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IN COSTA RICA

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COUNTRY PAPERS

SMALL FARMER CREDIT IN COSTA RICA



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The Agricultural Credit Project of the Agricultural Sector
Program of Costa Rica

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Small Farmer Credit in Costa Rica: The Juntas Rurales

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COUNTRY PROGRAM

THE
AGRICULTURAL CREDIT PROJECT
OF THE
AGRICULTURAL SECTOR PROGRAM
OF
COSTA RICA

by:
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American Technical Assistance
Corporation for USAID/Costa Rica

San Jose, Costa Rica
October, 1972

PREFACE

The Agricultural Credit Project described in this Country Program Paper is an integral part of the Agricultural Sector Program in Costa Rica. The context and objectives of the Agricultural Credit Project are therefore somewhat different from most AID credit projects, including earlier AID loans for agricultural credit in Costa Rica. To the extent possible, I have adhered to the annotated outline provided for the Spring Review. However, I have added additional material to provide context and purpose, and have ignored those items which appear irrelevant to this particular activity.

Albert L. Brown

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ABBREVIATIONS AND ACRONYMS

<u>Acronym</u> (Spanish)	<u>Name</u>		<u>Acronym</u> (English)
	(Spanish)	(English)	
AID/SBN	Programa de Crédito Agropecuario Agricultural Credit Project	AID/SBN	AID/SBN
SBN	Systema Bancario Nacional National Banking System		NBS
BCCR	Banco Central de Costa Rica Central Bank of Costa Rica		
BNCR	Banco Nacional de Costa Rica National Bank of Costa Rica		
BCR	Banco de Costa Rica Bank of Costa Rica		
BAC	Banco Anglo Costarricense Anglo Costa Rican Bank		
BCAC	Banco de Crédito Agrícola de Cartago Agricultural Credit Bank of Cartago		
CAN	Consejo Agropecuario Nacional National Agricultural Council		
CANcito	Consejo Agropecuario Regional Regional Agricultural Council		
CNP	Consejo Nacional de Produccion National Production Council		
MAG	Ministerio de Agricultura y Ganadería Ministry of Agriculture		

I. INTRODUCTION

AID has financed small farm agricultural credit operations in Costa Rica through three project loans dating from 1961, and has provided technical assistance to the borrower, the Banco Nacional de Costa Rica. These earlier activities were typical project loans to an established intermediate credit institution. The activity described in this Country Project Paper is the Agricultural Credit Project of the Agricultural Sector Program which was funded as a sector loan.

A. SMALL FARM CREDIT IN THE BANKING SYSTEM

The National Banking System (NBS) of Costa Rica is a nationalized system consisting of four commercial banks and a central bank. The central bank controls the growth and distribution of credit through the maximum and minimum levels which it sets for various classes of credit and to which the commercial banks must adhere. The commercial banks receive deposits and lend money at rates established by the central bank.

The relative importance of the commercial banks in providing agricultural credit may be judged from the following 1971 data:

	<u>Agricultural Credit Operations</u>			
	<u>No. of</u>	<u>No. of</u>	<u>Amount Lent</u>	<u>%</u>
	<u>Offices</u>	<u>Operations</u>	<u>(\$millions)</u>	<u>Small</u>
				<u>Farm</u>
Banco Nacional de Costa Rica	56	22,797	65.0	30
Banco de Costa Rica	11	6,226	31.9	5
Banco Anglo Costarricense	9	2,562	8.8	15
Banco de Credito Agricola de Cartago	2	1,594	7.0	11

Source: MAG Boletín Estadístico.

Note: This total of \$112.7 million is \$22.6 million below the total agricultural credit reported for this period by BCCR.

In 1971, credit in the National Banking System was distributed as follows:

	<u>\$millions</u>	<u>Percent</u>
Livestock	61.9	24.7
Coffee Harvest	27.9	11.2
Other Agricultural	45.5	18.1
Total Agricultural	<u>135.3</u>	<u>54.0</u>
Non-Agricultural	115.2	46.0
Total Credit	<u>250.5</u>	<u>100.0</u>

Non-banking system agricultural credit amounts to another \$30 or \$40 million from agricultural suppliers, moneylenders, rural stores, cooperatives, fiduciary warehouses and friends and relatives.

From 1965 to 1970, credit growth was restrained to annual increments of 3 to 7 percent. In 1970, this restraint was eased and credit allowed to advance almost 17 percent. In 1971, the central bank introduced a more flexible system of control, and credit mushroomed by 28 percent. In the first six months of 1972, credit growth has been held to an annual rate of 10 percent.

The growth in agricultural credit paralleled that of total credit until the rapid rises of 1970 and 1971. However, in the twenty-four months between June 1970 and June 1972, total credit increased by 53 percent, non-agricultural credit increased by 67 percent, and livestock credit increased by 62 percent, but crop credit (after excluding credit for the coffee harvest) increased by only 22 percent.

In Costa Rica, four crops—coffee, bananas, sugar cane and rice—account for 96 percent of all crop credit; coffee alone (including credit for the coffee harvest) absorbs 83 percent. Similarly, credit for beef cattle absorbs 88 percent of all livestock credit. With the exception of rice, these crops tend to be grown by larger farmers and tend to be exported.

Small farm credit balances from the national banking system totaled \$28.9 million in December 1970, equivalent to 20 percent of all agricultural credit and 11.5 percent of all credit. Non-bank sources of small farm credit probably do not exceed an additional \$10 million.

About 85% of small farm credit is dispensed by the Banco Nacional de Costa Rica (BNCR) through 56 field offices. BNCR has been the direct beneficiary of three earlier AID loans totaling \$15 million—about half its total small farm portfolio. From 1960 to 1969, this portfolio (exclusive of AID loans) grew by only 34 percent, from \$7.8 million to \$10.6 million. Well over half the BNCR small farm portfolio is in livestock, reflecting both the term requirements of the AID loans and the suitability of livestock as a loan guarantee. For several years, the number of BNCR small farm debtors has remained constant at 28,000, absorbing all portfolio growth in larger average loan size.

B. THE SMALL FARM IN THE AGRICULTURAL SECTOR

Overall growth of the agricultural sector has been consistent and accelerating. From 1950 to 1969, value of agricultural production grew at an annual rate of 4.9 percent, while from 1965 to 1969, the rate of growth was 7.0 percent. The distribution of this growth, however, leaves much to be desired. The principal contributors to growth have been larger farmers, using modern production practices and with easy access to credit and well-established marketing systems. Growth has been concentrated in the export sector where ample credit, efficient marketing systems, and stable prices limit risk. Production for internal consumption has lagged, except in those situations such as rice, where mechanizability and high price supports encourage large farmers with access to credit, technology, inputs and markets to enter production.

The small farmers who produce for domestic consumption and who constitute a majority of all Costa Rican farmers, mostly use traditional production methods, mostly grow annual crops susceptible to risk of weather and market, frequently lack secure title to their land, and

have limited access to credit, technical assistance, and competing marketing channels. Their net income after wages and rental is deducted is well below the $\text{C}25,000$ (about \$2900) limit which defines the class.

Their individual influence on policies or programs which affect them is virtually nil, and they are not effectively organized to exert political power.

Agricultural policy has focused on macro stimuli—pricing policy, import-export licensing, credit allocation—which favor the entrepreneurial farmer with the analytic ability to recognize opportunities and the capacity to take advantage of them. This orientation tends to emphasize centrist tendencies in government, society and economy, while it encourages production for export where stable prices and efficient channels virtually assure profitability and repayment of credit, with a minimum infrastructure of public services.

The reverse of the coin is that those farmers who are not well informed, who are not well off, who lack impeccable credentials, who lack influence and entrepreneurial skills, are left behind. The capacity of these farmers depends almost directly on the capability of the public institutional infrastructure to encourage and support them, providing them with conditions comparable to those available to their more powerful counterparts. Principal among these conditions are access to credit, to technical assistance, to productive inputs, and to efficient, competitive markets.

C. THE AGRICULTURAL CREDIT PROGRAM

In 1970, an Agricultural Sector Program was developed to strengthen the Costa Rican institutional capacity for providing these conditions. This program, working through twenty-one projects and seven major institutions, seeks the transformation of the primarily domestic consumption oriented small farm subsector from traditional to modern high productivity systems and methods. To do this, it must modify the distribution

of incentives and resources to permit small farmers to increase their productivity and their influence, improving their well-being and their contribution to national growth.

The Agricultural Sector Program includes an Agricultural Credit Project which is the subject of this Country Program Paper. This Project provides a loan of \$3.5 million and a counterpart fund of \$3.5 million equivalent from the Costa Rican Central Bank. This joint fund is relent through the four commercial banks of the National Banking System to small farmers. The Project seeks changes in credit policy and practice to assure the availability of credit to small farmers:

- An increase in the relative and absolute amounts of credit available to the small farmer,
- An increase in the number of small farm clients,
- Improved coordination of agricultural credit and technical assistance, and
- The positive use of agricultural credit to satisfy national goals in the rural sector.

The Project has been in operation since March 1971. All program funds have been lent to farmers. In the process, the small farm portfolio of the National Banking System increased by \$13,315,000 or 59 percent, expanding from 11.5 to 13.6 percent of total credit, and from 20.0 to 26.4 percent of agricultural credit. More than 4000 new small farmer clients were added to the program during the first nine months through the aggressiveness of competing banks following less restrictive credit policies. Coordination of technical assistance and credit has improved. Much remains to be done before this program fulfills its ultimate objective of transforming the small farm subsector, but progress to date has been highly satisfactory.

II. PROGRAM CHARACTERISTICS

A. BACKGROUND

1. Prior USAID Agricultural Credit. USAID/Costa Rica made three agricultural credit loans totalling \$15 million in 1961, 1963, and 1967, all to the Banco Nacional de Costa Rica (BNCR). These loans were all directed to the small farmer as medium term credit.

<u>Loan No.</u>	<u>Date</u>	<u>Amount in \$ million</u>		<u>Terms to BNCR</u>	<u>Terms to Farmer</u>
		<u>USG</u>	<u>BNCR</u>		
515-L-003	1961	5.0			8% interest payable in advance Minimum term - 2 years Maximum net worth - \$5000.
515-L-005	1963	5.0			8% interest payable in advance Minimum term - 2 years Maximum net worth - \$5000
515-L-017	1967	5.0	1.3 GOCR 1.2 Intrabank transfer 5.0 BCCR	40-yr loan 10-yr grace 1% -10 yr grace 2½%-remainder	8% interest payable in advance Minimum term - 2 years Maximum net worth - \$3000. Maximum loan - \$3000.

BNCR was the borrower of preference because of its extensive network of rural offices (the Juntas Rurales or rural boards) established specifically to provide credit to small farmers (see CPP prepared by Claudio Gonzalez-Vega which is focused directly on BNCR and the Junta Rural system). By the time the Agricultural Sector Program became operative, all but a small amount of Loan No. 017 had been disbursed and the program was operating on rollover.

2. The Agricultural Sector Loan. The agricultural credit program to which this Country Program Paper is addressed is that which is included as a project of the Agricultural Sector Loan. An understanding of the Agricultural Sector Program and its objectives is essential to the description and assessment of the Agricultural Credit Project.

a. Origins. The Agricultural Sector Program was the outgrowth of interaction between a group of Costa Rican economists and agriculturists incorporated as "Academia de Centroamerica," a non-profit research institution, and a group of USAID and Embassy professionals, led by the Mission Director, in the review of the agricultural sector. In this process, all existing documents and studies were assembled, sector institutions were contacted, and additional studies were contracted by the USAID and through the USAID contract with Academia. The examination of this mass of material, representing the opinions of qualified observers as well as data, and the resulting discussions, led to consensus opinion about the characteristics of the sector, its problems, and the appropriate response to those problems.

In essence, the group found that overall growth of the agricultural sector had been consistent and accelerating. From 1950 to 1969, value of agricultural production grew at an annual rate of 4.9%, while from 1965 to 1969 the rate of growth was 7.0%. The distribution of this growth, however, left much to be desired. The principal contributors to growth were larger farmers, using modern production practices and with easy access to credit and well-established marketing systems. Growth was also concentrated in the export sector where ample credit, efficient marketing systems, and stable prices limited risk. Production for internal consumption lagged, except in those situations, such as rice, where mechanizability and high price supports encouraged large farmers with access to credit, technology, inputs and markets to enter.

The small farmers who produce for domestic consumption, and who constitute a majority of all Costa Rican farmers, mostly use traditional production methods. Traditional production methods on small farms mean low productivity, low income, and frequently misery. Small farm poverty is widespread and socially desirable, off-farm employment opportunities are scarce.

The obstacles which confine the Costa Rican small farmer within the limits of traditional agriculture, thereby condemning him to poverty, are several and interrelated. He has little knowledge of modern inputs and techniques and is skeptical of their efficacy. While he is better educated than most Latin American campesinos, his education is nonetheless limited, and he receives little if any technical assistance from any public institutions. His principal concern is with keeping his family alive, and he is reluctant to take on credit obligations which may imperil the little he owns, even if the banks were inclined to lend to him, which they probably aren't because he can't put up an adequate guarantee.

Much of his income, which is low because of his low productivity, may go for some form of land rental. If he has his own land, he may not have title to it, which may impede his obtaining credit through the banking system or may serve as a disincentive to his making permanent improvements. While he can usually count on a reasonable price for his crop if he produces grain, he might well get better prices if he had access to better storage facilities and market information. If he grows perishable crops, a combination of inadequate packing, transport, and marketing facilities may result in income loss. He has little awareness of the potential of cooperative effort, be it in the form of credit, production, or marketing cooperatives or community development association. His skepticism about the will and ability of the central government to help him is even greater with respect to his local government.

There is good reason for the small farmer to feel this way. He has been neglected. The Ministry of Agriculture has not been given the human and financial resources to reach him. The Government has not emphasized the organizing of the small farmer for a collective solution of some of his major problems. The banking system tends to view him as a high risk borrower, often because he cannot provide an acceptable guarantee. The same risks affect private company support, even though in the long run these stand to benefit importantly from the modernization of the small farmer.

b. Components. The Agricultural Sector Program which emerged from these efforts had as its goal the transformation of the primarily domestic consumption oriented small farm subsector from traditional to modern high productivity systems and methods, thereby (1) improving the small farmers' income and the quality of rural life, and (2) facilitating a more significant contribution of the small farm subsector to national growth. It sought to achieve this goal by focusing the efforts of existing institutions more effectively on assisting the small farmer to increase his productivity. The Program consisted of seven interrelated projects:

	Financial Summary		
	(Thousands of dollars or equivalent)*		
	<u>Total</u>	<u>AID</u>	<u>Costa Rica</u>
Agricultural Services	8,100	2,325	5,775
Agricultural Education	1,780	1,200	580
Agricultural Credit	8,000	4,250	3,750
Cooperatives	5,950	3,550	2,400
Agricultural Marketing	900	900	0
Land Tenure	4,900	3,450	1,450
Community Organization	1,100	500	600
Contingency	225	225	0
Total	30,955	16,400	14,555

*Dollar equivalent calculated at exchange rate of $\text{¢}6.62 = \$1.00$. This was the rate when loan was signed and has been used on calculations up to this point. Subsequent transactions were made at exchange rates of $\text{¢}6.62 = \$1.00$ to $\text{¢}8.57 = \$1.00$. The latter rate has been used for all calculations reported in this paper subsequent to the loan authorization.

A Consejo Agropecuario Nacional (CAN), composed of representatives of the different institutions serving the agricultural sector, chaired by the Minister of Agriculture and supported by an Executive Secretariat, was created to coordinate the policies, planning, execution and evaluation of the Agricultural Sector Program. CAN also provides guidance and

support for regional agricultural councils (CANcitos) to facilitate coordinated regionalization of planning, decision-making and implementation.

It is recognized at the outset that the long-term objective of transforming the traditional small farm subsector to modern, highly productive practices will not be achieved during the four-year span of loan disbursement. However, it should be possible to strengthen the national institutional capability to serve the small farmer effectively, by selectively reinforcing institutions, by providing a mechanism for coordination among them, and by establishing within them a cognizance of the need to improve the status of the small farmer.

c. The Agricultural Credit Project. The principle that has guided the granting of bank credit in Costa Rica has been the minimization of risk. Credit has flowed toward activities of demonstrated profitability: efficient, high yield, high profit operations producing export commodities such as coffee, cattle, bananas and sugar. This penchant for low risk lending has been accompanied by a traditional demand on the part of banks for ample and sure collateral. Small farmers, generally considered to be high risk, expensive borrowers, receive only about 10% of the total agricultural credit portfolio.

The Banco Nacional de Costa Rica, which received three AID loans totalling \$15 million, had a virtual monopoly on small farm credit, with something over 80% of the small farm portfolio. However, over the last five years, the number of BNCR small farm debtors had remained almost static at 27,000. Almost 70% of the portfolio was lent for terms of two years or more, resulting in part from requirements of the three AID loans, but also representing the acceptability of livestock as collateral.

The Agricultural Credit Project sought material improvement in this situation by (1) directly increasing the availability of small farm credit by \$7 million (about 24%); (2) bringing the remaining commercial banks into the program to provide more credit outlets and the stimulation of competition; (3) making the growth of small farm lending from the

non-project portfolios of the commercial banks a condition for participation in the project; (4) liberalizing the criteria for project lending (no fixed term, maximum net worth of 25,000 [\$2900], maximum loan of \$100,000 [\$11,660], no restriction on use other than no coffee, cotton, cane, beef and bananas; and (5) encouraging commercial banks to ease their collateral requirements.

(1) The Agricultural Credit Project consisted of two parts: an agricultural credit fund of \$7 million is created by \$3.5 million of loan funds, matched by \$3.5 million equivalent from the Banco Central de Costa Rica (BCCR). This fund is relent through the four commercial banks of the National Banking System to small farmers. The AID loan to BCCR is at 2% for ten years and 3% for the remaining thirty years. BCCR relends at 3½% for the first five years of the loan, reserving a 1% margin for a five-year training program for bank personnel in this activity. For the next five years, it charges at the rate of 2½%. Thereafter, the charge goes to 3½% again. BCCR lends its counterpart funds at 2%. Commercial banks relend at 8% to the farmer.

(2) As a means of inducing the small farmer to use modern agricultural inputs and techniques to increase productivity, an Incentive Guarantee Fund of US\$1 million (\$750,000 from the loan, \$250,000 from GOCCR) has been established in the Banco Nacional de Costa Rica (BNCR). This fund is intended to make it possible for small farmers, who for one reason or another have not used bank credit or modern production techniques, to join with other farmers in a group which will receive credit from the banking system and technical assistance from the Ministry of Agriculture to produce and market a specific commodity. These small farmers will not have to repay the credits granted if the value of his harvest, as a result of having applied the modern technology, does not exceed the value of his previous harvests using traditional methods. The banks are protected against loss by recourse to the Incentive Guaranty Fund. It is expected that this Activity will help to swell the ranks of small farmers who qualify in future years for the normal small farmer credit programs. The Incentive Guaranty Fund is also designed in such a way as to provide

incentives to the suppliers of production inputs to provide seeds, fertilizers, equipment and agricultural chemicals in areas otherwise not adequately served because the group purchasing power created by the Activity will be sufficient to attract their attention. Implementation of this part of the program is just beginning, and it is, therefore, not discussed further in this paper.

3. Implementation. The Agricultural Sector Loan was authorized on August 11, 1970. It was ratified in November 1970 by the Costa Rican Legislative Assembly. Conditions precedent were satisfied in February 1971. The initial disbursement of loan funds for the Agricultural Credit Project was made on May 28, 1971 to reimburse subloans made in March. By December 13, 1971 almost three-fourths of program funds for credit had been disbursed. By May 31, 1972, all but $\text{¢}490,000$ ($\$57,200$) of BCCR funds had been disbursed¹ and the program was operating on rollover funds.

B. OBJECTIVES

1. Announced Objectives. The Agricultural Sector Program seeks to improve the well-being of the small farmer relative to other agricultural subsectors and to the economy as a whole. It is hypothesized that increased productivity and better organization will permit the small farmer to compete more effectively in the market place and this will improve his well-being. The fundamental intent of the agricultural sector program, therefore, is to develop an integrated set of institutional arrangements which will provide the small farmer with the services, inputs and organization which he needs to improve his productivity. Increased production is a desirable outcome. However, a more important outcome is that small farmers share equitably in production increases.

¹The program called for $\text{¢}46.4$ million, one-half from the AID loan and one-half from the Banco Central de Costa Rica. At the $\text{¢}6.62:\$1.00$ exchange rate then operant, this would have been approximately $\$7$ million. AID funds were released at the highest legal exchange rate at the time of disbursement. Therefore, although AID has provided its $\text{¢}23.2$ million, it retains $\$600,000$ of authorized but undisbursed loan funds for agricultural credit.

The Agricultural Credit Project views the increased availability of agricultural credit as an essential element to increased productivity in that it finances the additional productive inputs demanded by improved technology and the marketing of additional product resulting therefrom. It seeks changes in National Banking System (NBS) credit policy and practice to assure the availability of credit for the small farmer in adequate amounts to fulfill those functions. The changes which are sought are:

- a. An increase in the relative and absolute amounts of credit available will come from the loan and its counterpart, but the NBS must also expand its existing program of small farm lending.
- b. An increase in the number of small farm clients through
 - more aggressive marketing of agricultural credit by individual banks, and
 - alteration of procedures, guaranty requirements and policies to facilitate small farmer access to credit.
- c. Improved coordination of agricultural credit with technical assistance and productive inputs to ensure more productive use of credit.
- d. Improved guidance of agricultural credit to satisfy national social and economic objectives in the rural sector.

In keeping with the spirit of the Sector Program, predetermined quantitative targets were not set for these objectives. Progress in these and other areas is measured by periodic evaluations and future targets are then established on the basis of the adequacy of prior progress relative to other conditions in this and other projects. Targets are set by the Costa Ricans who have to live with them.

Apparent Objectives appear not to differ materially from those agreed to in the sector loan. The initial evaluation of progress under this loan found some improvement in all areas. The most apparent potential conflict is with efficiency criteria—small farm loans cost more per dollar lent than large farm loans. However, banks are reducing costs through "mobile banks," eliminating unnecessary procedural steps, and

standardization. Bank officials take the attitude that the lower profit they make (they are not losing money) is acceptable as part of their social responsibility.

2. Terms of Loan

a. Purpose. Loans are for production. Loans may cover any legitimate aspect of small farm crop or livestock farming except when intended for coffee, cotton, sugar cane, bananas or beef cattle.

b. Period. No permanent limits. During the first year's operation, about 36% of loans (55% of funds) went into loans of more than one year's duration, mostly two-year livestock loans. This immobilized too great a proportion of program funds and SBN had to meet subsequent demand from sources other than rollover. SBN has now established a maximum limit for multiyear loans under this project of 50 percent of funds lent.

