehousing" mode of operation to the elevators will result in the following:

(a) Better statistics on marketable production, making it possible to calculate the total for the country without the existing difficulties.

(b) An increase in the volume stored will help to make the operation of the grain elevators more satisfactory. Elevator sites were chosen on the assumption that all storable production in each area would be stored at the centers. The assumption would be invalid if some producers refused to use the services of the granaries because of a requirement to sell at INCEI prices.

(c) Producers who store their production at the granaries will receive a storage certificate for their products and will be able, as a last resort, to sell their products to INCEI, after exhausting all other marketing prospects.

III. Evaluation

A. Program Performance

1. Use of the Credit

Loans extended by the Rural Credit Program have been channeled to the various facets of agricultural production and to the improvement of the farm family's environment.

1/ Storable production is equal to total production less that consumed by the farmer and his family (which is known as marketable production), and less the percentage not available for storage. The farmer's own consumption and the percentages not available for storage have been taken from the study "The feasibility of establishing a national grain storage system in Nicaragua."

In the operational experience of the Program, from 1959 to 1971, there have been very few cases in which loans were used for purposes other than those for which they were made. For example, there have been cases in which beneficiaries may have purchased cattle with loans intended for the purchase of pigs; or a loan for planting corn was used to sow sorghum. Naturally, in each such case the borrower defended his action, and the Bank either canceled the loan or redrafted the plan in accordance with the borrower's latest decision. There have, however, been cases of more serious misuses, in which parts of loans were, without consultation, used for purposes very different from those set by the Bank. Upon learning of such misuse, the Bank has immediately suspended subsequent disbursements. It has been determined that this has occurred with certain beneficiaries who had accounts pending with the Bank and were afforded another opportunity for financing so they could continue working their farms on favorable credit terms and thus pay off their balances due. As noted, this policy has not been effective with this type of delinquent borrower; but fortunately, these are sporadic cases and the amount is negligible.

2. Effects of the Credit

(a) On production

The principal crops promoted and fostered by the National Bank of Nicaragua through financing by the Rural Credit Program are sesame, beans, corn, and sorghum, which absorb about 95% of the total short-term financing extended by the Bank for such products. Based on the spontaneous requests of small farmers, the Program also provides short-term financing for cotton, nonirrigated rice, and coffee. Long-term loans are made for the purchase of animals, equipment and tools, and for the improvement of farms and farmhouses.

The influence of short-term financing on the production of the principal crops may be seen in Table No. 5. The small farmers covered by the Program control such an insignificant percentage of land and water resources that any amount of credit channeled to them could have only a marginal impact on the nation's agricultural production.

According to 1963 census data, sub-family and family farms had less than 20 per cent of the cattle, only 11 per cent of the cotton area, 21% of the sugar cane, and 22% of the coffee plantations.1/ These farms produced a respectable proportion of the national total only in the case of the basic crops for domestic consumption: in terms of area, they had 44% of the corn, 66% of the beans, and 42% of the rice (the latter being almost solely nonirrigated).

1/ CIDA. Nicaragua: General Characteristics of Land Use and Distribution.

This situation is reflected in the demand of the farmers themselves for credit. As regards short-term credit, the crop which showed the greatest demand, in terms of area sown, was corn, the only one which surpassed the investment goals for 1966 through 1968. But this effort was hampered, beginning in 1969, by the lack of an efficient, rapid, marketing mechanism as a result of which the bumper harvest of the preceding year was lost. More recently, disease has been having its negative effects on the crop. Despite these difficulties, the crop is showing gradual improvement in yield per manzana.

TABLE NO. 5a

PRODUCTION, AREAS, AND YIELDS OF PRINCIPAL CROPS IN THE RURAL CREDIT PROGRAM

Year	BEANS			CORN			CHICKPEA			SORGHUM		
	Produc. (Quintals)	Area (Manzanas)	Yield (Quintals)	Produc. (Quintals)	Area (Manzanas)	Yield (Quintals)	Produc. (Quintals)	Area (Manzanas)	Yield (Quintals)	Produc. (Quintals)	Area (Manzanas)	Yield (Quintals)
1963	27,099	3,011	9	146,484	11,368	13	-	-	-	-	-	-
1964	43,079	4,307	10	269,863	19,283	14	-	-	-	-	-	-
1965	49,140	4,014	12	403,808	25,038	16	13,624	1,703	8	14,256	792	18.0
1966	56,849	4,373	13	391,612	23,036	17	33,436	3,714	9	16,541	973	17.0
1967	96,965	8,815	11	844,320	42,216	20	61,424	5,584	11	23,460	1.173	20.0
1968	133,920	8,928	15	1,230,840	61,542	20	34,727	3,157	11	61,125	2,445	25.0
1969	25,776	2,864	9	216,252	12,014	18	14,424	2,404	6	12,908	461	28.0
1970	39,930	3,630	11	249,699	11,890	21	18,193	1,516	12	10,000	400	25.0
1971	53,768	4,136	13	298,034	13,547	22	11,670	1,167	10	14,252	509	28.0

Source: Rural Credit Division, National Bank of Nicaragua

As Table No. 6 shows, production increased 84 times between 1963 and 1968, while the area increased 55 times and the yield 1.5 times. In subsequent years, the area, and thus production, declined precipitously. In 1968, production was 1,230,840 quintals and the area, 21,542 manzanas; in 1969, the figures declined to 216,252 quintals and 12,014 manzanas, levels which were more or less maintained in 1970 and 1971. On the other hand, yields show constant improvement during the period covered, except for 1969, having increased from 13 to 22 quintals per manzana between 1963 and 1971.