C. CREDIT ALLOCATION

1. Banking Organization

The National Banking System consists of four commercial banks [Banco Nacional de Costa Rica (BNCR), Banco de Costa Rica (BCR), Banco Anglo Costarricense (BAC), and Banco de Crédito Agrícola de Cartago (BCAC)], and the Banco Central de Costa Rica (BCCR). It is a nationalized system.² The relative importance of agricultural credit for each commercial bank may be judged from the following 1971 data:

²Two foreign banks, Lyons and Bank of America, operate in Costa Rica under conditions fixed by BCCR but cannot receive deposits nor loans from BCCR. They have liberty in distribution of their portfolio but a maximum limit whose balance is closely related to their resources.

	<u>Agricultural Credit</u>		
	<u>No. of Credit Operations</u>	<u>Amount Lent \$ millions</u>	<u>No. of Offices</u>
Banco Nacional de Costa Rica (BNCR)	22,797	65.0	56
Banco de Costa Rica (BCR)	6,226	31.9	11
Banco de Crédito Agrícola de Cartago (BCAC)	1,594	7.0	2
Banco Anglo Costarricense (BAC)	2,562	8.8	9

Source: MAG Boletín Estadístico

See Fig. 1 for distribution of offices.

Each bank has a commercial department, a mortgage department and, since 1971, a financiera department. Agricultural credit is processed by the commercial department. Small farmer credit is also handled by the commercial department except in the Banco Nacional, which has a Department of Rural Credit devoted to small farm credit. The Agricultural Credit Project consists of a loan to BCCR which relends it to the four commercial banks. They in turn lend it to small farmers through the same channels which distribute their own small farmer loans.

Branch offices of the commercial departments are either sucursales or agencias, distinguished by size and authority. Sucursales are major branch offices with specialized assigned staff, a larger allocation of credit funds, and authority to approve larger loans than an agencia. Otherwise, their functions are quite similar. A third type of branch—the Junta Rural—was created by the BNCR as a mechanism to provide rural credit to small farmers in the absence of a sucursal or agencia. It received its name from the local board, or junta, established to approve small farm loans. Growth in overall credit demand has now replaced the Junta Rural branch office with more sophisticated institutions, and the Junta Rural has become a department of the agencia or sucursal. However, a local board still approves all loans authorized at the local level.

The banking system is highly centralized. All sucursales and agencias report directly back to, and are supervised by, the head office

in San Jose; there is no regional or provincial hierarchy. Branch officers are strictly limited in their authority to approve loans locally. All BAC and BCAC loans require central office approval.

2. Credit Control and Allocation Mechanism

From 1962 to 1971 the mechanism used to control the growth and allocation of credit was a detailed system of allocations known as "topes," which established maximum levels which could be lent, both globally and for particular activities. Over time, the distortions introduced in this system became insupportable, and early in 1971 it was replaced with a more flexible approach intended to provide the necessary control over primary allocations while permitting greater play of the competitive market forces in the banking process. In essence, the system consists of dividing credit activities into three major groups which are controlled directly by the system and four minor groups which are controlled indirectly.

Controlled Directly

1. Preferred Lines: Primarily financing of the coffee harvest, the marketing of agricultural and industrial products abroad, and a few minor investment categories.
2. Agro-Industrial Activities: Includes both agricultural and industrial activities directed towards internal consumption.
3. Other Activities: Other commerce, services and personal credit.

Controlled Indirectly

4. Economic Development Programs: Principally foreign loans controlled by agreements.
5. Financiera Sections: Set up in each commercial bank to compete with non-SBN financieras which operate without control. These are currently under direct control limits fixed by BCCR.
6. Small Farmer: Small farm credit as defined in the Ley Orgánica de Operaciones Crediticias.
7. Capitalization of Savings: A minor program to encourage private savings.

In practice, an overall rate of credit growth is established by BCCR in accordance with projected growth in Gross National Product, foreign exchange balances, and fiscal programs and converted into a global amount which is allocated among the commercial banks. The commercial banks are then given maximum and minimum percent limits within which they can lend these amounts, as follows:

	<u>1971</u>	<u>1972</u>
1. Preferred Lines (minimum)	33.4	28.5
2. Agro-Industrial Activities (maximum)	<u>52.5</u>	<u>54.6</u>
Agriculture (minimum)	14.4	14.3
Livestock "	15.2	16.5
Industry "	16.9	17.8
3. Other Activities	<u>14.1</u>	<u>16.9</u>
	100.0	100.0

Note that in Category 2 the difference between the maximum and the sum of the minimums is 6.0%, which allows considerable flexibility for distribution among categories by the banks.

Small farm credit is given preferential treatment in the Ley Orgánica de Operaciones Crediticias (Organic Law of Credit Operations), and the credit allocation system leaves it outside of direct control, although indirect control is applied. Each bank's small farm credit operation is limited by its own capitalization, external loans received (such as BNCR's AID loans 005 and 017), loans from BCCR (such as subloans from AID loan 022), and from intrabank loans. In the present situation banks are at perfect liberty to expand small farm credit, even if that expansion would carry the total portfolio beyond the category 2 limits, as long as they do not abuse the privilege by squeezing large farm loans into the small farmer category. However, it probably is not profitable for them to do so as long as they can continue to find takers for Preferred Line loans.

3. Intrabank Allocation of Small Farm Credit

The headquarters office of each bank allocates known small farm credit availability among its various sucursales and agencias in accordance with the historical levels and anticipated growth in demand for this

type of credit. Initial allotments are suballocated by the headquarters office by source (e.g., own funds, AID loan 022), where the conditions under which these may be relent are different. There is no initial allocation by activity, term, or type of borrower. However, as the sucursales report their lending activity, the headquarters office may apply restrictions (primarily on loan term, but also by activity) as they adjust allotments among sucursales. BNCR reports that their small farm credit portfolio rollover is now sufficient to take care of annual production credit demand, so they no longer fix limits on short term credit, but they still have to restrict loans on multiyear terms.

We found no formal allocations of credit among borrowers, activities, or terms at the sucursal or agency level, credit being provided on a first-come, first-served basis. However, we suspect that these branch offices maintain some informal preferences which become translated into results.

D. BENEFICIARIES

1. Selection Criteria

A major objective of the Agricultural Credit Project is the introduction of new clients to the credit system. Since 1965, the number of clients of the Juntas Rurales, the BNCR small farmer credit department, has remained almost static at 27,000, with some slight tendency to decline. Small farmer clients of other commercial banks probably summed less than 8000. No workable definition of the "small farmer" has been found, and the NBS defined small farm credit largely in terms of loan size—any rural loan under ₡100,000. In fact, most small farm loans were much smaller; in 1969 BNCR small farmer loans averaged a little over ₡5000 per debtor (about \$800). Client selection emphasized risk aversion (adequate guaranties, solvency, experience with the bank, size and condition of the farm, good moral character, etc.). Under these circumstances a relatively stable clientele could absorb all of the internal growth of the small farm credit portfolio.

For the purposes of this project, the term "small farmer" was defined as a farmer whose annual net income (after deducting salaries and rentals) is not over ₡25,000 (\$2,900). In practice, banks do not lend from this program to a farmer whose net has exceeded the maximum in the last two years. Maximum indebtedness under this program is limited to ₡100,000 (\$11,660). However, beyond the ₡25,000 net income limitation and the ₡100,000 indebtedness limitation, there are no formal quantitative limitations. Banks are encouraged to seek new clients and lend to them to the maximum extent feasible under this program, but the intent is to provide open access to new borrowers rather than to exclude established clients. There are no formal allocations among crops, among technological levels, nor by amounts per loan.

2. Graduation Policy

Not applicable. All beneficiaries are clients of the banking system.

3. Number and Types

This program has been in operation for 1½ years; data on lending by activity is available for fifteen months (Table 1). The following information on borrower and loan characteristics is available only for the first nine months of the program.

Credit Distribution by Various Characteristics
of Borrower and Loan

		Number		Amount		Average
		#	%	\$000	%	\$
Type of Client:	New clients	4,017	(52)	1,857	(43)	453
	Old clients	3,694	(48)	2,389	(57)	647
Utilization:	Investment	2,909	(36)	2,301	(53)	791
	Operation	5,077	(64)	1,892	(45)	373
Term:	1 year	5,189	(65)	1,969	(47)	379
	1-5 years	2,083	(26)	1,373	(33)	659
	5+ years	653	(9)	852	(20)	1304
Loan Amount:	up to \$580	6,259	(81)	1,410	(34)	225
	\$580 to 11,660	1,439	(19)	2,782	(66)	1932
Net Annual Income:	up to \$1166	6,711	(87)	2,554	(61)	382
	more than \$1166	987	(13)	1,640	(39)	1661

Source: BCCR. Programa de Crédito Agropecuario AID/SBN.

Table 1

LENDING BY ACTIVITY

March-December 1971, January-June 1972, March 1971-June 1972

	<u>No. of Operations</u>			<u>Amount Lent (\$000)</u>			<u>Average per Operation (\$)</u>		
	3-12/71	1-6/72	3/71-6/72	3-12/71	1-6/72	3/71-6/72	3-12/71	1-6/72	3/71-6/72
Rice	1090	2144	3234	828	1453	2282	760	678	706
Corn	1801	2014	3815	420	464	884	233	230	232
Beans	1225	133	1358	177	24	201	144	180	148
Other Grains	38	9	47	30	5	34	790	555	723
Plantains	225	103	328	98	50	148	436	485	451
Fruits & Vegetables	742	422	1164	378	222	601	509	526	516
Cacao	9	8	17	2	4	5	222	500	294
Other Products	457	88	545	121	39	159	265	443	292
Milk Production	2439	828	3267	1735	726	2463	711	877	754
Swine	170	292	462	101	182	283	594	623	612
Poultry	93	89	182	99	74	172	1065	831	945
Other Activities	215	75	290	204	89	293	949	1187	1010
TOTAL	8504	6205	14,709	4194	3332	7525	493	537	512

Source: BCCP Programa de Credito Agropecuario AID/SBN.

Note: Number of operations is greater than number of borrowers because several borrowers have received credit for more than one operation.

4. Other Sources of Credit

Vogel and Gonzales-Vega³ examined the following possible sources of agricultural credit in Costa Rica.

- a. Almacenes de Depósito (Fiduciary Warehouses) run by the commercial banks and two private companies provide credit up to 75% of the value of deposited products for six months to two years at 8% interest plus other charges (storage and insurance) which add up to another 3%. Credit for agricultural products amounts to something better than 40% of the total credit granted by the warehouses, but it only amounts to about \$2 million and nearly all goes to intermediaries and very large producers. In a sample of 400 farmers, none received credit from this source.
- b. Financieras (Finance Companies) practically do not lend for agriculture. The only two cases of financiera loans found in this study were made to very large farmers at interest rates of 12 to 24% plus charges.
- c. Prestamistas (Money Lenders) were a regular source of credit for about five percent of the farmers interviewed, while ten percent used this source occasionally. Five percent of the farmers interviewed also acted as money lenders. Interest rates tended towards 18, 24 or 36 percent, with some as low as 12 percent and others above 100 percent. However, various methods were used to disguise the true rate. Guaranties required ran from an IOU to a mortgage. Average term was slightly over a year, and average amount was about \$1500, but the median was only \$400, with some loans above \$15,000. This source might provide \$8 million to \$12 million of credit to farmers. The substantial majority of loans from this source were used for agricultural pursuits.
- d. Friends and Relatives were about as commonly used as a credit source as formal money lenders. Such loans were usually very small, for less than a year (but frequently extended), and without interest. About ten percent of the farmers interviewed had made such loans to friends and

³Robert Cross Vogel and Claudio Gonzales-Vega. Crédito Agrícola en Costa Rica. Associated Colleges of the Midwest. AID/ACM Contract AID-15-171-T. San José, Costa Rica. July 1969.

relatives. More importantly, about 30 percent had acted as co-signers for formal loans through the banking system. Friends and relatives probably account for \$500,000 to \$1 million in credit to farmers.

e. Pulperías (Mixed Rural Stores) regularly provide very short-term sales credit to their regular clients, normally absorbing the interest in higher merchandise prices. More than 20 percent also lend money, and more than half purchase agricultural products. At least some of these services are provided as a means of maintaining good relations with store clientele, rather than as a source of store income. The global amount of store credit is small ((\$2 million to \$3 million), for short periods, at high effective interest rates, and mostly for consumer credit. However, it is an important source of indirect agricultural credit for the near subsistence farmer.

f. Agricultural Suppliers provide credit equal to 75 to 90 percent of their sales. Interest charges are 8 to 12 percent, with a one-third down-payment. Prices may also be raised by up to ten percent; a five percent discount on cash sales is also common. Terms vary from 6 to 12 months for fertilizers to 2 to 4 years for vehicles and farm machinery. Average loan size was about \$1500, with a mean of about \$230. Total credit from this source amounted to \$15 million to \$20 million.

g. Cooperatives are an important and growing source of credit, and the Agricultural Sector Program includes a project valued at \$5,950,000 to improve cooperative operations, including \$5.0 million for credit (\$3.0 million from the loan and \$2.0 million from the banking system). In 1968 credit to agriculturists from cooperatives amounted to about \$2.5 million, about half in funds and half in merchandise. Around 90 percent of this credit was concentrated in coffee and milk.

h. Summary. These other sources of credit total something between \$30 million and \$40.5 million in credit for farmers. However, their accessibility to the small farmer is quite variable:

<u>Source</u>	<u>Availability \$ million</u>	<u>Accessibility to Small Farmer</u>
Almacén de Depósito (Fiduciary Warehouse)	2.0	none
Financiera (Finance Company)	-	none
Prestamista (Money Lender)	8.0 - 12.0	good
Pulpería (Rural Mixed Store)	2.0 - 3.0	good
Friends & Relatives	0.5 - 1.0	good
Agricultural Supplier	15.0 - 20.0	poor
Cooperative	2.5	fair - good
Total	30.0 - 40.5	

E. LENDING POLICIES AND PROCEDURES

1. Portfolio

See previous section.

2. Interest Rates

All agricultural loans carry a flat 8% interest charge, payable quarterly in advance, regardless of size, term or destination. During 1971 the Colon was devalued by 29 percent from ¢6.62 to ¢8.57 to the dollar. The Index of Prices for Low and Middle Income Consumers in San José indicates that prices have lagged this devaluation, rising about 8 or 9 percent between March 1971 and July 1972. They are now in a strong uptrend.

1965	99.34
1966	92.52
1967	100.72
1968	104.76
1969	107.60
1970	112.61

1971	116.08
1972	
Jan	118.10
Feb	117.25
Mar	116.92
Apr	118.45
May	119.33
Jun	122.53
Jul	123.95

Base: 1964 = 100.

No other intentional subsidies are provided the farmer. The Consejo Nacional de Producción (CNP) sets agricultural prices and provides certain services to farmers. CNP regularly loses money on these operations, but these losses may well represent planning and management deficiency rather than design. Private, lucrative firms provide similar services competitively.

3. Operations. Operations under the AID/SBN program are essentially the same as those used by the individual bank for its own portfolio.

a. Procedures. The procedures used by bank offices are generally simple, efficient, expeditious and not onerous to the borrower.

Application. A standard application form is used, with little variation among banks. The farmer may fill it out himself. More commonly, it is filled out by the bank's delegate, secretary or inspector, to assure that all necessary information is provided. The information required is reasonable and can readily be provided by the average small farmer. The farmer's statement of net income is accepted without verification unless it appears incompatible with other aspects of the operation.

Guaranties. Guaranties are relatively easy to provide. A mortgage is acceptable for any loan. Livestock is suitable as a chattel guarantee, but a crop lien is not, nor is a personal guarantee. A

co-signer is acceptable, easy to come by, and frequently arranged by the bank. In the absence of any of the foregoing, a Consejo Nacional de Producción (CNP) aval, which is a form of crop lien, will serve.

Approval. Approval of the loan may be by a Junta Rural (BNCR), by the Delegado of a sucursal (BCR), or by the central office of any of the banks. Approval is expeditious, normally one to thirty days if money is available, depending on the next meeting of the Junta Rural or the time it takes to get to the central office and back. CNP avales require more time because of the intervening CNP inspection and the time it takes to route the aval through the central office.

The amount approved is seldom the full amount required for the project, not only as a matter of policy, but because individual farmers prefer the minimum indebtedness. The amount granted per cropping unit is determined by the degree of technology to be applied. Most delegados have a sliding scale of amounts per hectare for different crops, based roughly on mechanized, semi-mechanized and traditional practices. These scales are determined by the delegado for his zone according to his own set of criteria (sometimes with MAG assistance), applied flexibly to fit the condition of a particular applicant.

The only reasons given for disapproving a loan application (other than lack of funds) are poor moral character, deliberate failure to meet prior obligations with the bank, lack of guaranties, or evidence of inability to repay the loan due to these or other considerations. However, as the availability of funds tightens, so do bank criteria for lending. One bank with a large portfolio keeps its short-term window open but becomes very sticky about medium and long-term loans as credit availability lessens. Another bank continues to lend freely in amounts under ₡25,000 (about \$2900) but becomes increasingly restrictive in loans above that amount.

Disbursements. Loans are disbursed by the processing office, and normally at that office, but sometimes by the inspector or a "mobile bank."

Loans may be lump sum or tranced against periodic inspection. Disbursement generally appears to have been timely, in accordance with production requirements, and reasonably convenient for the farmer.

Inspection. At least one physical inspection is made by the delegado or by a representative of the appraisal office. Inspections may be required prior to loan approval if the client is new, prior to tranch release, or at other intervals. These required inspections are always carried out by bank personnel, as a matter of institutional responsibility, even when CNP inspection or MAG technical assistance is provided. The purpose of these inspections is to verify application data and/or compliance with loan terms, but it also is commonly used for problem solving or providing technical assistance.

Changes in requirements. These are difficult to document, just as their permanence is difficult to assess. Banks are more aggressive in advertising the availability of funds and are less selective about guarantees because (1) they have new money to lend and (2) they will not be criticized if the loss ratio rises, because the purpose of the loan is to seek new clients, even at new risk levels. As one manager put it, "I tell my people that anyone is worth a loan up to ¢25,000 (about \$2900) under this program if he has a co-signer, and we'll help him find the co-signer. At ¢50,000 I want to look carefully at his guarantees and background, and at ¢75,000 he'd better bring a priest (and a mortgage) with him." With over 80% of the loans under ¢5000 (\$600), this kind of attitude would facilitate new client entry, and it has. However, as the supply of new funds becomes obligated, bankers will almost certainly begin to ration credit by traditional means—selective notification of clients as to fund availability, tighter guarantee requirements, and selective approval of applications.

F. COLLECTION

On average, about fifteen percent of loans have received extensions, and very few of these are in a delinquent condition. As a matter of policy,

banks are generous with extensions if the deficiency in repayment is not deliberate and if interest payments are continued. Banks press clients for prompt loan repayment, but the number of cases referred to the court for collection, or even to CNP for payment of the aval, is quite rare. A Delegado (branch chief) can extend payment terms up to 90 days before going to the Board for rescheduling.

Traditionally, the NBS has lent money on impeccable guarantees with an eye to risk aversion and has rescheduled loans in preference to declaring them delinquent. Several bankers queried expressed initial concern over the liberalization of loan procedures and collateral requirements under this Agricultural Credit Project. They are watching repayments and requests for rescheduling very carefully. So far, they have been pleasantly surprised at the favorable repayment record, and particularly that of small loans made to new clients with limited assets, but they don't have firm statistics yet.

G. COSTS AND FINANCE

1. Portfolio Profits and Losses

This program has only been in operation one and a half years, too short for an accurate evaluation of portfolio profits. The program operates as an integral part of the commercial banks' normal small farm operation, and the banks are reluctant to discuss their internal accounts. The portfolio of this loan is maintained separately, but the general costs of loan administration, including additional costs engendered by this program, are comingled.

It is safe to say, as representatives of each bank did, that the banks do not lose anything on this program. They borrow the money from the Central Bank at $3\frac{1}{2}\%$ for the first five years, $2\frac{1}{2}\%$ for the next five, and $3\frac{1}{2}\%$ thereafter. Funds are relent at 8%, giving them a minimum spread of $4\frac{1}{2}\%$. An indication of profitability is the aggressive way in which individual banks have used these funds.

b	<u>A</u>	<u>B</u>	Ratio A/B %
	Amt. Lent under AID/SBN Program 3/71-6/72 <u>¢ million</u>	March 1971 Balance Small Farm Credit Portfolio <u>¢ million</u>	
<u>Bank</u>			
BNCR	29.2	171.4	17
BCR	18.7	12.9	145
BAC	13.5	8.1	167
BCAC	<u>3.1</u>	<u>4.6</u>	<u>68</u>
Total	64.5	197.0	32

2. Administrative Costs

No administrative costs are available. Bank inspectors frequently provide technical advice to farmers, and this may be the only official technical assistance which they receive. However, this is not considered a technological cost, since the inspector would have to be there anyway in pursuit of his administrative functions. Loans under this program are not considered to be either "supervised" or "directed." The farmer defines his own program which the bank may accept or reject. The bank may suggest modifications, but the choice is the farmer's. There is no minimum acceptable level of technology, nor is the availability of technical assistance a condition of the loan, although it strengthens the loan application.

Three cost limitation schemes were apparent during the first year of operation. The "banco móvil" or mobile bank consists of taking the bank office temporarily to another town, either sporadically or regularly. BCR used the banco móvil on an ad hoc basis in Pacífico Seco to serve clients organized in collective projects by Ministry of Agriculture extension agents. BAC uses the banco móvil in San Carlos as a circulating bank which moves regularly among various towns of the zone on a known schedule. The banco móvil provides effective service to the client. It also lowers the unit cost of loans, either by reaching a large number of similarly situated clients at once, or by reducing the fixed costs of bank operations to that needed to service a limited number of clients.

A second innovation, practiced by BAC in combination with the banco móvil, consisted of opening "windows" in extension agencies pending development of a clientele sufficiently numerous to support a full operation. Finally, a third bank (BCAC) eliminated four steps (out of thirteen) in the processing of small farm credit. This bank is also pioneering in the standardization of loan packages for different crops, levels of technology, areas, etc., reducing both cost and risk.

3. Beneficiary Savings

There is no obligation on the part of borrowers to accumulate savings or equity investment beyond the amount they invest to minimize indebtedness. Debt minimization is a concern of most borrowers, despite the inflation-subsidized interest level. One type of indirect forced savings is noteworthy. Most of the cattle loans were made for terms too short (two to three years) for self-liquidation. This means, in essence, that the livestock investment is capturing and capitalizing some of the profit made by the farmer from other endeavors. Barring catastrophe, the long term well-being of the farmer is probably strengthened by this capital formation.

4. External Finance

This program is directly financed by AID and the BCCR. Chase Manhattan provided a loan, part of which went to small farm credit. Both IBRD and IBRD have lent for agriculture but not for small farm credit. See Section II.D.4 for a discussion of other small farm credit sources.

5. Institutional Solvency

All of the commercial banks are currently solvent. All believe that this program has enhanced their solvency.