TABLE NO. 5b

PRODUCTION, AREAS, AND YIELDS OF PRINCIPAL CROPS IN THE RURAL CREDIT PROGRAM

Year	COTTON			RICE			COFFEE		
	Produc. (Quintals)	Area (Manzanas)	Yield (Quintals)	Prod. (Quintals)	Area (Manzanas)	Yield (Quintals)	Prod. (Quintals)	Area (Manzanas)	Yield (Quintals)
1963	103,648	4,684	22	41,114	2,5[illegible]	16	45,608	11,402	4.0
1964	221,191	9,617	23	55,800	2,722	20.0	66,540	17,635	4.0
1965	372,312	15,513	24	65,450	2,975	22.0	52,488	13,122	4.0
1966	323,298	11,974	27	45,315	3,021	15.0	57,015	11,403	5.0
1967	404,057	13,933	29	98,472	4,466	22.0	57,552	14,388	4.0
1968	310,217	10,007	31	274,455	10,165	27.0	53,228	13,302	4.0
1969	192,700	6,424	30	41,188	1,471	28.0	35,085	7,017	5.0
1970	220,317	7,107	31	71,200	2,225	32.0	37,370	7,474	5.0
1971	262,290	7,494	35	71,631	2,653	27.0	33,965	6,793	5.0

Source: Rural Credit Division, National Bank of Nicaragua

It should be noted that the yields achieved in the Rural Credit Program are superior to the national averages. This reflects the technical improvement acquired by the Program's beneficiaries, with whom semi-compulsory methods have even been used to popularize the use of fertilizers and insecticides. Cotton, sesame, nonirrigated rice, and sorghum follow corn in importance.

The cotton area financed rose from 4,684 to 15,513 manzanas between 1963 and 1965. That was the highest level achieved, and the figures declined in subsequent years to 7,494 manzanas in 1971. On the other hand, yields showed a definite upward trend, rising from 22 to 35 quintals per manzana between 1963 and 1971.

The Rural Credit Program has been promoting sesame production among its users, but very little progress has been achieved in area and yield of this crop. This stagnation stems from the fact that sesame requires the same quality of land as does cotton, with which sesame cannot compete. In regard to yields, a deterioration has been found to exist in the purity of the varieties sown, which has prevented the achievement of optimum yields. Yields remain practically stationary at between 8 and 12 quintals per manzana, except for 1969, when they declined to six quintals. Area increased, on the other hand, to a maximum of 5,584 manzanas in 1967, and dropped to 1,177 in 1971. Thus, maximum production was reached in 1967 with 61,424 quintals, which were exported.

Since beans are so widely used in the nation's daily diet, they are the object of special attention by the Rural Credit Program. Still, the shortage of improved kidney-bean seed--the type preferred by rural people--and of areas with soil suitable for growing them has made it impossible to reach production objectives. The area planted to beans rose from 3,011 manzanas in 1963 to 4,136 in 1971, and production from 27,100 to 53,7[illegible]8 quintals. Production and area rose persistently between 1963 and 1968. In the latter year, 133,920 quintals were produced on 8,928 manzanas; that year's yield of 15 quintals per manzana was the highest in any of the years covered. Nonirrigated rice is another crop on which the Rural Credit Program places secondary emphasis. The year of greatest financial assistance was 1968, with 10,165 manzanas. Production that year was 274,455 quintals, which meant an average yield of 27 quintals per manzana. Comparing 1963 with 1971, the area financed has been practically constant at about 2,600 manzanas.

During the period under consideration, Rural Credit's financing efforts for sorghum have been concentrated in areas of the country's North Central region, where native varieties that require a long-growing period giving a single harvest are normally planted.

Rural Credit attained its mazimum level of financing for sorghum in 1968, when it supported 2,445 manzanas, on which 61,125 quintals,

TABLE No. 6

NATIONAL PRODUCTION OF BASIC CROPS AND PARTICIPATION OF THE RURAL CREDIT PROGRAM

OF THE NATIONAL BANK OF NICARAGUA

	1965-66		1966-67		1967-68		1968-69		1969-70		1970-71	
	Manzanas	Quintals	Manzanas	Quintals	Manzanas	Quintals	Manzanas	Quintals	Manzanas	Quintals	Manzanas	Quintals
SESAME											(illegible)	
National Total	12,620	136,710	11,761	121,984	13,951	144,843	15,012	152,010	16,416	159,815	14,2	
National Bank	1,703	13,624	3,714	33,426	5,584	61,424	3,157	34,787	2,404	14,424	1,5	
NBN Share (%)	13.5	10.	31.8	27.4	40.0	42.4	20.8	22.7	14.6	9.0		10.6
RICE #												
National Total	35,627	727,038	37,375	858,729	36,372	923,849	43,292	1,168,500	56,378	1,477,963	38,3	
National Bank	3,975	65,450	3,021	45,315	4,466	98,472	10,165	274,455	1,471	41,188	2,2	
NBN Share (%)	8.4	9.0	8.5	5.3	12.3	10.6	22.4	23.5	2.6	2.8		3.8
BEANS												
National Total	74,556	851,236	79,864	912,047	83,288	957,607	84,588	972,300	83,279	935,213	114,3	
National Bank	4,014	40,140	4,373	56,850	8,815	98,965	8,928	133,920	2,864	25,776	3,6	
NBN Share (%)	5.4	4.7	5.5	6.2	10.6	10.1	10.6	13.8	3.4	2.7		3.2
CORN												
National Total	279,196	3,722,925	325,055	3,626,781	345,147	4,598,107	366,500	4,694,200	348,200	4,506,432	365,8	
National Bank	25,038	400,608	23,036	391,010	42,216	844,320	61,540	1,230,840	12,014	216,252	11,	
NBN Share (%)	9.0	10.8	7.1	10.8	12.2	19.2	16.8	26.2	3.3	4.8		3.2
SORGHUM												
National Total	78,089	1,074,944	72,156	1,083,491	74,559	1,123,562	78,626	1,211,514	80,425	1,267,185	70.1	
National Bank	792	14,256	973	16,540	1,173	23,460	2,445	61,125	461	12,908		
NBN Share (%)	1.0	1.3	1.3	1.6	1.6	2.1	3.1	5.0	0.6	1.0		0.