6. Foreign Exchange Balance. No way to estimate. The near-term addition of \$3.5 million will be offset long before the loan is repaid by the additional imports of fertilizer and equipment which will be stimulated by this program. Since the program is directed primarily at satisfying

domestic consumption requirements, foreign exchange benefits from production would derive largely from foregoing imports of crops which might be produced locally. Such agricultural imports are currently under \$10 million.

H. COMPLEMENTARY FACTORS

1. Technology

Within the Agricultural Sector Program, agricultural credit and technical assistance (extension) are held to be intrinsically interdependent. The productivity of agricultural credit depends on its application to inputs and practices which economically improve yields. The productivity of technical assistance depends on the availability of adequate financing to apply the recommended inputs and practices. These two activities together account for 37% of sector program financing and have received proportionate consideration in terms of institutional improvement.

a. Bank-Provided Technical Assistance. Ideally, all loans should be predicated on the application of adequate technology to ensure the productivity of that credit. In fact, credit is granted to both high technology and low technology projects, but the amount lent is varied. Part of the problem of restricting lending to high technology enterprises resides in the availability, or unavailability, of technical assistance. The banks' primary role is to supply credit and the Ministry of Agriculture's (MAG's) role is to improve technology, but they do not necessarily work with the same farmer clientele.

Credit under this program is not tied either to technology or inputs, but most borrowers use improved technology and productive inputs, although not necessarily in optimum combination. Bank agents and inspectors commonly have a technical agricultural education. In the process of appraisal and inspection, they provide technical advice and problem solving guidance on an individual basis, and this may be the only technical assistance the farmer receives. However, this assistance is sporadic and

may not be opportune in a particular instance. Banks would like to have MAG agents assume technical assistance functions, but they visualize this as individual guidance to loan beneficiaries.

b. MAG-Provided Technical Assistance. The Ministry of Agriculture's Extension Service has operated in the past with traditional methodology— farm visits, office consultations, method and result demonstrations, occasional lectures or short courses, organization of rural youth and women, distribution of publications. This methodology is characterized by its diffuse character and results which are measured in cases rather than national statistics. MAG programs were commonly implemented in isolation from programs of other agencies (including the National Banking System) with which they might have been helpfully coordinated.

A significant change in preferred methodology began about two years ago, consisting primarily of working with groups rather than individuals, working in cooperation with other agencies, and concentrating efforts on productive possibilities. This new approach is not yet well implanted, but it is gaining momentum; as it does, credit beneficiaries will be preferred clients. However, at present an apparent impasse exists between NBS and MAG. Banks want MAG to concentrate on providing technical advice to individual credit clients, while MAG wants to work through groups, the members of which may or may not be credit beneficiaries.

c. Coordinative Potential

(1) Individual Clients. In fact, the respective responsibilities and methods of the two agencies can be made to correspond almost perfectly. Banks inevitably must visit individual farms for inspection purposes and cannot delegate this responsibility. They should continue to provide technical assistance during these visits, when qualified to do so, or may refer the farmer to MAG for advice. However, a more effective method would be for the bank to require a group of individual clients who have similar needs to meet at a central location prior to the planting season, where they may be instructed by MAG agents in appropriate technology.

This training seminar can be used also by the bank agent to explain the availability of additional credit for use of productive technology, so that technical assistance and credit coincide as incentives for the use of improved technology.

(2) Collective Clients. Excellent coordination has been achieved when MAG has organized farmers into groups who had similar needs, provided them with technical assistance, and requested the banks to provide credit on an individual basis to these groups of farmers. Banks have responded very effectively in granting the credit and have been very pleased with the results. Banks have organized some client groups themselves, and where this has been adequately coordinated with the MAG, with similar success. This method of operation can be expanded considerably.

d. Other Sources. The primary sources of technology other than the banks and MAG are the agricultural suppliers, whether private or cooperative. Neither are effective in outreach work with small farmers, although they can (and do) provide advice about the products sold when the small farmer buys them. The Incentive Guarantee Fund (see II.A.2.c.) is intended to encourage private suppliers of agricultural inputs to provide the same sales-related technology transfer to small farmers that they now provide to large farmers.

e. Nature of Technology. Adequate in-use technology exists to economically improve average yields of virtually every crop in Costa Rica, except beans. Most of the desired beneficiaries of this program operate at or below average productivity. Most extension and bank agents have sufficient technical knowledge to perform effectively at in-use levels, but many lack ability to transmit this knowledge.

2. Supplies and Sales

a. Supplies. There are no "program supplies" or "program infrastructure" directly included in or allied with the Agricultural Sector Program. However, some assistance is provided to establish seed and grain quality

control laboratories, to provide seed cleaning and grain drying equipment, and to provide credit to cooperatives for processing and marketing facilities. These serve the entire sector and not just credit beneficiaries. The private sector (including cooperatives) is expected to expand spontaneously to meet the demand, and there is considerable evidence that this is happening. Improved seed, fertilizers, insecticides, fungicides, herbicides, etc., are available throughout the country, although not necessarily in all locations at reasonable prices. MAG has helped to organize a number of pre-cooperatives to fill this service-of-supply function as a part of their collective projects, with excellent results.

b. Markets. A national price support program for rice, corn and beans is operated by the Consejo Nacional de Produccion (CNP). CNP also provides drying and storage facilities. These programs are generally available to all farmers. A crop damage insurance program was just initiated by the Cia. Nacional de Seguros (nationalized insurance agency) but is not in general small farm use.

Farming in Costa Rica is a reasonably profitable business. Most economic analyses show that recommended technology is profitable. In general, profit increases with increasing technology, defined as practices which increase yields per acre.

III. EVALUATION

Some aspects of evaluation have been included in prior parts of this paper in explanation and definition of various features of the program. Since this credit program has been in operation only fifteen months, the following comments focus particularly on the credit availability objectives identified under II.B:

- An increase in the relative and absolute amounts of credit available to the small farmer.
- An increase in the number of small farm clients.
- Improved coordination of agricultural credit.
- Improved guidance of agricultural credit to satisfy social and economic objectives of the rural sector.

The institutional emphasis of these objectives should also be stressed. At this point in time, we are more interested in establishing these output measures and the capability to exercise them than in the longer-term purpose of increasing productivity.

A. PERFORMANCE

1. Agricultural Credit Availability and Distribution

The agricultural sector program is based on a strategy of improving the small farmer's well-being by improving his productivity. The small farmer has had only limited access to credit, and this absolute and relative credit deprivation has retarded his participation in national economic growth. The sector program seeks to overcome this disparity by providing additional funds for small farm credit. It expected (and required) that commercial banks increase their non-program allocations to the small farmer. These elements of the program assure the absolute growth of small farm credit. However, the small farmer's well-being is measured relative to that of other sectors. Therefore, it is also expected that the availability of small farm credit will improve relative to total credit and to other agricultural credit.

a. Global Credit Trends

For several years prior to 1970, credit was tightly controlled within the nationalized SBN by a series of detailed credit allocations known as "topes." From 1965 to 1970, this system was used to limit credit growth to annual rates in the range of 3 to 7 percent. In 1970, this stringency was eased and credit allowed to advance almost 17 percent. The tope system was abolished by 1971 and replaced with a more flexible set of maximum and minimum limits, bounded by BCCR decision. In 1971, the first year of operation under the new system, credit mushroomed by 28 percent (Fig. 2 and Table 2). This growth in total credit coincided with most of the credit input of the agricultural sector program.

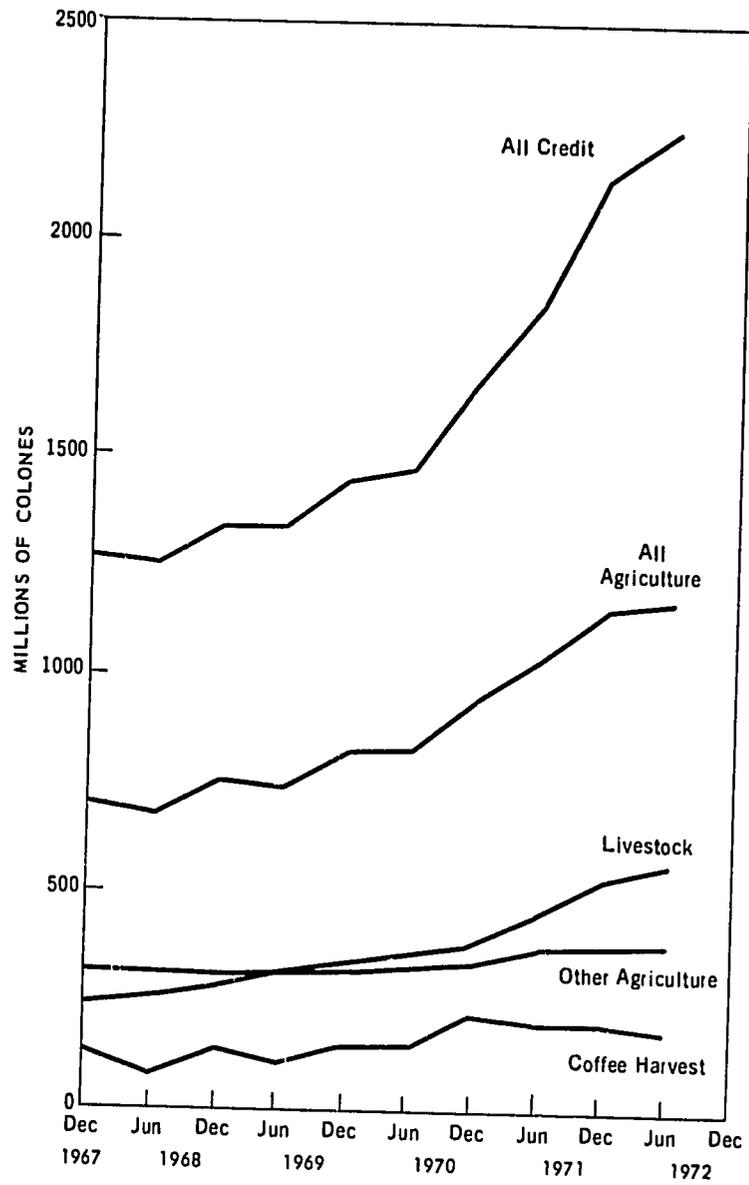
b. Agricultural Credit Relative to Other Sectors

Agricultural credit has risen relative to 1970 coincident with the rise in total credit (Fig. 2). However, it has grown at a slower rate than non-agricultural credit generally.

Relative Distribution of Credit
(Based on effective placement balances)

	Percent of Total Credit			
	<u>12/70</u>	<u>6/71</u>	<u>12/71</u>	<u>6/72</u>
Livestock	23.2	24.6	24.7	25.1
Coffee Harvest	13.6	10.6	11.2	8.7
Other Agriculture	<u>20.1</u>	<u>20.4</u>	<u>18.1</u>	<u>17.7</u>
Total Agriculture	56.9	55.6	54.0	51.5
Non-Agricultural	<u>43.1</u>	<u>44.4</u>	<u>46.0</u>	<u>48.5</u>
Total Credit	100.0	100.0	100.0	100.0

Source: BCCR: Crédito y Cuentas Monetarias. Further, within the agricultural sector, agriculture (as distinguished from livestock) suffered a stiff relative decline.



**Fig. 2—Total Effective Credit Placement Balances
in Millions of Colones**

Rate of exchange: \$1.00 = ₡6.60 to 6/71; \$1.00 = ₡8.57 after 6/71.

Source: BCCR Crédito y Cuentos Monetarios (December 1971 and June 1972).

Table 2

TOTAL EFFECTIVE CREDIT PLACEMENT
Balances in Millions of Colones

	<u>1967</u>	<u>1968</u>		<u>1969</u>		<u>1970</u>		<u>1971</u>		<u>1972</u>
	Dec	June	Dec	June	Dec	June	Dec	June	Dec	June
Livestock	251.6	269.0	285.3	310.6	332.2	349.3	387.9	458.2	529.9	564.4
Coffee Harvest	139.9	94.8	154.5	109.2	164.2	146.1	228.0	200.5	239.4	195.3
Other Agriculture	310.2	313.9	306.4	315.6	315.2	325.9	338.2	378.7	389.7	398.5
Total Agriculture	701.7	677.7	746.2	735.4	811.6	821.3	954.1	1037.4	1159.0	1158.2
Non-Agricultural	577.1	585.1	587.4	592.7	618.5	648.8	716.7	822.2	987.3	1085.1
Total Credit	1278.8	1262.8	1333.6	1328.1	1430.1	1470.1	1670.8	1859.6	2146.3	2243.3

Rate of exchange was \$1.00 = $\text{¢}6.62$ to 6/71. It fluctuated somewhat until 11/71 and has remained steady thereafter at \$1.00 = $\text{¢}8.57$.

Source: BCCR Crédito y Cuentas Monetarias

c. Small Farm Credit Relative to Other Credit

All of the commercial banks raised the allocations from their own portfolios to small farmer credit, and the AID/SBN Fund contributed to this increase. These combined increases were sufficient to raise the relative proportion of small farm credit to total credit slightly, despite the proportionate decline in total agricultural credit. However, without accelerated disbursement of the AID/SBN program, small farm credit would have declined in 1971 relative to both total and agricultural credit. So far in 1972, the non-AID/SBN portfolio has grown faster than overall credit.

EFFECTIVE PLACEMENT OF SMALL FARM CREDIT
Balances in Millions of Dollars

	<u>12/70</u>	<u>6/71</u>	<u>12/71</u>	<u>6/72</u>	<u>Increase</u>	
					Amount	%
BNCR	19.664	21.578	21.064	24.845	5.181	25
BCR	1.424	1.540	1.564	2.672	1.249	88
BAC	0.770	1.260	1.669	2.089	1.319	170
BCAC	<u>0.478</u>	<u>0.607</u>	<u>0.619</u>	<u>0.689</u>	<u>0.210</u>	<u>44</u>
Total	22.336	24.985	24.915	30.295	7.959	36
AID/SBN		<u>0.864</u>	<u>3.979</u>	<u>5.357</u>	<u>5.357</u>	
Total	22.336	25.849	28.895	35.652	13.316	59
Relative to:						
Total Credit	11.5	11.5	11.5	13.6		
Total Agric. Credit	20.0	21.3	21.4	26.4		

Source: BCCR: Programa de Crédito Agropecuaria AID/SBN.

d. Agricultural Credit Distribution by Destination

In Costa Rica four crops—coffee, bananas, sugar cane and rice—account for 96 percent of all crop credit; coffee alone absorbs 83 percent. Similarly, credit for beef cattle absorbs 88 percent of all livestock

credit. With the exception of rice, these crops tend to be grown by larger farmers and tend to be exported. The AID/SBN program attempts to redress this imbalance by providing additional credit which must be used only for small farm crops. The effect of this program on total agricultural credit can be seen by comparing the AID/SBN program of 1971 with the change in all agricultural credit from 1970:

	Difference 1971 over 1970					
	Amount		Number		1971 Average Loan	
	\$ millions					
	<u>All</u>	<u>AID/SBN</u>	<u>All</u>	<u>AID/SBN</u>	<u>All</u>	<u>AID/SBN</u>
All Agriculture	23.550	4.197	10,823	8504	3397	493
Crop	2.742	2.008	4,670	55.2	5059	364
Livestock	15.614	1.936	5,000	2702	2151	717
Other Activities	5.193	0.251	1,153	290	3029	865

Source: MAG Boletín Estadístico.

The AID/SBN program accounted for 78 per cent of the 1970 to 1971 increase in loan numbers but provided only 18 percent of new credit. It did this both by bringing in new credit clients and by lending smaller average amounts.

The significance of this program becomes more evident when it is compared with that part of the total agricultural credit which is eligible for financing under the AID/SBN program, i.e., all credit less coffee, sugar cane, cotton, bananas and beef:

Difference 1971 over 1970

	<u>Amount</u>		<u>Number</u>		<u>Average/Loan</u>	
	<u>\$ millions</u>					
	<u>All</u>	<u>AID/SBN</u>	<u>All</u>	<u>AID/SBN</u>	<u>All</u>	<u>AID/SBN</u>
All Agriculture (less...)	<u>11.028</u>	<u>4.195</u>	<u>7013</u>	<u>8504</u>	<u>1267</u>	<u>493</u>
Crops (less cotton, coffee, cane, banana)	2.427	2.008	4110	5512	712	364
Livestock (less beef cattle)	3.408	1.936	1750	2702	1329	717
Other Activities	5.193	0.251	1153	290	3496	865

Source: Mag Boletin Estadistico

When we exclude such activities, the AID/SBN program accounted for 39 percent of the increase in loan funds and 121 percent of the difference in loan numbers. The fact that the increase in total loan numbers was less than the number of loans financed under the AID/SBN program reflects the fact that the commercial banks switched some of their own funds into excluded activities.

The reduction in average size of crop loans reflects the small average size of AID/SBN loans. The fact that the average size of livestock loans increased reflects the greater total availability of non-AID/SBN livestock credit and the propensity of banks to make larger livestock loans. AID/SBN livestock loans averaged fairly close to the 1970 level.

2. Numbers of Small Farm Clients

Over half of the loans were made to new clients during the first nine months of operation of the AID/SBN Agricultural Credit Program:

	<u>Number</u>		<u>Amount</u>		<u>Average Loan</u>
	No.	(%)	\$000	(%)	\$
New Clients	4017	(52)	1857	(43)	453
Old Clients	3694	(48)	2389	(57)	647

Some of the reported "new" clients are not new to the banking system but were wooed away from other banks by more aggressive marketing of agricultural credit among small farmers. However, the fact that new clients outnumbered established clients in all but the smallest bank indicates that most clients were indeed new to the banking system.

Interbank competition has had a beneficial effect on both aggressiveness in marketing and in greater credit accessibility. One of the two small banks (BAC) opened six new offices and "sold" AID/SBN credit in an amount equal to 167 percent of its pre-program small farm credit balance. At the same time it more than doubled its small farm credit portfolio from non-program funds. This bank recently eased substantially its lending limits and requirements for all small farm credit. The other small bank, with only two offices, cut four steps out of its processing of small farm credit and is making larger, more complex investment loans to small farmers. Neither of the two larger banks (BNCR and BCR) have modified their procedures. However, BCR has become much more aggressive in marketing small farm credit, more than tripling its small farm portfolio. BNCR, still the giant, managed to lay off a larger absolute amount of small farm credit from both AID/SBN and its own funds than any other bank, but its percentage increase was, of course, smaller.

3. Improved Coordination

Progress towards coordination of agricultural credit with technical assistance was discussed under II.H. above.

Guidance of credit policy to better serve the total national needs of the rural sector is an equally delicate task, particularly in a country with limited central planning. The Consejo Agropecuario Nacional

(CAN) includes among its membership the chief executives of the BCCR, the four commercial banks, MAG, and other primary public agencies involved with the agricultural sector. CAN thus provides a forum for discussion of all public policy that affects the agricultural sector, although the policy enunciation function remains with the particular agencies. The intent is that major policy initiatives can be discussed before they are put into effect so that each agency can express its own views. Similarly, problems arising in one agency, but affecting others, can be examined with a view to equitable solution.

The CAN Executive Secretariat coordinates the preparation of two annual plans concerning the Agricultural Sector Program. Plan I, prepared by each agency, is the annual implementation plan for the project of the Sector Program for which it is responsible. Plan II is a coordinated plan for the agricultural sector which defines scope and direction of desired changes and provides a perspective for the small farm program. Both plans are discussed and approved by CAN.

The quality of planning has improved considerably over the last one and a half years but still lacks the precision which is necessary to provide a sound basis for sector guidance. This weakness reflects the weakness of the sector's data base. A considerable effort has been going on to pull together and serialize sector surveys and reports. However, a good deal of additional research will be needed before the significance of these data is fully understood.

4. Other Credit Effects

This particular agricultural credit project has been in operation too short a time for on-farm effects to be discernible, except on a case basis. There has never been a detailed study in Costa Rica on the effects of credit on small farm production, organization, etc. In 1966 an attempt was made to determine the effects of participation in the BNCR Junta Rural credit program on net worth, and this study's results may continue to be applicable. Juntas were asked to select farmers who had been in the credit

program for from five to ten years (between 1955 and 1966) and to analyze their accounts to determine the results. One hundred ninety-three farmers were selected, apparently without overt bias in favor of the best farmers, but the 5-10 year requirement would have eliminated high risk borrowers and sporadic credit users.

The results of this study are summarized in Tables 3 and 4. Average capitalization increased from \$4973 per farm to \$14,625, at an annual rate of \$1297, associated with average annual borrowing of \$746. Net worth increased by \$1.74 per dollar borrowed, with a range of \$0.68 to \$2.54 per \$1.00 borrowed.

B. EVALUATION PROCEDURES AND FEEDBACK

1. Program Evaluation Procedures

BCCR has established a coordinating office to manage this and other internationally financed programs. This office coordinates the reports from the four commercial banks and consolidates them into a formal monthly report to the Consejo Agropecuario Nacional. This report provides output information on the number and amount of operations by bank, zone, term, destination, borrower characteristics, etc. It also provides information about the growth in each bank's own small farm portfolio. Unfortunately, reporting is commonly delayed and individual months are skipped in favor of consolidated annual or semestral reports.

Two serial publications, the MAG Boletín Estadístico and the BCCR Crédito y Cuentas Monetarias, provide a frame of reference for comparing the AID/SBN with other types of credit.

The Consejo Agropecuario Nacional (CAN) is responsible for coordination and evaluation of the entire Agricultural Sector Program, including the Agricultural Credit Project. One of CAN's analysts reviews SBN reports and works with BCCR coordinators on operational and reporting problems. The USAID Project Monitor also works with the CAN analyst and BCCR.

Table 3

SUMMARY OF GROWTH IN NET WORTH AND AVERAGE ANNUAL CAPITALIZATION OF 193 SELECTED
FARMERS WHO PARTICIPATED IN THE LOAN PROGRAMS OF JUNTAS RURALES OF THE BANCO
NACIONAL DE COSTA RICA FROM 1955 THROUGH 1966
(U.S. Dollars)

Agricultural Region and Selected Juntas	Change In Ave. Net Worth per Farm		Average Annual Increase In Capitalization/Farm			Amount Borrowed per Farm	
	Beginning	End	Amount	Range From To		Total	Annual Average
<u>Central Valley:</u>							
St. Ana and Belén Juntas	2,983	8,840	664	49	1,747	4,916	548
Grecia Junta	6,586	15,978	1055	76	1,786	5,816	653
Pacayas Junta	1,852	5,190	556	14	831	2,351	392
Paraiso Junta	2,424	5,608	366	45	1,506	1,807	208
<u>Valley of San Isidro General:</u>							
54 Pérez Zeledón Junta	4,586	12,987	1565	- 39	3,573	3,391	538
<u>Guanacaste & Northern Pacific:</u>							
Liberia Junta	15,269	42,953	3792	905	11,329	11,876	1901
Nicoya Junta	3,572	12,195	1062	166	4,269	6,098	762
Esparta Junta	2,378	5,380	434	- 932	2,003	2,918	634
<u>Southern Pacific Zones:</u>							
Puriscal Junta	5,544	12,551	1274	313	2,613	3,480	633
Quepos Junta	4,408	21,431	2182	264	6,898	10,016	1284
<u>Atlantic Zones:</u>							
Turrialba Junta	3,290	14,374	1621	529	5,000	5,507	800
San Carlos Junta	7,104	20,789	1684	292	5,023	7,634	931
Pococí	4,744	14,810	1124	121	3,801	5,890	662
Country Total and Averages	4,973	14,625	1297	- 932	11,329	5,595	746

Table 4

INCREASE IN NET WORTH ANNUALLY IN RELATION TO AMOUNTS
LOANED ANNUALLY BY SELECTED RURAL JUNTAS
(U.S. Dollars)

Agricultural Region and Selected Juntas	Average Annual Capitalization Per Farm	Average Annual Loaned Per Farm Annually	Annual Increase in Net Worth Per Dollar of Loan
<u>Central Valley:</u>			
Sta. Ana and Belén Juntas	664	548	1.21
Grecia Junta	1055	653	1.61
Pacayas Junta	556	392	1.42
Paraiso Junta	366	208	1.76
<u>Valley of San Isidro General:</u>			
Pérez Zeledón Junta	1365	538	2.54
<u>Guanacaste and Northern Pacific:</u>			
Liberia Junta	3792	1901	1.99
Nicoya Junta	1062	762	1.39
Esparta Junta	434	634	.68
<u>Southern Pacific Zones:</u>			
Puriscal Junta	1274	633	2.01
Quepos Junta	2182	1284	1.70
<u>Atlantic Zones:</u>			
Turrialba Junta	1621	800	2.03
San Carlos Junta	1684	931	1.81
Pococí Junta	1124	662	1.70
Country Total and Averages	1297	746	1.74

CAN has contracted with two local firms to conduct periodic evaluations of the Agricultural Sector Program, and one of these has been completed. It is anticipated that these periodic evaluations will be continued, probably annually for the total program, with more detailed studies as required.

2. Feedback and Changes in Program

At this point in time, the principal concern is to get the program to operate on the lines already agreed. The program is still in the implementation and adjustment stage. The first detailed evaluation of program operations was completed only a month before this paper was written and reactions to evaluation recommendations had not been formally advanced.

C. PROBLEMS

Major problems at this time are administrative rather than conceptual:

- More precise and punctual reporting so that operational impact is known in time to react effectively, if necessary.
- Trial programming of small farm credit at the local office level to determine the feasibility of allocations among types of borrowers, terms, activities, amounts, etc.
- Regional hierarchization of bank administration to permit more effective coordination at the regional level.
- Continued emphasis on joint NBS-MAG provision of technical assistance to small farmers who are credit clients.

D. CONCLUSIONS ABOUT SMALL FARM CREDIT

The problems of the small farmer are those of any citizen without the sophistication to know what's happening, the capacity to influence it, nor the wisdom (and resources) to profit by it. Like the problems of any other citizen, paternalism may help as long as the citizen's interest does not conflict with the patron's. However, in a competitive society, the only effective safeguards are vigilant awareness of what's

happening, perceptive understanding of self-interest, and organization to influence events.

Agricultural credit provides none of these things and, therefore, will not solve the problems of the small farmer. Credit allocation is seldom the result of unaided market forces. Therefore, the proportion of total credit which goes to small farm use is an indication of the concern which society feels for the small farmer. The addition of external credit resources for small farm credit, without changing the concern which society feels for the small farmer, enhances the relative availability of small farm credit only ephemerally. It is too easy to shift credit allocations or to change the global credit availability. External resources, combined with suitable publicity in a coordinated program to "redress the balance" in favor of the small farmer, can help to stimulate the paternal conscience for awhile, as it has in this program. However, the permanence of improvement depends on the farmer's ability to demand credit and be attended, and this requires continuing power to influence the allocation process.

When interest rates are fixed below that which would be expected in a free market, the demand for credit is essentially infinite. The cost of credit no longer adjusts demand to supply, and other factors enter the distribution process. Traditional factors are safety of capital and low cost. Small farmer lending is high cost and also high risk, so it loses relative importance in the portfolio. If interest rates are held below equilibrium, then the only thing that maintains the relative status of the small farmer is the social and political importance attached to the small farm. Individually, small farmers have no power; collectively, they can have considerable influence over the allocation of society's resources, including credit.

Organization helps too in reducing the high costs of small farm lending and in spreading risks. If a group of farmers with like interests are grouped, a mobile bank can handle most of the work involved in individual loans to a sizeable community in a day or so. If grouped, they

can receive technical advice and procure inputs at lower cost, thus reducing risks. The closer the costs and risks of lending to the small farmer approach those of other borrowers, the easier it will be for the banker to accept the imposition of arbitrary set-asides or reserves for small farm lending.

Agricultural credit provides leverage only. It is not inherently productive except insofar as it permits the economic purchase of a productive input in a greater quantity than would otherwise be procured. When economically productive uses of credit are available, it is a most potent lever for capital formation and the economic advancement of those who have access to it. This is the primary reason for assuring access of small farmers to credit in relatively greater amounts if their status is to be improved relative to that of other sectors of society.

Leverage is a two-edged sword, however. Credit applied to unproductive use can accelerate the destructive potential of chance hazards. Our knowledge of what is economically productive and what is not is fundamentally deficient in any particular case in a field like agriculture which is subject to wide fluctuations of weather and market. The application of fertilizer to corn may be highly productive when yields increase from 60 to 80 bushels per acre. However, if weather causes the yield to increase only five bushels, it won't be. Even higher yields might be unprofitable if the ensuing glut drops the price too much.

A farmer who mortgages his land to obtain credit is probably being forced to take too great a risk as the price of credit, not only for himself alone but for society. If he fails, he loses his property. Unless society has a better use for him elsewhere, he becomes a net burden. The objective of credit allocation should not be the minimization of risk nor the maximization of profit, but the optimization of social welfare.

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COUNTRY STUDY

SMALL FARMER CREDIT IN COSTA RICA:
THE JUNTAS RURALES

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San Jose
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SMALL FARMER CREDIT IN COSTA RICA: THE JUNTAS RURALES

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1.01 Introduction

This is a study of the "Juntas Rurales de Crédito Agrícola" in Costa Rica. (Agricultural Credit Rural Boards).

The Juntas Rurales are decentralized bank offices located strategically throughout the country. The analysis of their operations may be useful to those interested in evaluating the performance of banks as a source of credit for small farmers and, in particular, to those who have to decide if special institutions should be created for this purpose.

The Juntas Rurales, whose operations can be traced back to 1914, are a successful example of bank-administered credit for small farmers. Such a success is based on a combination of the experience and technical ability of a bank with the inside information possessed by members of local communities. The analysis may interest those who find attractive the idea of incorporating local informal lenders into an institutionalized system of credit.

The importance of this successful combination should not be obscured by the many criticisms that follow. Firstly, the most serious shortcomings encountered reflect policies decided upon by other institutions, in particular the Central Bank and the General Government. The consideration of these policies highlights, however, that the success of a small farmer credit program depends not only on what happens within the limited world of the program itself, but also on the general policies followed by public institutions, particularly those affecting strategic variables, such as interest rate policies. Secondly, problems pointed out indicate that this successful program can still be improved.

The first section briefly summarizes Costa Rica's agricultural patterns and potentials. Services provided to farmers, including credit from different sources, are cited.

The position of the Juntas Rurales within the total matrix of bank credit for agriculture, and the relationships of their operations with other banking institutions in the country, constitutes the topic of the second section. Given that the Juntas Rurales are a part of the nationalized banking system of Costa Rica, they are affected by the decisions which influence the allocation of bank credit in the country. There is an attempt to explain how these decisions are made and what are their consequences. The role of the Juntas Rurales is thus viewed in the light of the total government approach to agricultural credit.

The third section presents a schematic history of the Juntas Rurales. The evolution of their output is examined in the fourth section. Later sections describe the sources of funds, the objectives, and the organization and procedures proper to the Juntas Rurales. Finally, an effort is made to evaluate their performance during the period 1937-1971.

Like most studies in less developed countries, the analysis has been beset by data problems. Published information and internal records of the Central Bank and of the Banco Nacional de Costa Rica have been examined. There were serious shortcomings even with these data. I am very grateful to officials of the two banks for their constant help. Not all of the information collected has been incorporated into the paper. I possess considerable amounts of information that can be made available on request.

Many of the ideas presented here were originally developed in a study of "Agricultural Credit in Costa Rica" which I undertook with Robert Cross Vogel in 1969. Officials of the Banco Nacional de Costa Rica or of the Central Bank have been helpful, but they should not be held responsible for any of the ideas presented here. This paper does not represent the ideas of the AID Mission in Costa Rica, either. All responsibility for the present paper is solely mine.

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January, 1973

AGRICULTURE IN COSTA RICA

2.01 Agricultural zones

Costa Rica's 19,700 square miles form a narrow section of southern Central America. Its generally rough topography includes high rugged mountains, and hills drained by numerous rivers and streams. There is a relatively wide coastal plain on the Caribbean side of the country and a narrower plain on the Pacific coast. The country's main physiographic regions are the Central Highlands, the Atlantic Zone and the Pacific Zone.

Most of the population, estimated on July 1st, 1972 at 1,842,831 inhabitants, is located on the "Meseta Central" (Central Plateau) in the Highlands, which covers 20 per cent of the country's land area.

The Central Plateau's altitude varies from 600 to 1,200 meters, with an average temperature of 68 degrees, and average annual rainfall of 1,000 to 1,500 mm. It has largely volcanic soils with good agricultural potential for coffee, sugar cane, truck crops such as tomatoes and onions, and most other subtropical crops.

The extremely deep river valleys which cross the Central Plateau prevent the exploitation of large land areas. While topographic conditions thus limit large scale mechanization, a very modern technology is generally employed in the cultivation of the main crops, coffee and sugar. The cooler elevations above the Central Plateau produce potatoes, corn and onions, and are the source of much of Costa Rica's excellent dairy production.

The Atlantic Zone, hot, humid and tropical, with alluvial soils, offers excellent potential for agricultural development when adequately drained, which might involve great expense. This potential has been partially exploited in the past through large-scale banana plantations and the production of cacao. Cattle raising and forestry are also important in this area.

The Pacific Zone comprises 43 per cent of the total land area. Its northern section, characterized by a pronounced dry season and relatively low rainfall, is Costa Rica's principal cattle and grain producing area. The damper southern section is extensively cultivated with banana and oil palm plantings, but the area also lends itself to the cultivation of rice and other annual crops.

Of the total land surface, approximately 23 per cent can be used for intensive farming. Another 30 per cent may be exploited extensively for agriculture or livestock production, with appropriate conservation measures. Some of this area requires intensive drainage and other improvements for productive use. Approximately 36 per cent of the land area has potential only for forestry. ^{1/}

2.02 Growth of the agricultural sector

The agricultural sector has been the prime mover of Costa Rican economic development ever since the country was first settled by the Spaniards. Tables 1 and 2 show the distribution of Gross Domestic Product by sector, both in absolute and relative terms.

Although agriculture's relative contribution has declined during the 1960's, this sector is still the cornerstone of the Costa Rican economy. It represents around 23 per cent of Gross Domestic Product. Moreover, there are reasons to believe that if agricultural product were measured at the correct prices, its contribution would be seen still greater.

Due to protection, prices of Costa Rican manufactured products are substantially higher than international, import, prices. An overvalued exchange rate, on the other hand, underestimates the importance of agricultural production for export. Part of the increase in industry's and of the decrease in agriculture's relative contributions to Gross Domestic Product are therefore a statistical illusion.

In general the growth of Costa Rica's agricultural production has been steadily accelerating. During the period 1950-1969 the value of agricultural production grew at an average annual rate of 4.9 per cent, well in excess of the 3.5 per cent average annual rate of growth of the population. Table 3 gives the rates of growth of agricultural and total Gross Domestic Output for the years 1964-1971. The highest rate of growth of agricultural output was 11.7 per cent per year, corresponding to 1969.

The average annual rate of growth of agriculture for the period 1964-1971 was 8.18 per cent, while the whole economy grew at an average rate of 9.80 per cent per year. Table 3 also indicates the levels and rates of growth of national income and of national output, as well as the corresponding per capita concepts. Finally, the relatively slow upward tendency of prices during the period is reflected by the price index for the low and medium class consumer of the Central Plateau.

^{1/} "Costa Rica: Agricultural Development Program". U.S. Agency for International Development. 1970. Accompanying documents.

Table 1

Costa Rica: Gross Domestic Product by Sector. U.S. Dollars.(Thousands)

<u>Sectors</u>	<u>1957</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Agriculture, forestry, hunting and fishing.	110,842	118,902	121,639	131,864	132,180	146,045
Industry and mining.	51,835	66,105	80,135	91,142	97,669	105,203
Construction.	15,038	22,617	25,864	27,548	22,602	28,000
Electricity and public utilities.	3,444	5,594	5,969	7,007	7,805	8,902
Transportation, storage and communications.	13,128	16,617	17,774	19,578	21,579	23,444
Trade.	63,744	73,188	80,857	86,375	90,857	99,429
Banking, insurance, and real estate.	7,789	11,173	10,992	11,939	14,000	15,534
Housing.	32,526	40,992	44,195	47,473	49,414	51,278
General Government.	27,954	41,248	43,954	48,105	50,887	57,128
Services.	31,444	42,647	46,330	50,090	54,346	59,008
Gross Domestic Product.	357,744	439,083	477,353	520,902	541,338	593,970
<u>Sectors</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
Agriculture, forestry, hunting and fishing.	150,165	164,256	181,083	202,271	217,699	229,248
Industry and mining.	117,022	131,429	147,398	162,872	182,060	199,669
Construction.	30,111	29,895	34,571	37,429	42,586	54,000
Electricity and public utilities.	9,774	10,496	12,075	13,970	16,180	18,721
Transportation, storage, and communications.	23,925	27,669	30,692	33,774	37,909	42,406
Trade.	106,180	107,820	118,526	131,880	157,037	174,556
Banking, insurance, and real estate.	17,188	19,835	22,842	27,263	32,285	36,872
Housing.	53,173	55,248	57,774	60,316	63,639	67,563
General Government.	66,586	73,925	80,857	91,173	102,541	119,939
Services.	63,880	70,451	75,113	79,594	90,827	98,947
Gross Domestic Product.	638,000	691,023	760,932	840,436	942,766	1,042,030

Source: Central Bank and National Planning Office.
See notes.

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Table 2

Costa Rica : Percentage Distribution of Gross National Product by Sector.

<u>Sector</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
Agriculture, forestry, hunting and fishing.	31.0	27.1	24.6	24.3	27.1	25.5	25.3	24.4
Industry and mining.	14.5	16.4	16.4	17.2	15.1	16.8	17.5	18.0
Construction.	4.2	4.9	5.5	4.7	5.1	5.4	5.3	4.2
Electricity and public utilities.	1.0	0.9	1.2	1.2	1.3	1.2	1.3	1.5
Transportation, storage, and communications.	3.7	3.7	3.8	3.8	3.8	3.7	3.8	4.0
Trade.	17.8	17.6	18.3	18.8	16.7	16.9	16.6	16.8
Banking, insurance, and real estate.	2.2	2.4	2.5	2.6	2.5	2.3	2.3	2.6
Housing.	9.1	9.2	9.3	9.2	9.3	9.3	9.1	9.1
General Government.	7.8	8.6	9.0	9.2	9.4	9.2	9.2	9.4
Services.	8.8	9.3	9.4	9.6	9.7	9.7	9.6	10.0
<u>Sector</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	
Agriculture, forestry, hunting and fishing.	24.6	23.6	23.8	23.8	24.1	23.1	22.0	
Industry and mining.	17.7	18.3	19.0	19.4	19.4	19.3	19.2	
Construction.	4.7	4.7	4.3	4.5	4.5	4.5	5.2	
Electricity and public utilities.	1.5	1.5	1.5	1.6	1.6	1.7	1.8	
Transportation, storage, and communications.	4.0	3.8	4.0	4.0	4.0	4.0	4.1	
Trade.	16.8	16.7	15.6	15.6	15.7	16.7	16.8	
Banking, insurance, and real estate.	2.6	2.7	2.9	3.0	3.2	3.4	3.6	
Housing.	8.6	8.3	8.0	7.6	7.2	6.8	6.4	
General Government.	9.6	10.4	10.7	10.6	10.8	10.9	11.5	
Services.	9.9	10.0	10.2	9.9	9.5	9.6	9.5	

Sources: Central Bank and National Planning Office.
See notes.

Table 3

Costa Rica: Population, National Income, National Product and Price Index. U.S. Dollars. Thousands.

Year	Population	National Income	National Product	Income per Capita	Product per Capita	Consumer Price Index
1957	1,110.3	295,684	349,473	266.32	314.74	
1958	1,153.2	305,503	362,496	264.96	314.28	
1959	1,199.7	318,390	381,804	264.41	318.19	
1960	1,254.1	345,654	412,571	275.64	329.02	
1961	1,297.9	370,992	435,127	285.86	335.19	
1962	1,343.4	396,375	468,887	295.04	349.02	
1963	1,390.8	435,669	513,263	328.27	369.02	
1964	1,439.1	450,902	546,300	313.38	369.17	100.0
1965	1,489.8	489,984	581,428	328.42	390.22	99.3
1966	1,540.8	522,345	623,954	338.94	404.96	99.5
1967	1,589.9	569,533	674,586	358.19	424.36	100.7
1968	1,634.4	624,992	742,150	382.40	454.13	104.8
1969	1,684.2	703,924	833,909	417.74	494.88	107.6
1970	1,737.4	765,954	929,593	440.90	535.04	112.6
1971	1,785.7	855,669	1,023,909	479.25	574.29	116.1

Percentage Rates of Growth

Year	Agricultural Product	Gross Domestic Product	Population	Income per Capita	Product per Capita	National Income	National Product
1957	-	-	-	-	-	-	-
1958	- 0.58	3.66	3.86	- 0.52	- 0.15	3.32	3.72
1959	- 0.61	4.30	4.03	- 0.21	1.24	4.21	5.32
1960	6.67	7.56	4.53	4.24	3.40	8.56	8.05
1961	13.58	5.53	3.49	3.70	1.87	7.33	5.46
1962	- 2.26	8.71	3.50	3.21	4.12	6.84	7.75
1963	8.40	9.08	3.52	11.26	5.73	9.91	9.46
1964	0.23	3.92	3.47	4.75	0.04	3.49	6.43
1965	10.49	9.72	3.52	4.79	5.70	8.66	6.43
1966	2.82	7.41	3.42	3.20	3.77	6.60	7.31
1967	9.38	8.31	3.18	5.67	4.79	9.03	8.11
1968	10.24	10.12	2.79	6.75	7.01	9.73	10.01
1969	11.70	10.45	3.04	9.24	8.97	12.62	12.36
1970	7.62	12.17	3.16	5.54	8.11	8.81	11.47
1971	5.30	10.52	2.77	8.69	7.33	11.71	10.14

Source: National Planning Office.
See notes.

2.03 Relative importance of various crops

Tables 4 and 5 present the value and the relative importance of various agricultural products, measured at the prices paid to producers. During the period 1950-1970 coffee and bananas represented about 40 per cent of the agricultural output. These two crops also accounted for about 55 per cent of the value of total exports, while all agricultural products earned about 75 per cent of the country's total export receipts. Tables 6 and 7 show the value and relative importance of agricultural exports for 1950-1971.

The more rapid growth of the agricultural sector in recent years was due to expansion in banana production, a combination of increased coffee production and better prices, and a smaller but significant rise in livestock and sugar cane production.

It is not surprising to corroborate that the recent rapid growth of the sector has been derived almost exclusively from those crops for which Costa Rica possesses a comparative advantage, i.e. its major export crops: coffee, bananas, sugar and beef. Price distortions resulting from public policy have not been sufficient to prevent this development.

Again, if the correct prices were used, the relative contribution of the major export crops would be seen to be higher.

In some cases, e.g. beans, the production of domestically consumed crops has diminished. This, probably a consequence of the Central American Common Market, is a desirable result, given Costa Rica's notorious comparative disadvantage in the production of this staple food.

The higher profitability, using present technology, of export crops than crops for the local market was also reflected in the displacement of corn by locally-owned, relatively small banana plantations in the Atlantic Zone. There are other areas, however, where this option is not available.

In summary, only those products destined for export markets have grown significantly. The primary beneficiaries of this growth have been mostly large scale producers, with the notable and very important exception of coffee. Agriculture directed toward internal markets, the realm of many small farmers, has fallen behind.

There is no question that, at current levels of productivity, production of export crops is more remunerative than production for domestic consumption. Basically, this reflects comparative advantages. In part, however, the difference may be attributed to various governmental policies, of which credit policy is a very important ingredient.

Table 4

Costa Rica: Gross Value of Agricultural Production at Prices Paid to the Producer.

<u>Product</u>	<u>1950</u>	<u>1955</u>	<u>1960</u>	<u>1965</u>	<u>1966</u>
Coffee	15,639,098	25,563,910	31,879,699	43,548,872	46,390,977
Bananas	27,218,045	28,375,940	17,714,286	29,368,421	30,360,902
Cacao	1,984,962	5,082,707	5,082,707	2,481,203	3,609,023
Sugar cane	4,180,451	4,180,451	6,165,414	9,934,887	9,789,474
Beef	3,984,962	8,360,902	13,443,609	23,954,887	24,300,752
Rice	3,308,271	2,556,391	5,879,699	8,616,541	8,812,030
Cotton	105,263	195,489	691,729	2,360,902	1,954,887
Corn	4,180,451	3,684,211	3,308,271	5,218,045	5,007,519
Beans	1,593,985	1,894,737	2,556,391	3,383,459	2,616,541
Hogs	1,699,248	1,894,737	2,556,391	3,398,496	3,473,684
Milk	8,661,654	12,180,451	14,436,090	18,556,391	19,699,248
Others	16,330,827	18,812,030	26,285,714	37,533,835	38,857,143
Total	88,887,218	112,781,955	127,443,609	188,375,940	194,887,218
<u>Product</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
Coffee	51,684,211	48,466,165	56,135,338	54,006,691	58,714,631
Bananas	32,210,526	44,872,180	53,007,519	68,074,211	70,506,586
Cacao	3,774,436	3,338,346	7,774,436	2,478,872	2,777,609
Sugar cane	11,293,233	11,609,023	12,481,203	14,047,368	14,424,676
Beef	28,135,338	31,278,195	33,082,707	45,628,782	51,677,924
Rice	11,203,008	12,165,414	7,518,797	9,766,090	10,501,609
Cotton	2,541,353	2,827,068	1,293,233	152,902	-
Corn	5,759,398	6,015,038	5,263,158	4,418,511	4,464,075
Beans	2,766,917	3,127,820	1,203,008	1,691,669	1,353,909
Hogs	3,488,722	3,398,496	4,360,902	4,759,173	5,689,954
Milk	20,180,451	21,082,707	22,917,293	29,155,113	28,134,466
Others	39,969,925	43,398,496	53,172,932	63,161,720	63,703,177
Total	213,082,707	231,578,947	258,210,526	297,375,593	311,948,616

Sources: Central Bank and National Planning Office.