Source: (1) For national figures: Central Statistics and Census Bureau and Agricultural Statistics for 1966 to 1970; and

(2) Ministry of the Economy 1971

\# Production in chaff quintals.

or 25 quintals per manzana on the average, were produced. The area financed, as well as the amount produced, fell sharply in subsequent years, as credit for sorghum was shifted to bank credit customers, who have highly mechanized large-scale operations in the Pacific region. This type of sorghum producer has been brought in because of the good marketing conditions offered by poultry and hog raising, which require this cereal for preparing feed concentrates.

In monetary terms, however, the most important crop financed by short-term rural credit during the period was cotton.

According to figures from the NBN Evaluation,* the nation's corn production increased 7 percent between 1965-66 and 1968-69, despite a slight decline in yield due to climatic factors, which also reduced the amount actually sown in 1966. Rice increased 12 percent, beans 4.3 percent, and sesame, 11 percent.

In the case of corn, the average annual area financed totals about one-fifth of the total area, beans and coffee almost 10 percent, and sesame about 20 percent. Even in the case of cotton, the area financed by Rural Credit rose to over 5 percent of the national total.

One of the Government's concerns is the insufficient production of basic grains, which were evidently, displaced in part by large-scale cultivation of cotton. It is highly probable that, were it not for the funds provided by the Rural Credit Program, small farmers would have been unable to sow as much corn and beans as well as nonirrigated rice as they did, and it is almost certain that large and medium-sized producers would scarcely have made up for the deficits in corn and beans, since traditionally they are not crops of major interest to them.

When credit is supplemented by massive technical assistance and the availability of inputs, the farmer's response is positive, as demonstrated by the increase in corn production.

In 1965 the NBN began an intensive effort to raise corn production. To obtain loans for this crop, it required farmers to sow at least one-quarter of a manzana to hybrid corn and to use fertilizer provided by the rural credit agencies. The experiment was conducted that year with 100 farmers, on whose small "demonstration areas" the necessary techniques were demonstrated. That year the difference in yield was 80 percent, rising from an average of 17 quintals per manzana without fertilizer and with native seed to an average of 30 quintals per manzana using fertilizer and improved seed. With these results in mind, the Bank in 1965 required every farmer to use improved seed and fertilizer on at least one manzana, in 1966 on half of his total corn area, and in 1967

* Evaluation of the Rural Credit Program 1966-1968. Second Part.

his entire area. In this way, the nation's production rose from 3.2 million quintals in 1964 to 4.1 million in 1968.

(b) On the farmer's assets and income

The impact of the Rural Credit Program on the assets of farmers was determined by means of a direct survey of a representative sample of 225 beneficiaries with a minimum of two years, participation in the program. In addition to determining the characertistics of the persons helped, the survey sought to measure the progress they achieved between their entrance into the program and mid-1969. The average beneficiary received credit of about US$4,000 dollars during his four or five years of participation in the Program.

(i) Changes in assets

Under the terms of loans 36/TF and 118/SF, beneficiaries must have net assets of less than US$5,000 and US$7,200, respectively. The survey disclosed (Table No. 7) that the average initial assets for farms of all sizes and types were indeed below those limits.

TABLE NO. 7

NET INITIAL AND CURRENT ASSETS BY TYPE AND SIZE OF FARM - NICARAGUA

Size	Net Assets	Type of Farm: Agricul.	Cattle	Mixed	Average	Percentage Change
-5(hectares)	Initial	1,000	1,300	--	1,100	55
	Current	1,600	2,400	--	1,700	
5-10 "	Initial	1,300	---	1,100	1,300	
	Current	2,100	--	2,400	2,200	69
10-20 "	Initial	1,600	1,400	2,600	1,700	
	Current	2,200	4,200	3,100	2,500	47
20-50 "	Initial	2,000	2,600	1,500	2,000	
	Current	3,100	3,600	4,100	3,400	70
50-100 "	Initial	3,600	3,800	2,000	3,500	
	Current	5,000	5,500	5,700	5,300	52
100 or more "	Initial	4,000	4,500	--	4,300	
	Current	7,500	10,100	--	9,600	124
Average	Initial	1,900	3,600	1,800	2,300	
	Current	2,800	7,100	4,300	4,100	80
Percentage Change		47	97	140	80	

Source: Agricultural Technical Department, National Bank of Nicaragua.

Except for farms of over 100 hectares, there are no significant variations among the farms in relative capital growth. But there are important differences among the different types of farms. Cattle ranches have an initial and final capital level almost double that of the others in absolute terms, and their absolute increase was also greater than that of any other type. But mixed farms experienced a relative increase far higher than the others (almost 1.4 times).

These figures would indicate that the Program had a significant impact on the capital level of the farms, since net assets grew an average of 80% per farm (US$1,800) over initial levels. It should be pointed out that 66.7 percent of this growth is due to a change in land values(from US$1,800 to $3,000 on the average), which in turn

represents about three-fourths of the farmers' total capital. Most of the increase in the declared value of the land is due to the increase in assessed valuation stemming from factors not directly related to the credit program (for example, improved roads and services). Still, most of the farmers who bought more land were able to do so thanks to the savings generated by their increased production, due in turn to the greater availability of credit. In this way, the Rural Credit Program has contributed "indirectly" to capital formation on the farms.