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Table 5

Costa Rica: Percentage Composition of the Value of Agricultural Production. 1950-71.

<u>Product</u>	<u>1950</u>	<u>1955</u>	<u>1960</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
Coffee	17.6	22.7	24.6	23.1	23.8	24.2	20.9	21.8	18.2	18.8
Bananas	30.7	25.2	13.7	15.6	15.6	15.1	19.4	20.6	22.9	22.6
Cacao	2.3	4.5	3.9	1.3	1.9	1.8	1.4	3.1	0.8	0.9
Sugar cane	4.7	3.7	4.8	5.3	5.8	5.3	5.0	4.8	4.7	4.6
Beef	4.5	7.4	10.4	12.7	12.5	13.2	13.5	12.8	15.3	16.6
Rice	2.8	2.2	4.3	4.6	4.5	5.3	5.2	3.0	3.3	3.4
Cotton	-	0.2	0.5	1.3	1.0	1.2	1.2	0.4	0.1	-
Corn	4.6	3.2	2.5	2.8	2.6	2.7	2.6	2.0	1.5	1.4
Beans	1.8	1.7	1.9	1.8	1.3	1.3	1.3	0.4	0.6	0.4
Hogs	1.8	1.6	1.9	1.8	1.8	1.6	1.5	1.7	1.6	1.8
Milk	9.7	10.8	11.2	10.0	10.1	9.5	9.1	8.9	9.8	9.0
Others	18.4	16.9	20.3	19.8	19.9	18.8	18.8	20.5	21.2	20.4

Sources: Central Bank and National Planning Office.

Table 6

Costa Rica: Value of Exports of main agricultural products. Thousands of U.S. Dollars.

<u>Product</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
Coffee	43,000	46,627	52,640	54,841	55,264	55,834	73,081	59,344
Bananas	28,000	28,266	29,186	30,928	42,778	51,548	66,771	69,243
Beef	7,700	5,189	6,863	9,521	12,281	15,082	17,984	20,171
Cacao	4,100	2,215	3,103	3,145	2,955	7,063	1,929	1,474
Sugar	5,100	4,655	8,693	8,390	8,710	9,099	10,144	12,192
Other	20,700	24,872	35,024	36,954	48,833	51,081	61,254	68,717
Total Exports	113,900	111,824	135,509	143,780	170,821	189,707	231,163	231,141

Table 7

Costa Rica: Percentage importance of various products for exports. 1964-1971.

<u>Product</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
Coffee	37.75	41.69	38.84	38.14	32.35	29.43	31.61	25.67
Bananas	24.58	25.27	21.53	21.51	25.04	27.17	28.88	29.96
Beef	6.76	4.64	5.06	6.72	7.18	7.95	7.78	8.72
Cacao	3.59	1.98	2.28	2.18	1.72	3.72	0.83	0.64
Sugar	4.47	4.16	6.41	5.83	5.09	4.80	4.39	5.27
Other	18.17	22.26	25.84	25.70	28.58	26.93	26.50	29.73

Source: Dirección General de Estadística y Censos.

It is very difficult, almost impossible, to ascertain the total impact on productivity of various subsidized credit, marketing, and extension systems, whose services are allocated via several rationing mechanisms, and access to which is limited to certain types of farmers. The picture is further complicated by differential tax treatment and exchange rate policies. To the difficulty of measurement of this impact one has to add contradictory policies which, at the same time that favor one activity, also discriminate against it.

The specialization of small farmers in the production of coffee and of crops for local consumption, and of large farmers in the production of coffee and of other export crops, obviously a simplification, nevertheless gives particular relevance to the impact on income distribution of measures which favor or restrict the expansion of the production of a particular crop, or which permit higher profits through some kind of subsidy.

2.04 Land distribution

The distinction between large and small farmers is not very pronounced in Costa Rica, at least when compared to the size distribution of farmers in other Latin American countries.

The most reliable source of data on land distribution is the 1963 Agricultural Census. At that time, there were 64,621 farms in Costa Rica of one "manzana" or more in extension.^{1/} There were also an equal number of "farms" of less than one manzana. These, the site of a rural house, a garden or an orchard, cannot be considered as farms. The data on land distribution by number and area contained in tables 8 and 9 is related to the group of farms of more than one manzana. The average size of these was 41 hectares. About 67 per cent of these farms were of 6.9 hectares or less; while about 78 per cent of them were of 34.5 hectares or less.

Less than 2 per cent of the farms had more than 345 hectares, but they accounted for 41.4 per cent of the area. This last figure includes the large banana plantations owned by the United Fruit Company, the Standard Fruit Company, and a few other foreign investors.

Nevertheless, 13,987 farms, representing 21.7 per cent of the total, accounted for about 2,180,599 hectares, i.e. for 82.8 per cent of the total area. These figures reflect both the widespread ownership of rural property, in the form of small holdings, and the relative concentration of a large proportion of farm land in the hands of a few farmers.

This skewing of Costa Rican land distribution, of smaller magnitude than in most less developed countries, results, in part, from the very same fact that a large proportion of the rural populations owns at least a small piece of land.

^{1/} One manzana is equal to more than 0.69 hectares.

Table 8

Number and Area of Farms in Costa Rica, Classified by Size. 1963. Hectares.
(Farms of more than one "manzana")

	Size		Number	%	Area	%
From	0.7 to	1.0	3,661	5.7	2,722	0.1
More than	1.0 to	2.0	7,513	11.6	10,634	0.4
More than	2.0 to	2.7	3,757	5.8	8,288	0.3
More than	2.7 to	4.0	6,158	9.5	19,890	0.8
More than	4.0 to	6.9	6,836	10.6	35,046	1.3
More than	6.9 to	10.3	6,113	9.4	49,924	1.9
More than	10.3 to	13.8	3,429	5.3	39,454	1.5
More than	13.8 to	20.7	5,732	8.9	93,777	3.6
More than	20.7 to	34.5	7,435	11.5	192,259	7.3
More than	34.5 to	48.3	4,008	6.2	157,007	6.0
More than	48.3 to	69.0	3,232	5.0	130,265	6.9
More than	69.0 to	100.0	2,522	3.9	201,623	7.7
More than	100.0 to	172.5	1,919	3.0	246,604	9.4
More than	172.5 to	345.0	1,291	2.0	301,055	11.4
More than	345.0 to	690.0	596	0.9	272,039	10.3
More than	690.0 to	1,035.0	191	0.3	155,899	5.9
More than	1,035.0 to	2,415.0	169	0.3	240,976	9.1
More than	2,415.0		59	0.1	425,131	16.1
Total Costa Rica			64,621	100.0	2,632,592	100.0

Source: Dirección General de Estadística y Censos. Costa Rica. "Censo Agropecuario 1963". San José. 1965.

Table 9
Number and Area of Farms in Costa Rica. Accumulated Relative Distributions. 1963
 (Farms of more than one manzana).

Size		Number (Percentages)			Area (Percentages)	
From	0.7 to	1.0	5.7	100.0	0.1	100.0
More than	1.0 to	2.0	17.3	94.3	0.5	99.9
More than	2.0 to	2.7	23.1	82.7	0.8	99.5
More than	2.7 to	4.0	32.6	76.9	1.6	99.2
More than	4.0 to	6.9	43.2	67.4	2.9	98.4
More than	6.9 to	10.3	52.6	56.8	4.8	97.1
More than	10.3 to	13.8	57.9	47.4	6.3	95.2
More than	13.8 to	20.7	66.8	42.1	9.9	93.7
More than	20.7 to	34.5	78.3	33.2	17.2	90.1
More than	34.5 to	48.3	84.5	21.7	23.2	82.8
More than	48.3 to	69.0	89.5	15.5	30.1	76.8
More than	69.0 to	100.0	93.4	10.5	37.8	69.9
More than	100.0 to	172.5	96.4	6.6	47.2	62.2
More than	172.5 to	345.0	98.4	3.6	58.6	52.8
More than	345.0 to	690.0	99.3	1.6	68.9	41.4
More than	690.0 to	1,035.0	99.6	0.7	74.8	31.1
More than	1,035.0 to	2,415.0	99.9	0.4	83.9	25.2
More than	1,415.0		100.0	0.1	100.0	16.1
Total Costa Rica						

Source: Costa Rica. Dirección General de Estadística y Censos. "Censo Agropecuario 1963". San José. 1965.

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Two additional factors mitigate the inequality. Small farmers play a significant role in the production of coffee, easily Costa Rica's most lucrative major crop on a yield/area basis. At present, Costa Rican yield per area in coffee production is the highest in the world. About 15,000 farmers, each with less than 34.5 hectares, produced almost one half of the total coffee crop in the census year of 1963. This feature still characterizes Costa Rican coffee production.

Secondly, workers on the large banana farms, the most important component of the landless rural class, receive double or more the national minimum wage of \$ 1.50 per day, not always honored in other rural activities. Working conditions and fringe benefits are often much better too.

A major problem, however, is the large number of untitled farms. The importance of this factor will become apparent after the discussion of the selection criteria used by the banks in the allocation of credit.

2.05 Population growth

Costa Rican development has been marked by one of the world's highest rates of growth of the population. Population data appear in Table 3. Between 1950 and 1963 population increased from 859,280 to 1,390,770 inhabitants, at an average annual rate of growth of 3.8 per cent.

During the past 10 years that rate has slowed to about 3 per cent per year. On July 1st, 1972 the population had reached 1,842,831.

The structure of the population, with about half of the inhabitants below 15 years of age, poses some of the most serious problems for development. The high rate of growth of the population also makes employment an important objective of economic policy. Although the agricultural sector absorbs about half of the working population, measures have to be taken so that it continues doing so.

In 1966 the value of output per employed person in the agricultural sector was about \$ 708, at 1963 prices, and represented about 50 per cent of the national average. Recent policy objectives emphasize productivity increases. Several programs and services have been set up in order to pursue this goal.

2.06 Agricultural Services

A wide variety of public sector institutions influence the agricultural sector.

In addition to the Ministry of Agriculture, which has overall responsibilities for agricultural development, many other institutions have more sharply delineated roles. However, there is little effective coordination of policies among them, although recently important steps have been taken in that direction. 1/

The "Consejo Nacional de Producción" (National Production Council) has, in addition to general responsibility for the promotion of agricultural production, responsibility for the stabilization of prices for crops of popular consumption: beans, corn and rice; and for guaranteeing that a minimum consumption of beef takes place before export permits are granted. This two last programs have been subjected to considerable criticism. 2/

The "Instituto de Tierras y Colonización" (Land and Colonization Institute) deals with problems related to land tenure and forestry.

The University of Costa Rica trains high level agricultural specialists and carries on agricultural research. Technical assistance, however, corresponds to the Ministry of Agriculture itself. This is another area of public efforts that has been subjected to sharp criticism.

The National Banking System, a network of nationalized banks, is the main source of agricultural credit in the country and as such has a strong impact on agricultural production patterns and affects the activities of all the above-named technical agricultural organizations. The Juntas Rurales are a section of this National Banking System, specifically responsible for the provision of small farmer credit.

In addition to the National Banking System, Costa Rican farmers seek credit from suppliers of agricultural inputs, "pulperías" (small general stores), cooperatives, marketing agents, moneylenders, both individual ("prestamistas") and corporate ("financieras") and "almacenes de depósito" (warehouses), as well as friends and relatives.

1/ A description of the institutional organization of the agricultural sector may be found in Eduardo Lizano, "La Organización Institucional de la Agricultura Nacional". University of Costa Rica. 1969.

2/ Claudio González-Vega and Robert Cross Vogel. "La Política Económica de Granos Básicos en Costa Rica", Programa Cooperativo Centroamericano de Cultivos Alimenticios". San Salvador. 1969; and Claudio González-Vega, Eduardo Lizano and Robert C. Vogel, "Agricultural Marketing in Costa Rica". Associated Colleges of the Midwest. 1970

The National Banking System is by far the most important source of credit. González-Vega and Vogel estimated that the banks accounted for about 70 per cent of all credit to agricultural producers in 1969.

Of the other sources, agricultural suppliers and individual moneylenders were the most important, each one accounting for about 10 of the total value of agricultural credit outstanding. Cooperatives and marketing agents, in particular coffee "beneficios" (processors) are very important sources of credit. This, however, is primarily credit passed through from the National Banking System and, since it was included in the total of bank loans, it was not counted again, in order to avoid an important duplication. ^{1/}

2.07 Monetary unit

The monetary unit of Costa Rica is the "colón", divided into 100 cents. The present official rate of exchange is 6.63 (buying) and 6.65 (selling) colones per dollar.

The colón has been a relatively stable currency for a long period of time. Table 10 gives the rates of exchange with the dollar in the free market, for the period 1914-1972. During several subperiods, in particular 1967-1969 and 1971-1972, there existed a two-exchange rate system. The official rate of exchange was maintained at 6.65 colones per dollar, while the free rate fluctuated. Table 10 gives the annual averages of those rates.

Price indexes have been relatively stable, although they have shown some acceleration during the past two years. In the presence of very moderate price changes, nominal values have been used in all time series.

Given the complications in the computation and interpretation of data introduced by the use of several rates of exchange, and given the relative stability of the value of the colón, the rate of 6.65 colones per dollar will be used in this study for all purposes, except in those cases where the use of another rate is explicitly indicated.

^{1/} Claudio González-Vega and Robert Cross Vogel. "Agricultural Credit in Costa Rica". Associated Colleges of the Midwest. 1969.

Table 10

Rates of Exchange in the Free Market. Colones per U.S.Dollar.

<u>Year</u>	<u>Rate of Exchange</u>	<u>Year</u>	<u>Rate of Exchange</u>
1914	2.17	1943	5.53
1915	2.57	1944	5.53
1916	2.54	1945	5.59
1917	3.77	1946	5.85
1918	4.47	1947	6.25
1919	3.92	1948	6.46
1920	3.34	1949	7.78
1921	4.43	1950	8.70
1922	4.35	1951	7.65
1923	4.52	1952	6.75
1924	4.00	1953	6.65
1925	4.00	1954	6.65
1926	4.00	1955	6.65
1927	4.00	1956	6.65
1928	4.00	1957	6.65
1929	4.00	1958	6.65
1930	4.00	1959	6.65
1931	4.00	1960	6.65
1932	4.40	1961	6.65
1933	4.55	1962	6.65
1934	4.55	1963	6.65
1935	4.55	1964	6.65
1936	6.16	1965	6.65
1937	5.65	1966	6.65
1938	5.65	1967	7.76
1939	5.67	1968	7.23
1940	5.70	1969	7.01
1941	5.84	1970	6.65
1942	5.66	1971	8.60
		1972	8.60

Source: Central Bank.

THE NATIONAL BANKING SYSTEM AND AGRICULTURAL CREDIT

3.01 The nationalized banks

The banks forming the National Banking System were nationalized in 1948, and in 1950 a Central Bank was added. In addition to this Central Bank, the system consists of four commercial banks which are, in order of importance, the Banco Nacional de Costa Rica (BNCR), the largest and a government bank since 1914; the Banco de Costa Rica, the Banco Anglo-Costarricense, and the Banco Crédito Agrícola de Cartago. The name of this last bank is not indicative of any importance or specialization in agricultural credit.

There are two non-nationalized banks: the Banco Lyon, which has been in existence for several decades; and a more recently opened office of the Bank of America, from California. These two banks, of much smaller size, are not permitted to offer demand deposits but in most other ways are subject to the same regulations of the Central Bank as the nationalized banks. They do not provide any small farmer credit.

The four commercial banks are divided into departments. The BNCR has four: Commercial, Mortgage, Cooperative and Rural Credit. This last department includes the Juntas Rurales. The other three commercial banks are divided into two departments: Commercial and Mortgage.

Each of the commercial banks has a central office, located in San José, except for the Banco Crédito Agrícola de Cartago, which has its central office in Cartago, a provincial capital. Also, each bank has a number of branch offices dispersed all over the country, ranging from 104 for the BNCR to 5 for the Banco Crédito Agrícola de Cartago.

The larger branch offices are "sucursales" and the smaller ones "agencias". The Juntas Rurales are small rural branches of the Department of Rural Credit of the BNCR. Small farmer credit is provided by the other three banks through "Oficinas de Crédito al Pequeño Agricultor" (Credit offices for small farmers), similar to the Juntas Rurales, but sections of the parent bank's commercial departments.

Each of the commercial banks is governed by a General Board of Directors, composed of five members before 1970, and of seven members presently. These directors are appointed for terms of four years by the Executive and can be reappointed.

The commercial banks are organized as "autonomous institu-

tions", i.e. they have their own separate legal existence as well as administrative and functional autonomy from the Central Government. Previously, the directors were not subject to directives from the Executive. This independence, however, was somewhat limited in 1970, with a legal reform that subordinated the banks to the process of national planning.

In turn, the General Board of Directors of each bank appoints, also for terms of four years, a manager and one or two assistant managers, who are entrusted with the day-to-day administration of the affairs of the bank.

3.02 Credit policy

The Central Bank is empowered with the orthodox instruments of monetary policy to pursue the traditional goals of full employment, balance of payments and price stability, and economic growth. It creates money, performs open market operations on a very limited scale, and regulates reserve requirements and rediscount rates as well as the conditions for rediscounting. In addition, it sets the rates of interest that the nationalized banks can charge on loans or pay on deposits, as well as commission fees and other credit conditions.

Furthermore, the Central Bank controls not only prices but also quantities through what has become known as the "tope" system. Topes are quantitative-qualitative ceilings on credit, for each sector of the economy and for each of the commercial banks, as well as for individual operations, for each person, and for each hectare of land to be cultivated with a given crop, which the Central Bank is legally empowered to set. The scope and features of this tope system have varied substantially during the past 25 years.

3.03 The tope system

According to the tope system, until recently the Central Bank divided the economy into sectors, at its discretion, and set limits for each commercial bank on the amounts of credit outstanding for each of these sectors.

Through 1961 there were a multitude of different topes, some for specific and others for general purposes, often overlapping and inconsistent. A reform of the system in 1961 resulted in a small number of functional categories: agriculture, livestock, electricity, services, commerce, small farmers, etc.

Between 1961 and 1970 bank credit was directed into the agricultural sector through three basic topes: a) "Tope the agricultura y silvicultura" (Agriculture -crops- and forestry); b) "Tope de ganadería, caza y pesca" (Cattle, including meat, dairy, hogs and poultry; hunting and fishing); and c) "Tope para oficinas de crédito al pequeño agricultor", a specific small

farmer tope, which in turn was used to finance both agricultural and livestock credit as well as a few industrial plans.

There were also "operaciones fuera de tope" (operations or credit transactions outside of the tope), for which there were no formal limits, but which in practice were restricted by reserve requirements and the general availability of funds. In the case of agriculture, such credit was extended primarily in connection with crops requiring special marketing procedures and was therefore limited by the output of these crops. These crops included cacao, cotton, tobacco and sugar cane, which represented, however, a minor proportion of credit transactions outside of the tope. In practice, the main use of such credit was to finance the annual coffee crop through short-term credit to coffee producers, to a large extent through the intermediation of coffee processors.

The Central Bank frequently established "topes especiales" (special topes) for certain periods of time and for particular crops, regions or other purposes. These were not topes in the sense of limits, but rather were funds set aside as an incentive for specific uses.

The Central Bank also makes suggestions to the commercial banks as to which parts of the agricultural sector ought to be favored.

Finally, foreign loans, which have been growing in significance, were not consistently incorporated into the tope system. In many cases these loans were negotiated by the commercial banks themselves, with private foreign banks, at current international interest rates. Several others were obtained under subsidized conditions from international agencies, in particular the InterAmerican Development Bank, the World Bank and the U.S. Agency for International Development (AID). In recent years, the Central Bank has managed to centralize the administration of these foreign loans. However, loans from international agencies have usually been granted for specific products and restricted in other ways, sometimes conflicting with the tope system and the directives of the Central Bank.

During the 1960's the ceiling on the total amount of credit outstanding was set taking into account the predicted rate of growth of the economy and the state of the balance of payments. In very few instances did the Central Bank increase the total volume of bank credit at a much quicker pace than the rate of growth of the economy. The only important case occurred in 1964-1965, when the Central Bank allowed substantial increases in the volume of credit outstanding, in an attempt to stimulate employment and offset deflationary influences from volcanic eruptions. The inflationary pressures and balance of payments difficulties which followed led to an extremely restrictive policy in 1966.

The distribution of this total volume of credit among the various sectors of the economy, i.e. among the topes, did not follow a explicit or conscious plan. The main reasons for this lack of plan have been the substantial information requirements involved and the lack of trained personnel at the Central Bank who could make use of the available data. Although the Central Bank requests and receives substantial quantities of data on credit distribution and other economic variables, the information obtained is not always the most adequate for decision making.

The Department of Economic Studies of the Central Bank, therefore, rarely accompanied the statistics available with any analysis or recommendations. The establishment of the different topes, suggested by this Department to the Board of Directors of the Central Bank, was primarily a matter of projecting historical trends, both for the allocation of credit by sectors and for the division among the commercial banks.

Export crops were consistently favored, as well as agriculture, livestock and industry, relative to commercial or personal uses. This bias reflected balance of payments considerations and preconceived ideas about what is "productive" or not.

There was no comparison of returns at the margin, except in the sense that by tradition credit tended to go to the more profitable areas. This profitability, however, might have been greatly influenced precisely by the privileged access to subsidized credit and other government services.

The setting of the topes was also strongly influenced by certain well-established pressure groups, such as coffee or rice producers, who are continually alert to possible changes in credit policy. The system, in general, was very vulnerable to political influence, and departures from traditional historical trends reflected this fact.

The tope system was substantially modified in 1970. Under the new regulations, the Central Bank quarterly sets an overall maximum for the outstanding balances of the commercial banks. The amount of credit effectively outstanding is in fact greater, however, since small farmer credit and development programs financed with foreign funds and domestic counterpart funds are not included in this total.

Within this global maximum limit, the Central Bank sets a minimum proportion (percentage) for each of the commercial banks' portfolios that must be allocated to preferred activities. The bank also sets a maximum proportion that can be allocated to non-preferred activities. Table 11 presents the minimum and maximum percentages as well as the absolute limits enforced for the third quarter of 1972.

Table 11

Costa Rica: Limits on bank credit. Third quarter of 1972. U.S.Dollars.

1.- Preferential lines (minimum)	29.0 %	
2.- Agriculture and industry (maximum)	56.6 %	
Agriculture (minimum)	14.7 %	
Livestock (minimum)	17.4 %	
Industry (minimum)	18.5 %	
3.- Other activities (maximum)	14.4 %	
Total limit on credit from the nationalized banks subject to restriction		\$ 194,796,993
Total limit on credit from private banks		872,180
Limit on credit from "financiera" sections		46,165,414
Total limit on credit		\$ 241,832,587

Source: Central Bank.

Preferential lines include: Financing the coffee, sugar cane, cotton, cacao, rice, tobacco and banana crops; meat production and packing, exports of manufactured goods, production of capital goods and university studies.

The sum of the minimum and maximum percentages is not 100, the additional points being included in the area of agriculture and industry, which gives the commercial banks some flexibility in the allocation of credit. The "financiera" sections of the banks lend funds from time deposits.

The simplification of the system was a welcomed development. Another important change was that small farmer credit was left out of the overall limit. One reason for this is that small farmer credit is being presently financed almost exclusively with foreign funds and domestic counterpart funds.

3.04 The tope on small farmer credit as part of the system.

The global limit on the volume of credit outstanding and subject to topes, i.e. the "total tope", increased from \$ 42,330,827 in 1951, to \$ 161,684,211 in 1969. This total tope grew, between 1951 and 1969, at an average rate of 7.73 per cent per year.

On the other hand, the value of balances outstanding as a result of "transactions outside of the tope" showed dramatic increases since 1951. This magnitude grew from \$ 30,075 in 1951,

Table 12

Costa Rica: National Banking System. Amounts and rates of growth of the total tope, transactions outside of the tope and total volume of effective credit outstanding. 1951-1969. U.S. Dollars.

Year	Total tope	Rate of growth	Transactions outside tope	Rate of growth	Total credit	Rate of growth
1951	42,330,827	-	30,075	-	38,691,729	-
1952	43,909,774	3.73	15,037	-50.00	41,624,060	7.59
1953	50,902,256	15.92	872,180	57.00	45,789,473	10.01
1954	56,556,391	11.11	812,030	- 6.89	51,278,195	11.99
1955	60,360,902	6.73	1,142,857	40.74	57,308,271	11.76
1956	70,812,030	17.31	947,368	-17.10	64,436,090	12.44
1957	76,887,218	8.58	1,714,285	80.95	73,609,022	14.24
1958	83,684,211	8.84	1,984,962	15.79	76,180,451	3.49
1959	81,368,421	- 2.44	11,488,721	478.79	96,436,089	26.59
1960	95,518,797	17.39	19,097,744	66.23	113,503,759	17.70
1961	103,714,286	8.58	19,819,548	3.78	119,097,743	4.93
1962	105,548,872	1.77	25,503,759	28.68	121,233,082	1.79
1963	114,390,977	8.38	24,075,188	- 5.60	123,203,008	1.62
1964	129,759,399	13.43	27,849,624	15.68	138,571,429	12.47
1965	142,526,316	9.84	33,473,684	20.19	156,631,589	13.03
1966	130,706,767	- 8.29	37,368,421	11.64	158,471,128	1.17
1967	130,150,376	- 0.43	35,368,421	- 5.35	161,669,173	2.02
1968	153,894,737	17.57	29,488,721	-16.62	167,037,593	3.32
1969	161,684,211	5.06	n.a.	n.a.	n.a.	n.a.

Source: Central Bank. Unpublished records.

to \$ 29,488,721 in 1968, at an average annual rate of growth of 49.96 per cent. As a result, the "total of credit outstanding", i.e. the sum of the amounts used within the tope plus the amounts used outside of the tope, increased at an average annual rate of 8.98 per cent, from \$ 38,691,729 in 1951 to \$ 167,037,593 in 1968. Table 12 presents the amounts of the total tope, of balances outstanding for transactions outside of the tope, and of the total sums used within and outside of the tope, as well as the respective rates of growth, for 1951-1969.

The growth of these three magnitudes was not steady. The rate of growth of the total tope fluctuated between a negative 8.29 and a positive 17.57 per cent per year. The most important reduction in the total tope took place in 1966, when inflationary pressures and balance of payments difficulties led the Central Bank to a restrictive credit policy.

There was in general a tendency for the rate of growth of the total tope to fluctuate from high rates to low rates, in cycles of about two years, reflecting at least an implicit stop-go policy. This feature has remained after the reform of the tope system, 1970 and 1971 being highly expansionary years, while there was a relative decline in the rate of growth of the total limit on credit during 1972. The Central Bank has announced a still more restrictive policy for 1973.

Fluctuations were even more pronounced in the case of credit due to transactions outside of the tope. These fluctuations, however, mostly reflect changes in the definition of which activities are included in this category. The most important of these cases occurred in 1959, when the whole financing of the coffee crop was transferred to transactions outside of the tope. This is the reason why, even though credit outside of the tope increased at a rate of growth of 478.79 per cent in that year, the total of credit used increased only at the rate of 26.59 per cent per year.

The total of credit used within and outside of the tope increased through the period at annual rates of growth which fluctuated between 1.17 and 26.59 per cent. Of the three series, this is the one which presents a more smooth growth. One reason for this is that attempts by the Central Bank to restrict credit with the topes were partially offset by the commercial banks, which did not reduce the growth of balances outstanding outside of the tope to the same extent. It was believed that the productive nature of the operations so financed precluded any inflationary impact.

Two important cycles are still recognizable. In one of them, the expansion of credit during 1964-1965 was followed by a severe contraction in 1966-1967. In the other one, the expansion of 1959-1960 is followed by a contraction in 1961-1962.

Table 13

Costa Rica: Tope on small farmer credit and amounts used of this tope and of the total tope. 1951-1969. U.S. Dollars.

Year	Small Farmer Tope	Rate of growth	Small farmer tope as % total tope	Amounts used of small farmer tope	%	Amounts used of total tope	%	Small farmer use as % total used
1951	3,458,646	-	8.17	3,142,857	90.86	38,661,654	91.33	8.12
1952	1,503,759	-57.63	3.42	1,503,759	100.00	41,609,023	94.76	3.61
1953	5,413,533	260.00	10.64	4,812,030	88.88	44,917,293	88.24	10.51
1954	5,413,533	0	9.57	5,233,083	96.66	50,466,165	89.23	10.21
1955	7,142,857	31.94	11.83	6,120,301	85.68	56,165,414	93.04	10.68
1956	8,270,676	15.79	11.68	7,714,286	93.27	63,488,722	89.65	11.97
1957	8,646,616	4.55	11.25	7,864,662	90.95	71,894,737	93.50	10.68
1958	8,646,616	0	10.33	8,015,038	93.04	74,195,489	88.66	10.52
1959	9,473,684	9.57	11.64	9,067,669	95.71	84,947,368	104.39	9.40
1960	9,473,684	0	9.92	9,338,346	98.57	94,406,015	98.83	8.23
1961	9,849,624	3.97	9.50	9,639,098	97.86	99,278,195	95.72	8.09
1962	17,609,022	78.78	16.68	16,541,353	93.93	95,729,323	90.69	13.64
1963	18,466,175	4.87	16.14	17,263,158	93.48	99,127,820	86.65	14.01
1964	21,458,646	16.21	16.54	19,263,158	89.76	110,721,805	85.32	13.90
1965	24,977,443	16.40	17.52	23,699,248	94.88	123,157,895	86.41	15.30
1966	24,150,375	- 3.31	18.48	22,526,316	93.27	121,082,707	92.63	14.21
1967	24,556,390	1.68	18.87	24,150,376	98.34	126,300,752	97.04	14.93
1968	25,187,969	2.57	16.37	24,180,451	96.00	137,548,872	89.37	14.48
1969	28,466,165	13.01	17.60	26,045,113	91.49	n.a.	n.a.	n.a.

Source: Central Bank.

The functional categories of agriculture, livestock and industry for the topes were created in 1962. Table 14 shows the amounts of the tope authorized for these categories between 1962 and 1969. The tope authorized for agriculture had an average annual value of \$ 22,268,797, while the tope authorized for livestock had an annual average of \$ 19,964,286. For the period 1962-1967, the tope on credit for industry had an annual average of \$ 26,378,446.

The tope on credit for livestock, however, shows a higher rate of growth than the tope on credit for agriculture. The annual rate of growth of the tope on credit for agriculture was 8.21 per cent on the average, while it was 14.08 per cent in the case of livestock. The increasing importance of livestock vis-a-vis agriculture does characterize the portfolio of the Juntas Rurales as well. The tope on credit for industry grew, between 1962 and 1967, at the average annual rate of 5.89 per cent.

Between 1947 and 1951 small farmer credit was included in the "tope general" (general tope), but in 1951 a specific tope on small farmer credit was created, and set for that year at \$ 3,458,646. Table 13 gives the tope on small farmer credit corresponding to every year between 1951 and 1969. Starting in 1955 this tope covered not only credit from the Juntas Rurales of the BNCR, but also credit from the Oficinas de Crédito al Pequeño Agricultor, which belong to the commercial departments of the other nationalized banks.

The growth of the small farmer tope was not smooth. For some years the limit was maintained at the same level than during the previous year, while substantial increases or reductions took place in a few cases. The most important increase occurred in 1962, when the newly created Department of Rural Credit of the BNCR rapidly expanded its operations. By 1969, the tope on small farmer credit had reached \$ 28,466,165. This implies that, between 1951 and 1968, this tope grew at an average annual rate of 12.39 per cent.

It has been claimed that there is no excess demand for credit in Costa Rica, in view that the commercial banks do not completely use the topes at their disposal. ^{1/} This view is incorrect. Possible explanations of the simultaneous existence of unused topes and of excess demand for credit are, that reserve requirements and availability of funds, and not the topes, have been the effective constraints on bank lending; and that unused topes represent a reserve against the future maintained by cautious bankers. A marked risk aversion characterizes the National Banking System. Bankers presumably use underutilized tope funds as a cushion in order to avoid the penalties that result when their lending exceeds the tope.

^{1/} Consultores Asociados Centroamericanos. "Informe sobre Crédito Agropecuario. Sistema Bancario Nacional". San José. 1970.

Possibly, bank officials also attempt to reserve some funds for large special clients, so that desired transactions or clients do not migrate to the other banks. Finally, the commercial banks might misallocate funds among their branches, with excess demands and excess supplies existing simultaneously, while the mechanism of adjustment might be slow. The setting of the topes by the Central Bank in itself might generate excess demands in some sectors and excess supplies in others.

Table 13 gives the amounts used by the banks of the total tope and the amounts used by the Juntas Rurales of the small farmer tope. The commercial banks always used more than 85 per cent of the total tope authorized. On the average, they used 91.67 per cent of this tope.

For years when the total tope did not grow fast, there was a tendency to use a greater proportion of it; while for years with large increases in the tope, a smaller proportion was used. This shows, on the one hand, that the banks were subject to strong pressures on the demand side when the Central Bank attempted to restrict credit. On the other hand, that the banks sometimes lacked flexibility to accommodate large increases in their portfolio, in many cases induced by an influx of foreign funds, although flexibility seems to have increased through time.

In general, the commercial banks used a higher proportion of the tope for agriculture than of the tope for livestock. According to Table 14, on the average the banks used 92.62 per cent of the tope on agricultural credit and 90.32 per cent of the tope on credit for cattle, during the period 1962-1967. The proportion used of the tope on industrial credit was 81.91 per cent. This resulted in part from attempts by the Central Bank to stimulate livestock and industry, with topes set beyond effective demand, while no similar tendency is apparent in the case of agriculture.

Between 1951 and 1969 the Juntas Rurales used, on the average, 93.88 per cent of their tope, a higher proportion than the banks in general. This might reflect a greater degree of excess demand at this level. Also, given the special nature of the operations of the Juntas Rurales, particularly in connection with social objectives, the BNCR might have been less concerned with profits and losses, and therefore with maintaining a margin of safety between the tope and the balances outstanding. The funds used by the Juntas Rurales are also separated from other funds of the BNCR, because of their origin, and not subject to reserve requirements.

The tope on small farmer credit represented less than 20 per cent of the total tope throughout the period. One may distinguish between two subperiods. For 1951-1961, the tope on small farmer credit represented, on the average, 10.09 per cent of the total tope, while this proportion was increased to 17.30 per cent, on the average, for the period 1962-1969.

Table 14

Costa Rica: Topes for Agriculture, Livestock and Industry and Amounts Used of the Topes. U.S. Dollars.

<u>Year</u>	<u>Topes Agriculture</u>	<u>Topes Livestock</u>	<u>Topes Industry</u>
1962	16,330,827	13,007,519	19,924,812
1963	18,451,128	12,195,489	26,631,578
1964	23,142,857	16,345,865	28,872,180
1965	22,872,180	17,593,985	28,872,180
1966	21,037,594	17,804,511	27,443,609
1967	22,270,677	22,285,714	26,526,315
1968	25,669,173	27,759,398	n.a.
1969	28,375,940	32,721,805	n.a.
	<u>Agriculture: Used</u>	<u>Livestock: Used</u>	<u>Industry: Used</u>
1962	16,451,127	10,827,067	16,676,691
1963	16,646,616	11,172,932	18,992,481
1964	19,338,345	13,218,045	22,150,375
1965	20,947,368	15,578,947	23,368,421
1966	19,984,962	17,939,349	22,105,263
1967	21,578,947	20,887,218	26,345,864
	<u>Agriculture: % Used</u>	<u>Livestock: % Used</u>	<u>Industry: % Used</u>
1962	100.74	83.24	83.70
1963	90.22	91.62	71.32
1964	83.56	80.86	76.72
1965	91.59	88.55	80.94
1966	94.97	100.76	80.55
1967	96.89	93.72	99.32

Source: Central Bank. Unpublished records.

This higher proportion corresponds to the increased importance of the Department of Rural Credit of the BNCR and of the Oficinas de Crédito al Pequeño Agricultor of the other commercial banks. It also reflects the tendency to leave several activities outside of the tope system, particularly since 1959. For this last reason, it is more accurate to measure the importance of small farmer credit, not as a proportion within the tope system, but in terms of the total amounts effectively used by the banks.

The amounts used by the Juntas Rurales represented, during the period 1951-1968, between 3.61 and 15.13 per cent of the total amounts used by the banks. On the average, the amount used by the Juntas Rurales represented 12.19 per cent of the total used within and outside of the tope. The proportion was higher towards the end of the period, as indicated in Table 13.

3.05 The allocation of credit

The allocation of credit by the National Banking System depends on a series of decisions made at different levels. The final allocation results from decisions made at the Central Bank, at the central office of each of the commercial banks, and at the particular bank branch where a loan is granted. The importance of the decisions of the Central Bank in setting the topes and in indicating credit conditions to the commercial banks has been examined. Once the use of funds for different purposes has been authorized by the Central Bank, the central offices of the commercial banks make further allocative decisions of importance.

One of the most important of the decisions made at the central offices concerns the division of the available resources between the central office in San José, on the one hand, and the branches as a group, on the other hand. These branches include not only the Juntas Rurales of the BNCR, but also the network of sucursales and agencias, dependent of the commercial department of each parent bank, which, although not as numerous as the Juntas Rurales, also lend to small- and medium-size farmers. In a second step, the central office allocates the amount devoted to the branches among the various offices all over the country. Logically, the allocation of the funds is a single operation, but it is useful to divide it into these two steps.

This process of division of the funds is not neutral in terms of its allocative effects. Decisions about how to divide the funds among the various bank branches, either consciously or unconsciously, allocate credit according to certain variables such as size of farm, wealth, crops produced, etc. Given that the rate of interest is not used as a rationing mechanism, the implications of the administrative allocation are even more important.

Table 15

Costa Rica: National Banking System. Average size of loans given out at different bank offices. 1967. U.S. Dollars.

<u>Product</u>	<u>BNCR</u>			<u>Banco Costa Rica</u>		<u>Banco Anglo</u>		<u>Cartago</u>
	<u>Central Office</u>	<u>Sucursal Agencia</u>	<u>Junta Rural</u>	<u>Central Office</u>	<u>Sucursal Agencia</u>	<u>Central Office</u>	<u>Sucursal Agencia</u>	<u>Central Office</u>
Agriculture	56,000	40,962	376	38,000	1,549	25,594	2,647	4,346
Rice	30,767	14,165	526	10,511	1,398	17,368	5,909	3,759
Cotton	32,045	14,346	3,173	29,293	11,323	9,543	10,707	-
Bananas	93,323	30,075	256	281,082	2,226	115,218	6,286	10,586
Cacao	23,158	977	345	2,556	1,143	-	-	120
Coffee	70,722	76,767	617	36,992	872	29,805	2,030	10,767
Sugar cane	30,812	4,256	1,053	26,346	887	2,677	707	7,759
Beans	-	-	150	-	165	-	195	60
Corn	17,263	4,421	225	1,654	496	3,759	406	496
Tobacco	-	451	180	-	2,917	-	-	451
Livestock	6,827	5,008	692	9,519	2,180	6,015	2,872	1,549
Meat cattle	7,789	5,323	797	9,383	2,677	9,519	5,218	2,692
Dairy cattle	4,000	2,015	376	14,556	2,797	6,511	1,203	767

Sources: BNCR, Banco de Costa Rica, Banco Anglo and Banco de Cartago. Computer printouts.

3.06 Concentration of credit.

One of the important differences among the various types of bank branches is the size of the loans granted. There is a concentration of larger loans, to larger farmers, at the central offices of the banks in San José. This is in part due to the fact that the branches have lower ceilings than the central offices on the amounts loaned per person, but it is also a consequence of the cost of a trip to San José, of the more sophisticated procedures used at the central office, of the importance of acquaintances and political influences, and of the access to the bank provided by a large account and by the performance of frequent transactions at the central office.

The allocation of loans at the central offices is thus correlated with literacy, social access and wealth. This allocation, in turn, is biased in favor of particular crops, those grown by large farmers in large scale: coffee, bananas, sugar cane.

Large loans are granted in a quick and smooth way. The bank works with a relatively small number of clients, all of them well known to bank officials and known to possess sufficient assets to be used as collateral. These transactions are fairly safe. In consequence, large operations and the corresponding clients are much desired by the banks, and almost all of the bureaucratic apparatus is at their disposal. The "feats" of bank officials in order to avoid the migration of any of these operations or clients to another bank are conspicuous. Many of these loans are classified as transactions outside of the tope, which gives the bank greater flexibility in their approval.

By comparison, branches handle a multitude of small loans, i.e. loans of a much smaller average value. This credit has also consisted of a much greater proportion of medium-term loans. Table 15 gives the average size of different types of loans, as granted at the central offices of the banks, at other branch offices such as sucursales and agencias, and at the Juntas Rurales, during 1967.

At the central office of the BNCR the average size of a loan for agriculture was \$ 56,000. Such average was somewhat lower at the central offices of the other commercial banks, ranging from \$ 4,346 for the Banco Crédito Agrícola de Cartago to \$ 38,000 for the Banco de Costa Rica. At the other extreme, the average size of a loan for agriculture at the Juntas Rurales was \$ 376.

The differences are particularly conspicuous with respect to some specific crops. The average size of a loan for bananas at the central office was \$ 93,232; at a Junta Rural, \$ 256. The average size of a loan for rice at the central office was \$ 30,767; at the Juntas Rurales, \$ 526. The differences in average size were not as marked in the case of loans for cattle. The average size at the

central office of the BNCR was \$ 6,827, while in the case of the Banco de Costa Rica it was \$ 9,519. The average size of a loan for cattle in the case of a Junta Rural was \$ 692.

Given the large differences between the type and size of loans granted at the central offices and at the branches, it is important to examine the proportion of total credit granted at each location, and the criteria used in deciding about this step in the allocation of credit.

In 1967, as indicated in Table 16, 70.3 per cent of all agricultural credit was actually given out at the central offices. The sucursales and agencias gave out 22.8 per cent of the total, a large proportion of which was given out at the urban locations of these branches. The Juntas Rurales gave out 6.1 per cent of the total.

The concentration is less acute in the case of credit for cattle, since the Juntas Rurales granted 33 per cent of the total of credit for this purpose. Differences according to crop are important. Almost all credit for bananas and a large proportion of credit for coffee, cacao and cotton were given out at the central offices. Almost all credit for beans, corn and tobacco was given out at the Juntas Rurales.

As in the case of the Central Bank, tradition is a very important factor influencing decisions made at the central offices of the commercial banks. However, the pattern of allocation can be explained, at least in part, in terms of the behavior of the banks, given an overall excess demand for bank credit at the rate of interest set by the Central Bank.

3.07 Model of bank behavior

A simple model of bank behavior may be used to explain how, when the rate of interest is below equilibrium, a disproportionate share of funds goes to the central office. This concentration occurs even in the case of Costa Rica, where the banking system is nationalized.

There is no agreement about the motivations of managers in modern corporate organizations, both public and private. However, it is reasonable to assume that their behavior may be characterized by the maximization of some objective function. Obviously, the fact that the banking system is nationalized implies that the objective function is complex and possibly includes several arguments.

The objective variables are difficult to identify, given the institutional and political factors involved, as well as the interrelationships between the commercial banks, the Central Bank and the General Government.

Table 16

Costa Rica: National Banking System. Proportion of credit given out at different bank offices. 1967. Percentages.

<u>Product</u>	<u>BNCR</u>			<u>Banco Costa Rica</u>		<u>Banco Anglo</u>		<u>Cartago</u>
	<u>Central Office</u>	<u>Sucursal Agencia</u>	<u>Junta Rural</u>	<u>Central Office</u>	<u>Sucursal Agencia</u>	<u>Central Office</u>	<u>Sucursal Agencia</u>	<u>Central Office</u>
Agriculture	34.1	19.2	6.1	24.1	2.5	5.8	1.1	6.3
Rice	20.2	16.9	32.8	2.6	9.3	8.0	11.1	0.2
Cotton	32.8	16.8	2.2	5.7	32.0	3.7	6.8	-
Bananas	23.2	1.1	0.1	50.0	0.5	20.5	0.9	3.8
Cacao	41.7	11.5	7.2	2.3	36.1	-	-	1.1
Coffee	40.1	22.5	0.9	27.4	0.2	4.7	-	4.5
Sugar cane	14.0	4.1	8.5	23.9	3.5	0.5	0.1	45.4
Beans	-	-	68.4	-	23.0	-	7.5	0.8
Corn	9.7	4.4	73.8	0.2	7.5	0.5	1.2	2.7
Tobacco	-	0.9	95.3	-	2.9	-	-	0.9
Livestock	16.4	20.0	33.0	6.1	12.5	3.2	3.7	3.2
Meat cattle	16.8	23.9	33.7	5.8	12.3	2.2	3.9	1.3
Dairy cattle	20.2	4.8	37.0	19.4	13.7	4.2	2.2	7.7

Sources: BNCR, Banco de Costa Rica, Banco Anglo-Costarricense and Banco Crédito Agrícola de Cartago. Computer Printouts.

However, given certain constraints, also complex, managers of the commercial banks would presumably attempt to maximize, among other things, their own wages, political power and influence, and prestige. One may further argue that there is a strong correlation between the maximization of the said objective variables and profit maximization, the traditional objective of economic theory.