As stated above, not only has the beneficiaries; land increased in value, but their livestock have been increased and their quality improved. The percentage of cross-bred cows rose from 24 to 65, and their average value rose 20 percent. The total number of hogs quadrupled, and poultry increased ten times.

(ii) Farm income

The life styles of Nicaragua's small farmers may be divided into two major zones. Those located in the Pacific, central, and northern regions have higher standards of living than those in the Atlantic region, where the living conditions of small farmers are precarious, their access to transportation is limited, and the services enjoyed by their counterparts in other parts of the country are lacking.

According to gross estimates made in 1968, the average gross income in the two former regions and on farms of less than 100 manzanas varies from C$9,000 to C$10,000 annually. Comparing these data with the results of a survey conducted in 1965, it is seen that the average gross income of small farmers (working up to 100 manzanas) had improved 25 to 32.5 percent by 1968. The survey revealed a gross income of C$6,750 per parcel, based on 1,334 farms of under 5 and up to 100 manzanas and totaling 25,985 manzanas in area.

(c) Technology

The introduction of advanced methods among the Program's beneficiaries has not been uniform. While the great majority of farmers who grow cotton apply practices such as the use of selected seed, pesticides, fertilizers, and even herbicides, such methods are limited to about one-third of those who grow the basic crops, one-third of which production is consumed by the farm family. It is very common that the same farmer who uses traditional methods to grow crops under the

*Survey conducted by the National Planning Office of the National Economic Council.

Program adopts modern techniques for his commerical, high-yield crops such as cotton. This is not a negative aspect; on the contrary, it is highly likely that the extra cash outlays required to modernize production of the traditional crops would not be compensated for by the extra income obtained.

It is suggested that under Nicaraguan conditions, equipment loans (and to a certain extent investment loans as well) to farmers owning family-size farms often serve primarily to enable the farmer to make use of all the land he owns. The only types of farmers who have a real incentive to use their land intensively are owners of dwarf holdings on the one hand, and lessees of large farms that produce commercial crops (cotton, rice) on the other. The adoption of modern techniques by NBN clients, based on the available data regarding use of agricultural inputs, is discussed below on a product-by-product basis.

Ever since data have been kept on the use of fertilizers and insecticides in the growing of corn, the use of these modern techniques has steadily increased, reaching satisfactory levels in 1968-69. In that season, 51.8 percent of the area financed by Rural Credit in Zone I used fertilizers and/or insecticides, and their use tended to rise in the two following seasons. In Zone II, agrochemicals were used in 48 percent of the area financed in 1968-69, but the figure dropped to 35 percent in 1970-71, possibly because they were supplied by distributors without NBN control.

The use of agrochemcials for cotton is a general, intensive practice among Rural Credit users, 100 percent of the area financed in both Zone I and Zone II having made use of them.

As for the techniques used in sesame production, the Program has intensified the use of agrochemicals, but the desired effect has not been achieved, because of adverse climatic conditions. The increasing use of these supplies by small farmers has been observed as the years pass. In Zone I, in 60 percent of the area financed fertilizers and/or insecticides were used in 1965-66; in Zone II, the figure was 59.6 percent. The respective percentages were 90 and 100 in 1970-71.

*Zone I includes the Pacific Departments: Managua, Granada, Masaya, Rivas, Carazo, Chinandega, and Leon; Zone II includes Matagalpa, Nueva Segovia, Jinotega, Esteli, Madriz, Boaco, and Chontales; and Zone III contains Rio San Juan and Zelaya.

There are very small areas for the cultivation of nonirrigated rice throughout the Republic. Modernization in Zones I and II has been more or less satisfactory, at least in the last four seasons. In Zone III, however, especially in the very small areas in the Department of Zelaya, modernization has been hindered by the farmers' resistance to the use of fertilizers, the high cost of transporting such supplies, and problems in the use of machinery, among other reasons.

Nevertheless, small farmers have made use of improved varieties, such as Nile 1 and IR-22, with good results.

(d) Mobilization of the nation's financial resources

In 1968, the ratio between the balances of agricultural loans granted by commercial banks and the gross agricultural product was 57 percent. This proportion was 1.7 times greater than in 1960, but it declined by 10.8 points in 1971. The average annual growth in agricultural loan balances between 1969 and 1971 was 21 percent. The influence of foreign resources in this matter is evident, since US$47.1 million in foreign loans for agricultural credit (32.2 million of which was from the IDB) was authorized for Nicaragua during that period. Withdrawals in that period were 31.9 million of the total amount and 24.1 million of the IDB sum.

(e) Labor and employment

The survey indicates that 81 percent of the beneficiaries work on the farm all year. The rest worked most of the time on their farms, and as wage-earning farm laborers a few months of the year, particularly those who live near or in cotton-growing areas. Only 57 percent of the labor force available on the farm, other than the head of family, does farm work part or all of the year. The others work for wages elsewhere.

Farmers and national experts indicated that an increase in hired labor has taken place as a result of the greater availability of credit. This was corroborated by the survey. Of the 200 persons surveyed, 130 had hired workers before receiving NBN credit, while 176, or 35 percent more, are now hiring workers.

In addition to the growth in the number of farmers who are hiring labor, the number of man-months hired per farm has increased from 11 to 15 (an increase of four man-months). Table No. 8 shows that the larger farms have increased their use of hired labor more than the small farms. Among farms of a given size, however, (specifically those of more than 50 hectares), cattle ranches appear to have a greater employment potential, under Nicaraguan conditions, than do agricultural or mixed farms.