Wage increases, in a very general way, have been highly correlated with the accounting profits of the banks. More directly, profits are channelled, after taxes and legal reserves which have generated a slow process of capitalization, into pension funds and other fringe benefits for bank employees. Less directly, profits influence the possibility of increases in wages for the following year. Finally, high profits, and the efficiency which they reflect, might be a basis for prestige.

This hypothesis of profit maximization may easily be historically valid in the case of Costa Rica. It is, also, a very useful analytical device which permits adequate predictions about the behavior of the banks.

The commercial banks work under the constraint that their total revenue is fixed. This is the case because both price, i.e. the rate of interest, and quantity are fixed by the Central Bank. Given the conditions of excess demand for bank credit at the rate of interest set, it is politically unfeasible for the banks, and not desirable from the point of view of their objective function, to lend much less than the amounts authorized by the topes.

In order to maximize profits under the constraint of a given revenue, the banks have to minimize costs. Not all reductions in costs are feasible. For instance, it is not possible to limit the rate of growth of wages or to impose too strict efficiency conditions to employees, in particular if these imply an increased burden.

The managers of the banks are left with a few decision variables. One of the most important of these is the division of the funds between the central office and the rural branches. This decision is important because of differences in cost functions at the two locations.

Average and marginal costs are significantly higher at the branches than at the central offices. Average cost is here defined as the cost per dollar loaned at each location. It is in itself a weighted average of the cost per dollar loaned corresponding to each credit transaction taking place at the location, where the weight is the size of the loan.

The cost per dollar loaned is an inverse function of the size of the loan.

At the central offices loans are considerably larger than at the rural branches and, therefore, costs per dollar loaned are considerably lower at the central offices. To explain the shape of this cost function it is useful to point out that, in general, the amount of paper work and time spent in processing a loan is more or less the same for loans of different sizes. The same total administrative cost per loan has thus to be divided by a larger number in the case of larger loans.

If applications are usually better presented at the central offices than at the branches, processing the application might take more time in the later case. Also, since the supervision of the central office is always necessary in the case of the Juntas Rurales, there is a duplication of this cost. In case of conflict, there are the added costs of communication and transmission of directives to the Junta, while officials authorizing loans at the central office are closer to the sources of final decision making.

The information required for the application is collected, in the case of the central offices, by the client at his own expense. In the case of the Juntas Rurales it has to be collected in many cases by the delegate^{1/} at the bank's expense. A large loan requires a visit to one large farm for verification. A group of smaller loans requires the visit to several farms.

Average and marginal costs, therefore, are lower at the central offices than at the branches for each total amount of credit given out at each location, because of the marked difference in average size of loan.

Given this, however, one has to explain what happens to these costs when the total volume of transactions increases at each location. There is much controversy about the generation of economies of scale in the banking industry. It is likely that these economies of scale be generated in the early stages of development of a banking office. In fact, it seems that the Department of Rural Credit reduced costs proportionately during its early stages of expansion. However, after a certain point, which seems to have been reached in the case of Costa Rica, given the present organization of the banking system, one can expect marginal costs to be increasing at all locations, particularly in the short run.

The main source for these increasing marginal costs are costs of information and losses for lack of payment. The rationing mechanism used by the banks implies that the older, well-known clients of the banks are served first, before new potential clients, unknown to the bank. This was confirmed during 1971, when there was a faster than customary expansion of rural credit. The banks first sought their old clients and offered them as much credit as they wanted, and only then they looked for new clients.

^{1/} The delegate is the bank official in charge of the day-to-day administration of a Junta Rural.

The basis for this behavior are the high costs of acquiring information about a new borrower. Also, as the banking office expands the number of its credit transactions, it accepts more risky clients, and thereby increases losses due to default or the need for closer supervision of borrowers, which is also costly. The expansion of credit thus leads to a more than proportional increase in total costs, i.e. to increasing marginal costs.

Maximization of profits under the given constraints requires that the banks allocate the funds among the central offices and the various branches so as to equalize marginal costs at all locations.

The proportion of the bank's portfolio allocated to small farmers under these assumptions is smaller than the proportion that would be allocated in a system with an equilibrium rate of interest. Under such a system, nevertheless, the central office would still command a very substantial proportion of the funds.

The tendency was particularly accentuated during the period when a lower preferential annual rate of interest of 6 per cent was charged at the Juntas Rurales, while the rate of 8 per cent per year was charged by the commercial departments. Since in those circumstances the bank would tend to reduce loan activity at the Juntas, and consequently marginal costs there, a still larger proportion of the funds tended to be allocated at the central office.

Additional reasons why the banks tend to allocate a larger proportion than desirable at the central offices include attempts to maximize political and social influence by allocating credit where power resides.

3.08 The case of the Juntas Rurales.

The commercial banks are free to allocate their funds among their central offices and their sucursales and agencias. The same happens with respect to the Oficinas de Crédito al Pequeño Agricultor, dependencies of their commercial departments. This was the situation with respect to the Juntas Rurales before they were organized as a separate department of the BNCR. In all these cases the previous analysis applies.

After the Department of Rural Credit gained independence, the Juntas Rurales have obtained their funds in the form of loans from the Central Bank, loans from the Commercial Department of the BNCR, and foreign loans. Availability of funds for the Juntas Rurales has thus depended on decisions made at the Central Bank, and on decisions made at the central office of the BNCR. Also, either of the two banks has taken the initiative in the search for foreign funds.

The Central Bank determined the tope on small farmer credit and the amount to be lent to the Department of Rural Credit, which, according to the Organic Law of the Central Bank may represent up to 80 per cent of loans outstanding at the Juntas. The central office of the BNCR decided how much its Commercial Department was to lend to the Juntas Rurales. Commitments resulting from the more recent foreign loans have partially limited the scope of these decisions.

The funds available to the Department of Rural Credit are thus earmarked to be disbursed through the Juntas Rurales. Also, there is a limit on the size of these loans. It is only in the case of loans from the Commercial Department of the BNCR that decisions made at the central office affect the allocation of funds to small farmers.

The previous analysis remains valid, however, with respect to the second step, i.e. the geographical distribution of the funds available among the various Juntas. Juntas with larger average size of loan, and with lower costs per dollar loaned, tend to receive a larger proportion of the funds.

The separation of the Department of Rural Credit as an independent department of the BNCR thus presents the advantage that the tendency towards concentration of credit is much less marked.

The generation of excess demands and excess supplies at the different Juntas also affects the geographical pattern of distribution of credit, but the speed of the adjustment, based on a system of periodic reports to the central office, is apparently slow.

3.09 Individual allocation and risk aversion.

Once the Central Bank has set the topes and the central office of the commercial bank has divided the funds among the various branches, credit has to be allocated to individual farmers. Bank officials claim that credit is allocated primarily on a "first come, first served" basis. This description is only an approximation to what happens in reality.

More accurately, there seems to be always a waiting list of potential borrowers at each of the branches, including the Juntas Rurales. These eventual clients are usually told that no funds are available. However, as soon as the branch has available funds, it starts seeking the individuals in the list. The first ones called are old clients of the Junta, who possess certain characteristics in terms of crop produced, size, etc. If more funds become available, the children of these old clients are offered credit. Only during years of substantial increases in the availability of funds has the bank offered credit to a significant number of new clients.

It is also clear that not all farmers have access to the banks, even though they might have an economically justified demand for funds. Several circumstances, including the crop to be produced, region, legal title on the land, even social position and influence, permit or restrict entry.

When told about the existence of excess demand for credit, bank officials have answered that there is no excess demand by "qualified" Costa Rican farmers. What this implies is that there is rationing according to "qualifications". The main qualification needed is an adequate collateral, most of the time in the form of land to be mortgaged. It is only when there are substantial increases in the amount of available funds, as when foreign funds become available, that an important proportion of loans are not secured with a "real" guarantee, i.e. a mortgage.

One of the unfortunate aspects of the system is that the banks tend to believe that lack of "qualifications" indicates lack of any justifiable demand for credit. A strong correlation between qualifications and success as a farmer is very likely. It is not clear, however, to what extent such success is based on the access to subsidized credit and other services which the qualifications permit.

Other rationing devices employed, besides qualifications, are formalities and long delays. The timing of credit is crucial in agriculture. If the resources are not available when needed, the activity cannot be undertaken. When credit is granted slowly, only farmers with enough funds of their own, larger farmers, can go ahead with the activity and wait for the funds to be borrowed. The slowness of the National Banking System is one of the main reasons why bank clients also borrow from moneylenders. González-Vega and Vogel found, in a sample of 485 farmers, that farmers who use bank credit on the average used an additional 1.5 sources of credit, for a total of 2.5 sources. Also, farmers who used credit from the prestamista, on the average used a total of 3.2 sources of credit. ^{1/}

Emphasis on collateral and on personal characteristics, rather than on productivity and growth potential, does not indicate that bank officials are irrational. Given the constraints imposed on their maximizing behavior, they attempt to reduce costs through a minimization of risks. There is thus a marked risk aversion on the part of the officials of the nationalized banks. Since the banks are not allowed to charge higher rates of interest on risky activities, to compensate for possible losses, they simply tend to avoid these activities. The result is a very conservative attitude in the allocation of credit.

A deplorable consequence is that innovation is much reduced. Given the initially higher risks involved in a process of inno-

^{1/} Claudio González-Vega and Robert Cross Vogel. "Agricultural Credit in Costa Rica". Associated Colleges of the Midwest. 1969.

vation, credit tends to be allocated to crops that have always been produced safely. Actually, the banks do not finance activities which they do not know very well and where they do not have a considerable experience.

3.10 Concentration in a second best world: the case of coffee.

The traditional view among critics of the system is that the unduly large percentage of total agricultural credit that goes towards the production of coffee threatens the economy with excess supply in relation to the fixed quota allowed by the International Coffee Agreement. The presence of coffee surpluses in recent years has indeed led to important political debates about how to dispose of them that have affected Costa Rica's traditional political stability.

It can also be claimed that the undue incentive to coffee production limits the responsiveness of the agricultural sector to favorable price and cost incentives in other products, thereby losing valuable opportunities for diversification; and that the subsidies implied in the credit structure tend to perpetuate the political dominance of the coffee interests in the Costa Rican economy. Subsidies certainly permit coffee producers, who could finance their operations out of earned profits, to borrow from the nationalized banks and to divert funds at the margin towards other activities. Although it is not clear if their "informal" lending is more or less efficient than that of the National Banking System, in the allocation of resources, there is no obvious reason to subsidize these privileged borrowers-turned-lenders.

Concentration of bank credit for the financing of particular crops, however, need not be totally undesirable, particularly in a second best world. This seems to have been the case with coffee. ^{1/}

Even though this concentration may have locked the economy into coffee to an undesirable degree, it has at the same time resulted in an unusual system of guaranteed credit and purchase to the small and medium, as well as large, farmer.

Costa Rica's coffee quota is distributed among the country's 127 "beneficios" (processors), rather than among producers or exporters. Bank credit for the purchase of this coffee has traditionally been allocated, accordingly, among the same processors, who, in turn, advance it for the harvest to their various producer-suppliers. The processors must buy from the growers at a price fixed by the Government Coffee Office, in strict correlation with prices obtained in international markets.

^{1/} Judith Tendler. "Agricultural Sector Loan for Costa Rica". AID Memorandum. July 1969.

The financing of the coffee processors constituted the largest share of credit transaction outside of the tope. Even though the banks are authorized, and willing, to lend directly to producers, in practice growers prefer to obtain credit from the processors, who must charge, by law, the same rate of interest than the banks, i.e. 8 per cent per year.

This system tends to create some monopsony power on the part of the processor, although government regulation of prices and interest rates attempts to reduce it. The guaranteed access of the smaller farmer to the coffee credit and marketing system, along with the suitability of the Costa Rican terrain to small and medium size production units may, however, be viewed as significantly contributing to the fact that inequality of land distribution in Costa Rica is considerably less than in other Latin American countries. ^{1/}

The most interesting and appealing feature of the system is that it decentralizes the banking function in a very important way, disseminating it throughout the coffee producing areas. In this respect, the coffee-specific credit arrangements parallel the network of Juntas Rurales, and makes equal use of the stock of local knowledge, in an attempt to reduce the information and other costs of granting credit.

In this case the lender-borrower relationship is less distant and formal than it is for other types of credit, particularly credit from banks and other formal institutions. The lender-processor, being acquainted with the producers of the region, can reduce risks and information costs to a larger degree than the bank could. As a credit intermediary, therefore, it serves the important role of channelling credit to the small farmer, which the National Banking System would find difficult to do on such an scale. It also allows the Juntas Rurales not to concentrate so much in financing the production of coffee and to pay attention to other farmers who do not have access to such an organized and regulated market as in the case of coffee. For this reason, the importance of coffee within the products financed by the Juntas Rurales in no way reflects its importance in the total credit matrix.

From the point of view of the small farmer, on the other hand, the fact that there is a guaranteed credit and marketing mechanism allows him to sow part of his land in coffee and the rest in a crop that may offer higher returns but a greater risk; e.g. some vegetables and fruits. In this way the farmer insures himself through coffee against the risk of a complete loss, while at the same time being able to pursue the more risk-laden chance of higher returns.

^{1/} Judith Tandler. Ibid.

The guarantees of the coffee production system provide the small farmer with the cushioning obtained by the large farmer through the diversification of his investments and his access to the banking system and/or reserves of capital. It allows the small farmer to reach a more desirable position of portfolio equilibrium.

HISTORY OF THE JUNTAS RURALES

4.01 The Cajas Rurales de Crédito

The Costa Rican Government became interested in small farmer credit in 1914, when the first official bank was created. This bank, then called "Banco Internacional de Costa Rica", was transformed, after a major banking reform in 1936, into the Banco Nacional de Costa Rica (BNCR); and it is still the most important credit institution in the country.

Law No. 33 of December 30, 1914, ordered the BNCR to create and organize the "Cajas Rurales de Crédito" (Rural Credit Funds), which in 1936 became the "Juntas Rurales de Crédito Agrícola" (Agricultural Credit Rural Boards). This last name indicates that, from the very beginning, it was intended that the allocation of credit to small farmers be decided upon by members of a local board, the "Junta". Since 1914, the board of each local Caja was formed with five persons from the neighborhood, who were farmer-owners of land valued at least at \$ 935. ^{1/}

The original purposes of the rural credit system were twofold: to liberate the small farmer from the "usurious" conditions of the moneylender, although "usury" was never defined in any operational way; and to stimulate the production of traditional crops, particularly the "basic grains" : rice, corn and beans, for domestic consumption. Law No. 33 indicated that in choosing the location of the Cajas the BNCR should prefer those districts which significantly contributed to the output of these crops. With the passage of time, moneylenders ceased to be much of a "problem" and emphasis was placed more and more on this production goal.

To these ends the BNCR was ordered to devote \$ 93,458. ^{2/} This was about 10 per cent of its original capital. In turn, loans to the same person were not to exceed \$ 117. ^{3/} The legal norm was quickly put into effect and by October, 1915, the BNCR had established 27 Cajas in different areas of the country, serving more than 1,000 small farmers with credit at low rates of interest. During the following years, the rates of interest charged by the Cajas fluctuated between 6 and 12 per cent per year.

Decree No. 5 of May 12, 1916, ordered the BNCR to lend \$ 118,110 through the Cajas. ^{4/} This sum represented 15 per cent of the BNCR's loans to the private sector. By the end of that year the BNCR was operating 33 Cajas.

^{1/} That is, 2,000 colones at the rate of exchange of 2.14 colones per U.S. Dollar then in effect.

^{2/} That is, 200,000 colones, at the rate of exchange of 2.14 colones.

^{3/} That is, 250 colones, at the rate of exchange of 2.14.

^{4/} That is, 300,000 colones at the rate of exchange of 2.54 colones per dollar then in effect.

Between 1916 and 1932 the Cajas seem to have functioned smoothly and with relative efficiency. The "Memorias Anuales" of the BNCR (Annual Statements of Operations) report year after year the satisfactory performance of most of the Cajas. The BNCR emphasized that, as of the respective dates of the reports, it had not lost one cent for lack of repayment.

In the very few cases when the Caja did not seem to function correctly -one can infer the lack of demand for its services to be the cause- the banking office was closed. On the other hand, the BNCR reported that several Cajas had requested increases in the limits imposed on their outstanding balances, which the BNCR considered as an indication of their "excellent" performance.

As the number of Cajas increased and the BNCR sought to create new ones in smaller localities, however, there were fewer potential members of the board who possessed sufficient valuable properties and, in particular, with clear legal title. Consequently, in some small localities it was impossible to organize a Caja, even though there was a local demand for it.

Decree No. 37 of July 6, 1932, ordered an administrative charge of one per cent on any amount advanced by the BNCR to the Cajas. The members of the board were made responsible to the BNCR for the sums advanced and this responsibility was guaranteed by a mortgage on their own properties.

In return for assuming this responsibility and for their work, the members of the board earned half of the net profit of the Cajas, after the one per cent administrative charge was paid to the BNCR. The BNCR earned the other half of the net profit. Apparently these norms made it more difficult to find local inhabitants willing to become members of a board, and the BNCR could not increase the number of Cajas.

Under normal circumstances it would have been interesting to observe the performance of this joint venture between a bank and local farmers, potential moneylenders. The unusual conditions of the time make the observation irrelevant. In 1933 several Cajas began to experience difficulties with repayment, to the point that some had to cease operating. This was probably a consequence of the world depression of those years, as well as a reaction to legislation which ordered a moratorium on certain debts. Although the legislation did not cover the operations of the Cajas, many farmers invoked it.

The original concept of the Cajas as decentralized bank offices managed by a local board was very interesting. Policy makers always believed in the importance of the innovation and there were no attempts to eliminate the system. Since 1932, however, the BNCR decided not to create any more Cajas, before it could give them a more structured organization. It was believed that the problems encountered resulted from lack of adequate regulations and technical personnel. It is quite likely that most of such problems

merely reflected the abnormal economic conditions of those years, but there has been always a tendency to attempt to solve problems by means of a more rigid and controlled organization. Little consideration has been given to the added costs of the new organization.

In 1936 the Banco Internacional de Costa Rica was transformed into the Banco Nacional de Costa Rica, with three departments: Commercial, Mortgage, and of Issue, which was later transformed into a Central Bank.

The Cajas Rurales de Crédito became the Juntas Rurales de Crédito Agrícola and were given a more structured organization. The "Sección de Crédito Agrícola e Industrial", a new section within the Commercial Department, was charged with supervising the Juntas and with granting small farmer credit in general. The administration of small farmer credit was thus centralized in a specialized section of the central office of the BNCR.

In the case of the old Cajas, the BNCR had no control over credit operations, uses of the loans or criteria for the selection of borrowers. The local board had discretionary powers in all these areas. Law No. 16 of November 5, 1936, gave this power to the Sección de Crédito Agrícola e Industrial, but also indicated ways of operation, interest rates to be charged, terms allowed, collateral acceptable, and limits to credit. The rate of interest was set at 6 per cent per year and the maximum term allowed was 12 months. The limit on loans to the same person was set at \$ 406. ^{1/} Operations of the Juntas were granted a 50 per cent reduction in all taxes, other government fees and lawyer fees. Before 1936 such operations were completed exempted from the payment of such taxes and fees. Operation credit was specifically recommended for small coffee producers by the law, and this type of credit subject to special regulations.

In subsequent years the BNCR appointed inspector-delegates for each Junta who, according to bank regulations had to be residents of the respective districts and agronomists with experience in the regions and their products. In addition to appointing a delegate, the bank was very careful in selecting the members of the board, an organizational feature which remained from the old system. Usually the Junta was installed in the same small building where the bank carried out other banking functions for the community, with several important external economies and benefits resulting thereof.

During 1937 the BNCR operated in an experimental way four Juntas. Progressive and large districts: Santa Cruz de Guanacaste, Crotina, Puriscal and Turrialba, were chosen for the location of these first Juntas. In about six months they authorized 578 credit transactions and lent \$ 21,849.

During the three following years the BNCR organized 14 more Juntas, bringing their number to 18 by 1940.

1/ That is, 2.500 colones at the rate of 6.16 colones per dollar.

Law No. 24 of May 30, 1941, allowed the Juntas to carry on long-term credit transactions and destined \$ 75,188 for this purpose. One of the goals of this new area of operations was to aid the purchase of small farms and the construction of rural houses, and to help owners to satisfy debts to non-bank creditors and remove mortgages on their rural properties.

During these years the Juntas Rurales became an important instrument for the Government's agricultural policies. The credit program for the purchase of new farms was conceived as a means of alleviating land tenure problems. Beginning in July, 1940, the Juntas distributed a monthly educative publication, in an effort to provide technical assistance. In 1942-1943 the Sección de Crédito Agrícola e Industrial was also used as an intermediary between farmers and the government in the purchase of rice, corn and beans at a minimum support price. Finally, the Juntas made subsidized sales of agricultural tools, seeds and fertilizers, which were considered necessary given the low war-time imports.

The tasks related to the purchase of basic grains and sales of agricultural inputs were entrusted, in 1944, to a new section of the BNCR, the "Sección de Fomento de la Producción Agrícola". It was not until 1948 that these functions were placed into a separate institution, the Consejo Nacional de Producción.

During the period 1937-1952 the Juntas authorized 157,146 loans, through which they lent \$ 18,432,272. Just in 1952, the 38 Juntas in operation approved 19,994 loans, the highest number in their history, while the amount of credit given out during that year was \$ 3,659,635. During the entire period 1937-1952 only 36 loans, totaling \$ 2,390 were not repaid.

This is a most impressive repayment record by any standards. It tells us about the character of Costa Rican farmers during those years, about the selection criteria used by the Juntas and about the close supervision that the BNCR practiced over its clients.

Law No. 1,644, issued in 1953, consolidated reforms in the Costa Rican banking system that had begun with the nationalization of the commercial banks in 1948 and the creation of a Central Bank in 1950. This "Ley Orgánica del Sistema Bancario Nacional" (Organic Law of the National Banking System) created, within the Commercial Department of the BNCR, the "Sección de Juntas Rurales de Crédito Agrícola" (Section of Agricultural Credit Rural Boards).

This piece of legislation maintained the distinguishing feature of the Juntas, their composition by farmers from the locality. However, the law entrusted the execution of technical banking functions to regular employees of the bank, such as the BNCR had tended to do since 1936. The delegate became legally responsible for the administration, vigilance and control of the Junta. His functions included valuations of guarantees, inspections and advice to the board.

Law No. 2,147 of July 19, 1957, entrusted the commercial banks in the National Banking System with the provision of credit for small farmers. This task has been executed by the commercial departments of these banks through the Oficinas de Crédito al Pequeño Agricultor.

4.02 The Department of Rural Credit.

Law No. 2,466 of November 9, 1959, transformed the Sección de Juntas Rurales de Crédito Agrícola of the BNCR into a department, independent of the Commercial Department of the BNCR. This "Departamento de Crédito Rural y Tierras y Colonias" was charged, in addition to its credit functions, with the administration of "land reform" in Costa Rica. However, three years later, an independent institution, the Instituto de Tierras y Colonización, was entrusted with this last function and, ever since, the Department of Rural Credit has performed only bank functions.