TABLE NO. 7a

USE OF AGROCHEMICALS BY PRODUCT AND ZONE

(In Percentages)

Year and Zone	Cotton	Sesame	Rice	Coffee	Corn	Beans	Sorghum
1963 - 64							
Zone I	100.0	-	-	-	-	-	-
II	-	-	-	-	-	-	-
III	-	-	-	-	-	-	-
1965 - 66							
Zone I	100.0	60.0	18.0	12.0	13.0	14.0	18.0
II	100.0	59.6	46.0	--	25.0	24.0	30.0
III	--	-	-	--	-	-	-
1967 - 68							
Zone I	100.0	94.0	86.0	16.0	37.8	25.0	54.0
II	100.0	59.0	69.0	3.0	38.0	46.0	50.0
III	-	-	13.0	-	-	13.0	-
1969 - 70							
Zone I	100.0	90.0	80.0	9.0	70.0	57.0	70.0
II	100.0	67.0	45.0	10.0	60.0	63.8	70.0
III	-	-	15.0	-	-	-	-
1970 - 71							
Zone I	100.0	90.0	92.0	12.8	60.0	22.0	50.0
II	100.0	100.0	53.0	16.0	35.0	14.6	50.3
III	-	-	-	-	-	-	-

Source: Agricultural Technical Department, NBN.

TABLE No. 8

INCREASE IN THE USE OF HIRED LABOR, BY SIZE AND TYPE OF FARM (MAN MONTHS)

SIZE	TYPE OF FARM			
	Agricultural	Cattle Raising (Man-Months Per Year)	Mixed	Average
- 5 hectares	2	-	-	2
5 - 10 hectares	2	-	-	2
10 - 20 hectares	2	-	-	2
20 - 50 hectares	3	2	3	3
50 - 100 hectares	2	7	7	4
100 and more hectares	2	18	-	13
AVERAGE	2	11	4	4

Source: Agricultural Technical Department, National Bank of Nicaragua

One of the reasons for the Rural Credit Program's positive impact on employment levels lies in the fact that advanced methods which displace labor have not been introduced. Less than 2 percent of loan 118/SF was for the purchase of agricultural machinery.

Though employment has risen, the wages prevailing in the rural sector remain at subsistence level (one dollar per day), in part because of the labor surplus in rural areas and in part because productivity has not increased.

If we compare the increase in hired labor (Table No. 8) with the changes in net assets (Table No. 7), we find that an average of US$5,400 net investment has been required for each 12 man-months of additional labor hired by the Program's beneficiaries (see Table No. 9).

TABLE NO. 9

AVERAGE NET INVESTMENT REQUIRED TO GENERATE 12 MAN-MONTHS OF EMPLOYMENT, BY SIZE AND TYPE OF FARM (Nicaragua, 130 Farms)

SIZE	Type of Farms: Agricultural	Cattle-raising	Mixed	Average
	(in dollars)			
-5 hectares	3,600	--	--	3,600
5-10 "	4,800	--	--	5,400
10-20 "	3,600	--	--	4,800
20-50 "	4,400	6,000	10,400	5,600
50-100 "	8,400	2,900	6,300	5,400
100 and more hectares	21,000	3,700	--	4,600
Average	5,400	3,800	7,500	5,400

Source: Agricultural Technical Department, National Bank of Nicaragua

Naturally, besides being an average that varies with the size and type of farm, the figure may conceal important variations according to its make-up. For example, different combinations of additional investment may give different results, i.e., if the major investment component is for buildings, fences, and/or machinery, since the second alternative raises the efficiency of the labor already working the farm. In the case of investments in machinery, even though it generally replaces labor, it can sometimes increase the requirements for seasonal labor.

(a) Attitudes of the farmer

The development of the Program has enabled the Nacional Bank of Nicaragua to bring its credit policies into line with the real needs of small farmers, the principle being to help them improve their methods of production and thus increase their efficiency and profits. The extent to which these policies are accepted is evaluated by learning the opinions of the Program's beneficiaries themselves. For example, the Bank has thought at times that it could improve the location of a credit agency by moving it to another place: but it had to refrain from moving the agency when delegations from the communities requested that it not be taken away from them. Similarly, other communities have sent letters or delegations to urge the Bank to install loan offices in those communities. Such a request has recently been received from Almendro, a community in the Department of Rio San Juan. Also, in the past four years, the small farmers have indicated a certain dissatisfaction over

the limit the Bank will end, as well as with the length of time it takes to process a loan. The problem relating to the maximum on long-term loans affects clients whose loans have been reissued. For instance, no more than C$5,000 could be lent to a borrower who is behind in paying off a debt of C$25,000 bringing him to the C$30,000 maximum. Yet the additional sum is not enough to bring about a production level generating the income to pay off the debt. It should be noted that in such cases of loan reissue, the debt limit has been interpreted liberally, with loans sometimes being made above the C$30,000 limit. As regards borrowers who have received a loan of C$20,000 for coffee and C$10,000 for steers, if they should then ask for a crop loan, it could not be granted. This limits the expansion of their production and hence, of their income.

It is important to note that these opinions come from that very small number of beneficiaries who have felt this need. On the other hand, beneficiaries generally do have the view that the amounts allocated per manzana for each product are very low, this despite the fact that they usually withdraw only 80 percent of the loans authorized. In 1971, short-term loans totaling C$24.3 million were granted, but only C$18.8 million, or 77.2 percent, was actually borrowed.

As regards the time it takes to reach a decision on loan applications, borrowers allege that they must go two or three times to the agencies or offices before learning the decision. The steps through which small farmers loan applications must pass are simplified for long-term loans below C$20,000 and short-term loans below C$30,000, since the agencies themselves make the decisions. If there is a delay, it is due in part to the large number of applications which the small staff of each Agency must process. Nevertheless, loans for larger amounts must be approved by the regional committees. Approval then take longer, since the request must be studied at the agency level and is then sent to the branch office, where a final decision is made by the regional committee.

3. Image

(b) The Program's general image

Generally speaking, people's opinions of the Program are favorable, since it has freed small farmers from the control of private lenders, who charged them extremely high interest rates and even made them sell their harvests at low prices. Now the farmers receive loans at favorable interest rates and, in addition, they are provided with technical assistance and help in marketing their crops.

The Program is criticized on the grounds that it has not produced a sufficient over-all improvement in the condition of the individual farmer and does not cover a large enough area. This, of course, is a problem of time and money. The improvement is definitely taking place, though only gradually because of financial limitations and because the farmer himself requires a lengthy process of growth in awareness if he

is to understand the need for changes in his traditional methods of production and, hence, in his customs and life style.

The Government is aware of these limitations. Encouraged by the Program's achievements even under these conditions, it is seeking ways to provide more of the supplementary services that will help small farmers to develop and expand their production. For example, in late 1971 the construction of 100 elevators with a total capacity of 2,400,000 quintals was completed; they are designed to provide storage and drying services. In addition, the Government's road-building policy has improved the transportation of the small farmers' products. By 1971, Nicaragua had 13,324.5 kilometers of road; 1,335.4 kilometers were paved, 1,081.7 kilometers were surfaced; 3,964.9 kilometers were all-weather roads, and 6,942 kilometers were dry-season roads. This expansion of the road network has improved communication with the interior of the country, facilitating the movement of farm products.

The the standpoint of organizations that have cooperated in the financing of the Program (including Rural Credit and Supervised Credit), the IDB has extended two loans for 7.6 million dollars to the Rural Credit Program, thus demonstrating its satisfaction with the Program's achievements. Supervised Credit has received US$1.0 million in contributions from AID.

B. Evaluation Procedures and Feedback

1. Program Evaluation Procedures

The National Bank of Nicaragua has an Evaluation Section, attached to the Agricultural Technical Department. One of the Section's objectives is to make a periodic assessment of the progress of the Bank's various programs, to determine how the goals and objectives are being met, and to recommend any changes or measures. The data on which the two evaluations of the Rural Credit Program were based were:

(a) Annual statistical records on area financed, production, and financing; and

(b) Field investi ations on the major aspects of the Program.

Moreover, those directly responsible for the Program maintain records that keep them informed more frequently of the state of the Program. For example, the analysis on Form C-R5, which is kept in the borrower's file folder, keeps the agronomist abreast of annual or semi-annual changes in income, capital, and other important variables that affect the farmer's condition. Similarly, the zone supervisors, in

their periodic visits, check whether the farmer has improved his knowledge of new production methods, the causes of any losses he may have suffered, and any other significant changes. When the supervisor notes something of interest that his superiors should know, he writes the pertinent comments in his report to the Central Office.

2. Feedback and Changes in the Program

The goals and objectives of the Program have not undergone much change, but some changes have taken place in loan principles and policies to bring them into line with farmers' current needs. These adjustments have generally been based on feedback from the borrower, passed on directly to higher authorities or channelled to them by the agronomists and supervisors who work in the field. In the other direction, the farmer receives counseling from Bank agronomists to help him improve his production methods. This two-way flow of experience, from the farmer to Bank officials and from Bank officials to the farmer, has resulted in significant achievements that serve both the farmer and the nation.

C. Problems

1. Government Level

The main cause of delinquency in loan repayment in the Nicaraguan Rural Credit Program and, at the same time, the major obstacle to the achievement of greater benefits through credit, lie in the weakenss of the marketing system for the traditional products (including cattle). Each IDB loan has stressed the importance of coordinating the loan program with the agency responsible for marketing. Yet only five percent of the farmers surveyed by the NBN channelled their sales directly through INCEI. It is further believed that a considerable quantity of corn is sold to middlemen who, in turn, sell it to INCEI.

The chief objective of the Government's price policy at least in regard to the basic grains, seems to be more to supply agricultural products to the consumer at low cost than to provide minimum prices to the farmer. Seasonal and annual price fluctuations constitute a risk to the producer which militates against his incentive to expand production.

INCEI is the official body charged with implementing the Government's price policy. The recent increase in its storage capacity will enable it to have a greater effect on the regulation of prices for the basic grains. INCEI's other problem lies in a lack of adequate funds to carry out a massive purchasing program.

What happened in 1969 to the record corn harvest is strikingly indicative of the problem and of its close link with credit. After a

great effort by the NBN, beginning in 1964, to increase corn production by virtually requiring its borrowers to use hybrid seed and fertilizer, a 4.2 million-quintal harvest was achieved in 1968-1969. But since neither facilities, organization, nor funds existed to absorb the salable production of the grain, prices fell 50 percent between 1968 and 1969. This, combined with the losses caused by the lack of adequate storage facilities on the farms or elsewhere, led to a severe drop in farm income, and the farmers were unable to pay off the loans they had contracted to produce the crop. This was a major cause of the sudden growth of the delinquent portfolio, as shown by the fact that loans for corn made up about 40 percent of the total delinquency in short-term laons at the end of 1969.

The general requirement that short-term loans be paid back immediately after the harvest is made onerous by the shortage of marketing services. This naturally leads the beneficiary to try to sell his produce at any price in order to avoid punitive interest payments or the bother of getting the agency to postpone his deadline. Thus, the NBN borrower competes directly in the market place with small farmers who are operating without borrowing (or with loans from private lenders) and who are equally eager to sell their crops at the first opportunity. The same thing happens in cattle-raising, where serious marketing problems affect producers who are current or potential recipients of loans for raising or fattening cattle.

2. Program Level

The following are some of the problems that limit the development of the Program:

(a) The low agronomist-family ratio, which prevents the agronomists from providing farmers with efficient, all-round technical assistance. Though the Program is expanding, the field staff is not undergoing a parallel expansion, and this is further damaging the agronomist-family ratio. The ratio is 1 to 282 in some areas, which makes adequate attention to beneficiaries impossible. It is impossible merely to check adequately on investments, much less intensify the dissemination of the best production methods or achieve a greater coverage of families.

TABLE NO. 10

AGRONOMIST-FAMILY RATIO SINCE 1965

Year	Families Served	Number of Agronomists	Families Per Agronomist
1965	12,409	84	148
1966	19,865	84	236
1967	24,800	102	243
1968	23,884	114	210
1969	24,000	105	228
1970	23,620	105	225
1971	23,620	120	197

Source: Rural Credit Division, National Bank of Nicaragua.

(b) System of Land Tenure

This is another obstacle to efforts to increase the Program's effectiveness, specifically as regards long-range goals and objectives.

The problem arises from the legal prohibition (Credit Regulations) against long-term lending to borrowers who do not offer a mortgage lien. Of the farms in the Rural Credit Program sample, 75.8 percent of the farmers are owners, 13.6 percent are renters, 2.2 percent are squatters, and the rest have other types of tenure. These statistics show that Rural Credit works primarily with farmers who hold title to property, thus restricting coverage to a larger number of farmers who are not owners.

(c) Land distribution

The coexistence of latifundia and dwarf holdings obstructs the progress of the Rural Credit Program. The manifestations of this problem are diverse. For example, a vast expanse of privately owned land may separate a borrower's small farm from the Rural Credit Office, forcing the borrower and the NBN expert to travel a long distance; or, in the case of crops such as coffee, the large farm may absorb all available labor, which may cause problems to the small coffee-grower.

According to the aforementioned sample, the average size of the farms of Program borrowers was 37 hectares, but half of them were working in average of 4 hectares.

Table No. 11 shows the size and type of farms that have received loans, according to the survey.

TABLE NO. 11

NUMBER AND TYPE OF FARMS, BY SIZE, THAT HAVE RECEIVED LOANS FROM THE NATONAL BANK OF NICARAGUA

Type of Farm	Size In Manzanas						Total
	-5	5-10	10-20	20-25	50-100	+ 100	
Agricultural	21	34	39	30	16	6	146
Cattle-raising	3	1	4	10	11	28	57
Mixed	1	3	4	8	4	2	22
TOTAL	25	38	47	48	31	36	225

Source: Agricultural Technical Department, National Bank of Nicaragua.

(d) Migrancy

This phenomenon is typical of the Atlantic region. It represents a problem for the Program, since there can be no certainty that such a loan applicant will pay his debts. In some cases, migrant farmers who had the minimum qualifications have been given loans to sow certain crops, but after the harvest they have left the area without repaying the Bank. As a result, Program officials have had to be stricter as regards collateral and approval of borrowers.

(e) Illiteracy

Illiteracy among small farmers hinders the dissemination of technical knowledge and of information concerning the significance of credit as an instrument for agricultural development.

According to 1963 census figures, 70.2 percent of the rural population (908,296) were illiterate. There were 73,020 pupils in rural schools in that year; the figure in 1970 was 83,585. This shows how little the illiteracy rate can have declined.

3. Farm Level

The problems noted under points 1 and 2 above affect the individual farm as well. Thus, farm production faces difficulties of the following types:

(a) Market limiations;

(b) Deficiency of the marketing system;

(c) Shortage of adequate roads;

(d) Shortage of cooperatives;

(e) Lack of adequate storage.

With respect to land tenure and land distribution, even if the farmer owns the land he works, the area is so small that he can obtain only a very small income, even if he uses improved methods. At the same time, the renter has little incentive to invest in such improvements as terracing and fertilization programs, in view of the short term of leases.

To these problems we must add those of illiteracy, environmental conditions (housing and sanitary facilities), and food.

D. Conclusions about Small Farmer Credit

1. Major Problems of Small Farmers

Perhaps the most urgent problem which the small producer must solve over the short term is the sale and storage of his crops as well as the purchase of the inputs he uses in his farm operations. Though it is urgent to solve the other problems facing the small farmer as well, they can wait a little longer.

2. Role of Credit in Meeting These Problems

According to the evaluation of the Rural Credit Program for 1966-1968, credit had helped rural families to improve their living conditions, which can be deduced from a comparison of certain figures in the survey with the corresponding figures of the 1963 census. According to the census, in 1963, 88.4 percent of the rural population lacked sanitary services, and only 16 percent had a safe water supply. The survey conducted in 1968 indicated the figures to be 67 and 46.7 percent, respectively.

The same survey revealed that families served by Rural Credit improve their consumption levels, which are shown in Table No. 12. These levels are superior to those revealed by the National Survey conducted by INCAP and the Ministry of Public Health in March 1966.

Finally, in 1968 the NBN authorized the establishment of a Section of Cantonal Farm Cooperatives, attached to the Division. They

TABLE NO. 12

EVALUATION OF THE THREE-YEAR RURAL CREDIT PROGRAM, 1966-1968

NBN - IDB

FOOD CONSUMPTION PER PERSON PER DAY, BY GEOGRAPHIC AREA (in grams)

FOOD	National Survey 1/				Rural Credit Program 2/				(2) : (1)
	Geographic Area				Geographic Area				
	Zone I	Zone II	Zone III	Total	Zone I	Zone II	Zone III	Total	
Corn	146	297	275	220	268	351	222	304	138.2
Beans	84	47	75	72	96	98	87	96	133.3
Rice	78	37	28	54	88	31	155	75	138.9
Meat	59	72	57	58	71	80	64	74	127.6
Eggs	15	10	9	12	19	24	15	21	175.0
Milk	208	340	222	243	275	397	308	334	137.4
Sugar	64	68	39	58	99	86	71	86	148.3
Sweets	+	+	+	+	1	13	--	14	+

Source: Agricultural Technical Department, Evaluation Section, NBN, INCAP, and the Ministry of Public Health.

1/ Refers to the results of the National Rural Survey, conducted by INCAP and the Ministry of Public Health.
2/ Results of the Evaluation of Rural Credit on beneficiaries of the Program.
\+ Information lacking.

Zones I, II, and III refer to the Pacific, North Central, and Atlantic regions, respectively.

seek to promote and assist the establishment of agricultural cooperatives throughout the country, for the purpose of making cooperative loans which, while helping to solve the problems facing individual farmers, provide a better guaranty for loans made by the Bank. Cooperative credit reduces the administrative costs of making loans and leads to the benefits of joint marketing of production and joint purchase of the supplies required by producers. From the social development viewpoint, loans for the improvement of rural housing and the digging of wells and cisterns will be facilitated.

The records show that there were 15 cooperatives, with 1,307 members, in 1970-71. There were also 22 cooperative enterprises received a total of C$12.1 million in loans from the Bank. The distribution of the loans is shown in Table No. 13.

TABLE NO. 13

FINANCING OF AGRICULTURAL COOPERATIVES

(Loan figures in thousands of cordobas)

	Bank Credit		Rural Credit		Total Credit
	Manzanas	Loans	Manzanas	Loans	
Cotton	6,090	7,527	2,385	2,657	10,184
Sesame	87	32	62	22	54
Rice	--	--	174	102	102
Coffee	45	15	--	--	15
Onions	--	--	183	498	498
Sugarcane	370	198	--	--	199
Corn	311	128	1,368	703	830
Beans	--	--	72	28	28
Sorghum	--	--	155	63	63
Miscellaneous	--	--	95	61	61
Cassava	15	10	--	--	10
Fattening 85 pigs	--	--	--	10	10
TOTALS	6,918	7,910	4,494	4,144	12,054

Source: Rural Credit Division, National Bank of Nicaragua.

It should be pointed out that by pooling the purchases of inputs instead of buying them individually, these cooperatives achieved a 15 percent reduction in production costs. The Bank, for its part, is confident that its loans will be repaid satisfactorily.

IV. Role of Technical Assistance

A. AID Inputs

The Rural Credit Program of the National Bank of Nicaragua has had technical advice on cooperatives since 1968. This type of technical assistance has been financed in part by AID and in part by the Bank. Table No. 14 shows the number of experts assigned to the Program and the organization which pays them.

TABLE NO. 14

COOPERATIVES ASSIGNED TO THE RURAL CREDIT PROGRAM

	A.I.D.			N.B.N.				
Year	Advisor	Promoters	Subtotal	Chief	Accountant	Promoters	Subtotal	Total Experts
1968	1	-	1	1	1	2	4	5
1969	1	-	1	1	1	2	4	5
1970	1	-	1	1	1	2	4	5
1971	1	4	5	1	1	2	4	9
1972	1	3	4	1	1	3	5	9

Source: Rural Credit Division, National Bank of Nicaragua.

AID added four more experts as promoters in 1971, but beginning in 1972 the Bank is to begin to assume responsibility for them at the rate of one a year. As can be noted, the Cooperatives Section had a total staff of nine in 1971, four of whom have been paid by the Bank since 1968.

The main functions of the AID adviser are:

(a) To provide technical assistance to the NBN in the implementation of its Program for the Development of Cooperatives in Nicaragua;

(b) To show how this knowledge can be used for the benefit and improvement of the country's cooperatives;

(c) To provide training and advice to the Bank staff responsible for the development of cooperatives so as to strengthen their technical ability in the cooperative movement.

In addition to these functions, the adviser carried out the following activities in 1971:

(a) Preparation of promotional bulletins and flyers.

(b) Direct counseling of the boards of directors, supervisory committees, and managers of cooperatives on cooperative and management functions.

(c) Conducting courses on cooperatives and management for the Bank staff members who work on the Rural Credit Program.

(d) Other functions.

The entire staff of the Cooperatives Section has received training outside Nicaragua. On fellowships from AID, the Organization of Cooperatives of America, and the Institute of Inter-American Cooperation of Panama, they have studied in Panama, Puerto Rico, Aruba, and the United States.

In 1971, a Pilot Cooperatives Project, larger than earlier projects, was organized. The Project includes the establishment of four Departmental-level agricultural cooperatives which are now (September 1972) in the first stage of their operations, which consists of furnishing members with the inputs they need for agricultural production. Suffice it to say that the price of cotton seed for planting had been as high as 110 cordobas in earlier years, whereas it was down to 73 cordobas in 1972. This is a 34 percent reduction.

It is hoped that the second stage, whose purpose is marketing the farmer's products, will be completed in 1973.

Each of the cooperatives has up to 300 or more members. The goal is a membership of 1,000 to 1,200 each. The names and locations of the cooperatives are as follows:

The Santa Ana Farm Cooperative	Chinandega
The Esquipulas Farm Cooperative	Leon
The Masaya Farm Cooperative	Masaya
The Em. Mongalo Farm Cooperative	Rivas

Another AID contribution in human resources was the employment in June 1972 of a soil expert and grain specialist, who is assisting NBN's current Basic Grains Program. He is conducting, on a demonstration basis, tests of new varieties and the use of fertilizers. The Bank is paying the salaries of two technicians for this work.

B. Other Contributions

As indicated in Part I of this Report, the Rural Credit Program has been bolstered by two loans from the Inter-American Development Bank (No. 36+F and 118/SF). Foreign technical assistance, however, has been financed by the National Bank, since the IDB has included in its loans the cost of the services of advisers, who have at the same time been proposed by the IDB itself.