This law foresaw the expansion of the capital of the Department during a period of 16 years. At the outset it received \$ 1,353,383, of which \$ 751,879 in bonds were for the Section of Rural Credit and the rest for the Section of Land and Colonies. At the end of the period, these sections were to possess \$ 4,060,150 and \$ 3,308,270, respectively. However, this plan of capitalization was never carried to completion.

Since 1914 the main source of the funds for the Juntas Rurales had been the BNCR's own capital and reserves. Later, these were complemented with funds obtained from the Central Bank, both through rediscounting and in the form of direct loans. The whole period 1914-1960 was thus dominated by the use of Costa Rican funds for the provision of small farmer credit.

The Central Bank negotiated a long term loan with the Chase Manhattan Bank of New York, of which \$ 5,747,406 were allocated in 1960 to the BNCR for the small farmer program. This was the first time that foreign funds were specifically used for this purpose.

In January 1962, the Juntas Rurales received a loan of \$ 5,000,000 from the Development Loan Fund^{1/}This was the first of a series of four loans negotiated with U.S.-AID during the subsequent years, which expanded the funds available to the Juntas Rurales and change the source of finance thereof. Subsequently, the relative importance of foreign funds as a source of resources increased rapidly, while Costa Rican contributions of funds to the Juntas Rurales practically stagnated, except to the extent that they were required to grow because of counterpart commitments.

Due to the increased volume of credit, also starting in 1962, the Department of Rural Credit stopped producing an accounting loss, as it had been doing year after year since 1937, and profits have appeared in its income statement ever since.

^{1/} A United States Government fund, later absorbed by AID.

Such profits are apparent only, since the Department receives a series of services from the BNCR free of charge. They also reflect, however, the low rates of interest charged for foreign funds and the increased size of the Department.

The most important recent development has been a tendency to de-emphasize the Juntas Rurales as the only source of credit for small farmers and the strengthening of the Oficinas de Crédito al Pequeño Agricultor, which belong to the other nationalized banks. The objective has been to increase efficiency through competition and a more aggressive behavior in providing small farmer credit by all the commercial banks. Funds from the last AID loan have been channelled through the Central Bank to the four commercial banks, with this purpose in mind.

GROWTH AND TERM STRUCTURE OF THE OUTPUT OF THE JUNTAS RURALES

5.01 Stocks and flows

The evolution of the Juntas Rurales may be described in terms of the growth of their output. There is no consensus about what constitutes the output of a banking unit. The measurement of this output, however, is not only controversial, but presents several practical difficulties. An important problem lies in the divergence between the data collected by the accountant and the information that the economist would like to have.

In its simplest conception bank output may be measured either by the total volume of credit or by the number of credit transactions. In each case it is necessary to distinguish between two dimensions of output. In the case of the flow dimension one is measuring the current of credit flowing during a certain period, usually one year. Table 17 thus shows the number of loans authorized during each year and the amounts of credit given out during each year.

In the case of the stock dimension one is measuring a magnitude at a given date; usually December 31st of each year. Table 21 thus gives the number of loans and the value of balances outstanding at December 31st of each year.

One of the main difficulties with data on Costa Rican agricultural credit is that flows and stocks are arbitrarily used by the banks in their reports. Their lack of consistency makes sometimes difficult the construction of time series of one or the other concept. Consequently, studies of agricultural credit in Costa Rica do not usually make a clear distinction between the two measures. In this study, the expression "amounts of credit given out" indicates a flow while the expression "balances outstanding" indicates a stock.

5.02 Credit given out

Between 1937, just after the reform of the BNCR, and 1971 the Juntas Rurales authorized 460,709 loans and gave out \$ 156,345,170 in relatively small loans, which had an average for the whole period of \$ 339. This figures imply that, on the average, the Juntas Rurales authorized 13,163 loans per year, while the average amount given out by all the Juntas was \$ 4,467,262 per year.

During a period of 35 years, the number of loans authorized per year thus grew at an average annual rate of 10.64 per cent, while the amount of credit given out per year grew at the average annual rate of 21.30 per cent, as indicated by table 19.

Table 17

Costa Rica: BNCR. Department of Rural Credit. Credit given out during the year. 1937-1971. U.S.Dollars.

<u>Year</u>	<u>Number of loans</u>	<u>Amounts given out</u>	<u>Average size of loan</u>
1937	578	21,848.87	37.80
1938	1,746	73,372.93	42.02
1939	3,547	171,383.46	48.32
1940	5,124	260,379.70	50.82
1941	5,809	312,592.11	53.81
1942	6,085	371,485.38	61.05
1943	6,872	481,443.83	70.06
1944	8,284	668,824.29	80.73
1945	8,682	741,446.85	85.39
1946	11,936	1,064,505.41	89.18
1947	12,641	1,324,928.70	104.81
1948	12,855	1,386,996.29	108.67
1949	15,846	2,101,417.19	132.62
1950	17,752	2,555,514.32	143.73
1951	19,403	3,179,911.41	163.89
1952	19,994	3,702,706.17	185.19
1953	18,006	3,582,666.17	198.97
1954	16,838	3,642,305.60	216.31
1955	16,967	3,937,779.52	232.08
1956	17,625	4,585,343.37	260.16
1957	16,675	4,415,042.80	264.77
1958	15,275	4,318,115.60	282.69
1959	15,797	4,953,914.44	313.60
1960	15,989	6,578,525.26	411.44
1961	16,007	6,102,850.20	381.26
1962	19,293	9,225,815.03	478.19
1963	16,107	7,223,183.91	448.45
1964	16,209	8,870,270.06	547.24
1965	17,767	10,687,274.09	601.52
1966	11,791	6,154,470.72	521.96
1967	16,063	9,672,780.44	602.18
1968	14,037	8,700,269.35	619.81
1969	11,996	9,282,732.72	773.82
1970	13,148	10,366,503.10	788.45
1971	17,965	15,628,590.38	869.95

Sources: Luis Echeverría. "Reseña Cronológica de las Cajas de Crédito Agrícola del Banco Internacional de Costa Rica y de las Juntas Rurales de Crédito Agrícola del Banco Nacional de Costa Rica. 1937-1957." San José, 1958.
 BNCR, "Memoria Anual". Several years.
 Central Bank. Department of Economic Studies. Unpublished records.
 See notes.

Between 1937 and 1971 one may distinguish, however, four sub-periods. The distinction between these sub-periods is arbitrarily based on the rates of growth of the amounts of credit given out, and is not extremely marked, but it helps to trace out the evolution of the output of the Juntas Rurales.

The first sub-period includes the years 1937-1940. In 1937 the Juntas Rurales authorized 578 loans for \$ 21,849. Both the number of loans and the amounts given out each year grew at an extraordinarily high rate during the following three years. The average annual rates of growth were 107 per cent for the number of loans and 128.5 per cent for the amounts of credit given out.

The years 1937-1940 were the sub-period of establishment of the system. This is reflected in the high rates of growth, which also resulted from more than 20 years of previous experience in providing small farmer credit. This experience allowed the BNCR to expand the amount of credit given out by almost 12 times within three years after it had begun operating the new system.

The second sub-period includes the years 1941-1952. During these years the amounts of credit given out by the Juntas Rurales continued to grow substantially, at rates that oscillated between 10 and 50 per cent per year, and which had an average of 25.19 per cent.

The number of loans authorized did not grow as fast as the amounts given out. The average rate of growth for the sub-period was 11.89 per cent per year. While the average number of loans authorized and the average amount given out per year had been 2,748 and \$ 131,746, respectively, during the first subperiod, during the second sub-period these two magnitudes increased to 12,180 loans and \$ 1,491,481 per year.

The third subperiod includes the years 1953-1959, just after the creation of the Sección de Juntas Rurales by the Organic Law of the National Banking System. For the first time since the 1936 reform the amount of credit given out by the Juntas Rurales was reduced in 1953. The 1952 level was not regained until 1955 and, in general, this third sub-period was characterized by a much lower rate of growth than that obtained during the previous sub-periods.

The amounts of credit given out each year grew at the average rate of 5.55 per cent per year. The number of loans, on the other hand, actually decreased, at an average negative rate of 2.26 per cent per year. This figures imply that, on the average, 16,740 loans were authorized per year, while \$ 4, 205,024 were given out yearly.

The fourth sub-period includes the years 1960-1971. The Juntas Rurales had just been transformed into an independent de-

Table 18

Costa Rica: BNCR. Department of Rural Credit. Annual rates of growth of credit given out during the year. 1937-71.

<u>Year</u>	<u>Number of new Juntas</u>	<u>Rate of growth of the number of loans (%)</u>	<u>Rate of growth of the amounts given out (%)</u>	<u>Rate of growth of the average size of loan (%)</u>
1937	4	-	-	-
1938	4	202.08	235.82	11.16
1939	5	103.15	133.58	14.99
1940	5	44.46	51.93	5.17
1941	-	13.37	20.05	5.88
1942	1	4.75	18.84	13.45
1943	7	12.93	29.60	14.76
1944	1	20.55	38.92	15.23
1945	1	4.80	10.86	5.77
1946	2	17.48	43.57	4.44
1947	-	5.91	24.46	17.53
1948	1	1.69	5.43	3.68
1949	1	23.27	50.42	22.04
1950	1	12.03	21.42	8.38
1951	4	9.30	24.63	14.03
1952	1	3.05	16.44	13.00
1953	1	- 9.94	- 3.24	7.44
1954	1	- 6.49	1.66	8.71
1955	3	0.77	8.11	7.29
1956	4	3.88	16.44	12.10
1957	-	- 5.39	- 3.71	1.77
1958	-	- 8.40	- 2.20	6.77
1959	-	3.42	14.72	10.93
1960	2	1.22	43.20	31.20
1961	-	0.11	- 7.25	1.33
1962	3	20.53	51.17	25.42
1963	-	- 16.51	- 21.71	- 6.22
1964	2	0.63	22.80	22.03
1965	-	9.61	20.48	9.92
1966	-	- 33.64	- 42.41	- 13.23
1967	2	36.23	57.17	15.37
1968	-	- 12.61	- 10.04	2.93
1969	-	- 14.54	6.69	24.85
1970	-	9.60	11.68	1.89
1971	1	36.64	50.76	10.34

Sources: Same as in Table 17.
See notes.

partment of the BNCR at the beginning of this period and this transformation was marked by an important jump in the time series of the amounts of credit given out.

On the average, 15,531 loans were authorized per year and \$ 9,041,105 were given out yearly. The average rate of growth of the number of loans was 1.06 per cent per year, reflecting the stagnation of this number, while the amounts given out grew at an average annual rate of 8.18 per cent. Although this rate of growth is slightly higher than the one attained during the third sub-period, it is lower than the rates corresponding to the first and second sub-periods. It also reflects, basically, the rapid growth that took place during the last two years of the subperiod.

The main characteristic of this fourth sub-period, however, are the violent fluctuations in the amounts of credit given out during each year, with some very high rates of growth corresponding to certain years, and some dramatic reductions in those amounts in subsequent years. For example, in 1966 the amount of credit given out dropped to the pre-1960 level. Most of the very high rates of growth of this sub-period reflect, therefore, recoveries, but not net increments.

Such fluctuations may be partly explained in terms of the availability of foreign funds, which became a very important source of finance for the Juntas Rurales during the period, and which were contracted at certain intervals and quickly disbursed in the form of medium-term loans.

The fluctuations may also be explained in terms of the policies followed by the Central Bank. During 1964 and 1965 the Central Bank authorized substantial increases in the total amount of credit, and the amounts given out by the Juntas Rurales increased accordingly. The Central Bank was attempting to offset the deflationary impact of the volcanic eruptions of the Irazú. Inflationary pressures and balance of payments difficulties led to a very restrictive policy in 1966, and during this year the amount of credit given out by the Juntas Rurales reached its lowest level for the period. The quick expansion of 1971 was again induced both by the availability of another AID loan and by the highly expansionary policy followed by the Central Bank.

In summary, Table 19 shows that the amounts of credit given out each year by the Juntas Rurales grew rapidly between 1937 and 1952, i.e. during the first two sub-periods, at the end of which this amount was 170 times greater than during 1937. After a relative stagnation during the third sub-period, when the commercial banks were subordinated to the Central Bank, the rate of growth of this magnitude showed some recovery during the fourth sub-period. Prior rates of growth, however, have not been reached again. The main feature of the fourth sub-period, nevertheless, are large fluctuations in the amounts of credit given out each year.

Table 19

Costa Rica: Output of the Juntas Rurales for the four sub-periods. 1937-1971.
U.S.Dollars.

Years	<u>1937-1971</u>	<u>1937-1940</u>	<u>1941-1952</u>	<u>1953-1959</u>	<u>1960-1971</u>
Number of loans authorized.	460,709	10,995	146,159	117,183	186,372
Average per year.	13,163	2,749	12,180	16,740	15,531
Amounts given out.	\$ 156,354,170	526,985	17,897,771	29,435,165	108,493,260
Average per year.	\$ 4,467,262	131,746	1,491,481	4,205,024	9,041,105
Average size of loan.	\$ 339.38	47.93	122.45	251.19	582.13
Number of Juntas created.	57	18	20	9	10
Number of loans per Junta	342	256	419	378	289
Amounts given out per Junta	\$ 116,076	12,556	51,283	94,952	168,207
<u>Rates of growth %</u>					
Number of loans.	10.64	107.00	11.89	- 2.26	1.06
Amounts given out.	21.30	128.50	25.19	5.55	8.18
Average size of loan.	9.66	10.37	11.86	7.88	7.04
Number of Juntas	8.13	60.49	7.03	3.16	1.38
Number of loans per Junta	2.32	25.36	4.54	- 5.25	- 0.41
Amounts given out per Junta	12.21	38.35	16.64	2.30	6.71

The number of loans authorized followed a similar pattern. Substantial and consistent growth followed the extraordinary increases of the first four years. In 1952 the number of loans granted reached 19,994, the largest number of loans ever made by the Juntas Rurales in a single year. After this peak there is a complete stagnation in the number of loans, while actual declines are substantial in several years. During 7 of the years between 1952 and 1971 the number of loans was below the pre-1949 level, while in 9 other cases it was below the figure for 1950.

The secular trend of the number of loans and of the amounts given out during the year by the Juntas Rurales have been calculated by Francisco Tejada. ^{1/} He fitted a quadratic function to the 32 observations for the period 1937-1968, with the following results.

The equation for the number of transactions was estimated at $N = - 1,977 + 1,819.45 T - 41.99 T^2$; where N is the number of loans and T is time. This equation implies an average annual increase in the number of loans of 1,819 loans per year. But such increment is not proportional to time. There is a negative acceleration of 42 loans per year. This deceleration has led to an absolute reduction in the number of loans during recent years.

The equation for the amounts given out was estimated at $A = - 419,444 + 113,412 T + 6,549 T^2$; where A is the amount given out and T is time. The amounts given out increased secularly at the rate of \$ 113,412 per year, with a positive acceleration through time of \$ 6,549 per year, implying an almost exponential increase for the more recent years.

5.03 Average size of loan

The fact that the amounts of credit given out during the year always grew at a faster rate than the number of loans granted is reflected in an ever increasing average size of loan during the whole period 1937-1971. In 35 years the average size of loan went from \$ 38 in 1937 to \$ 870 in 1971.

This average size grew at the rate of 9.66 per cent per year between 1937 and 1971. The differences among the four sub-periods are less marked in terms of the rates of growth of the average size of loan than in terms of the rates of growth of the amounts given out, but important distinctions exist in terms of the absolute level of this average size of loan.

The average size of loan increased from an average of \$ 48 for the first sub-period to an average of \$ 122, \$ 251 and \$ 582, respectively, for the last three sub-periods. This implies rates of growth of 10.37; 11.86; 7.88 and 7.04, respectively, for the four sub-periods. Years of large increases in the average size of loan usually coincided with years of large increases in the amount

^{1/}Francisco A. Tejada. "Algunos Aspectos de la Junta Rural de Crédito de Turrialba". Instituto Interamericano de Ciencias Agrícolas. Turrialba. 1969.

of credit given out. The fourth sub-period is also characterized by fluctuations in the average size of loan. The large increases in the amounts lent in 1964 and 1965 were accompanied, for example, by only moderate increases in the number of loans. Although the number of loans increased rapidly in 1971, the amounts of credit given out increased still faster.

5.04 Number of Juntas

The expansion of the Department of Rural Credit can be observed also in terms of the growth of the number of Juntas Rurales in operation. This number grew at an average rate of 8.13 per cent between 1937 and 1971. By this last year there were 57 Juntas operating.

However, there is a constant decline in the rate of growth of the number of Juntas, from 60.49 per cent for the first sub-period, when the system was restructured, to 1.38 per cent for the last sub-period. This implies that, on the average, 4.5 Juntas were created per year during the first sub-period; 1.7 Juntas per year during the second; 1.3 Juntas per year during the third, and finally 0.8 Juntas per year during the fourth sub-period. This growth was not smooth, but took place in waves, with years when several Juntas were created followed by years when not even one Junta was created.

Table 20 shows the average number of loans authorized per Junta each year. For the whole period this average was 342 loans. The second sub-period presents the largest average number of loans per Junta, of 419. This average grew fast during the first sub-period and moderately during the second one, but it diminished, fast during the third sub-period and slowly during the last one. This reflects both the stagnation in the number of loans authorized and in the number of Juntas created that characterizes the last two periods.

The largest number of loans per Junta occurred in 1950, when 538 loans per Junta were made. The number of loans authorized per Junta in 1971 is only slightly over 50 per cent of that number.

The relative stability of the overall average number of loans per Junta through time should not obscure the fact that there are large differences in the number of loans authorized by each Junta. In 1966, for example, the number of loans ranged from 30 for the Junta of Escazú to 1,059 for the Junta of Puriscal. There is also a pronounced diversity among the Juntas in terms of the amounts given out.

The average amount of credit given out per year by each Junta Rural increased consistently since 1937, at an average rate of growth of 12.21 per cent per year. It reached a first peak of \$ 94,440 in 1952, year after which there was a slight reduction and subsequent stagnation of this average.

Table 20

Costa Rica: BNCR. Department of Rural Credit. Number of Juntas Rurales and average number and amounts given out per Junta. 1937-1971. U.S. Dollars.

<u>Year</u>	<u>Number of Juntas</u>	<u>Amounts given out per Junta</u>	<u>Number of loans per Junta</u>
1937	4	5,462.22	145
1938	8	9,171.62	218
1939	13	13,183.34	273
1940	18	14,465.54	285
1941	18	17,366.23	323
1942	19	19,555.86	320
1943	26	18,517.07	264
1944	27	14,771.27	307
1945	28	26,480.24	310
1946	30	35,483.51	398
1947	30	44,164.29	421
1948	31	45,064.40	415
1949	32	65,669.29	495
1950	33	77,318.62	538
1951	37	85,943.55	524
1952	38	94,439.64	526
1953	39	91,863.24	462
1954	40	91,057.64	421
1955	43	91,576.27	395
1956	47	97,560.50	376
1957	47	93,937.08	355
1958	47	91,874.80	325
1959	47	105,402.43	336
1960	49	134,255.62	326
1961	49	124,547.96	327
1962	52	177,419.52	371
1963	52	138,907.38	310
1964	54	164,264.26	300
1965	54	197,912.48	329
1966	54	113,971.68	218
1967	56	172,728.22	287
1968	56	155,361.95	251
1969	56	165,763.08	214
1970	56	185,116.13	235
1971	57	274,185.80	315

Sources: The same as in Table 17.
See notes.

While the average annual rates of growth of the amounts given out per Junta were 38.35 and 16.64, respectively, during the first and second sub-periods, during the third sub-period this rate dropped to 2.3 per cent per year. During the fourth sub-period the rate was 6.17 per cent, with sharp fluctuations around this average. During this last sub-period the absolute level of the amount given out per Junta was 14 times the level during the first sub-period, on the average.

In summary, the rates of growth of the average number of loans and of the amounts of credit given out per Junta are lower than the rates of growth of the overall concepts. In general, this growth followed the same pattern indicated by the division into four sub-periods.

The relative stagnation of the number of transactions per Junta is an important factor affecting total costs of credit, which have thus remained relatively stable, because it is the number of loans more than their size which affects these costs. Average costs, however, have tended to diminish, precisely because of important increases in the average size of loan.

The number of transactions per Junta is also important in connection with the number of loans which the delegate has to supervise, which in turn affects his efficiency and the possibility of providing technical assistance.

5.05 Balances outstanding

The stock of balances outstanding at the end of the year depends both on the amounts of credit given out during the year and on the pattern of repayment. That is, the stock at the end of year "n", plus the amount of credit given out during year "n+1", minus amortizations during year "n+1", of both loans given out during year "n+1" or during previous years, minus losses due to lack of payment, is equal to the stock of balances outstanding at the end of year "n+1".

The number of balances outstanding grew, for the period 1939-1971, at an average rate of 7.92 per cent per year, while the value of these balances grew at an average annual rate of 23.89 per cent for the period 1937-1971. The same four sub-periods may be distinguished in connection with these two stocks.

During the sub-period 1937-1940 both the number and the value of balances outstanding grew rapidly. The average rate of growth of the value of balances outstanding was 143.50 per cent, slightly higher than the rate of growth of the amounts given out during the same sub-period.

The extraordinarily high rates of growth which characterized the restructuring of the system were followed by the relatively high and sustained rates of the sub-period 1941-1952.

Table 21

Costa Rica: BNCR. Department of Rural Credit. Balances outstanding at December 31st of each year. 1937-1971. U.S.Dollars.

<u>Year</u>	<u>Number of loans outstanding</u>	<u>Amounts outstanding</u>	<u>Average size of loan outstanding</u>
1920	n.a.	71,332.34	n.a.
1921	n.a.	60,327.31	n.a.
1922	n.a.	44,262.53	n.a.
1930	n.a.	57,633.49	n.a.
1937	n.a.	19,954.86	n.a.
1938	n.a.	73,207.67	n.a.
1939	3,656	175,457.88	47.99
1940	5,727	288,691.88	50.41
1941	6,858	363,949.62	53.03
1942	n.a.	445,309.92	n.a.
1943	n.a.	579,628.76	n.a.
1944	n.a.	796,057.63	n.a.
1945	n.a.	932,409.82	n.a.
1946	n.a.	1,192,799.21	n.a.
1947	14,585	1,494,250.85	102.45
1948	15,741	1,729,349.68	109.86
1949	18,561	2,181,164.77	117.51
1950	21,547	3,102,851.76	144.00
1951	23,712	3,846,689.45	162.23
1952	24,998	4,490,456.03	179.63
1953	24,794	4,806,313.40	193.85
1954	24,877	5,237,255.45	210.53
1955	26,456	5,895,798.23	222.85
1956	n.a.	6,909,021.48	n.a.
1957	28,187	6,992,916.19	248.09
1958	n.a.	n.a.	n.a.
1959	n.a.	n.a.	n.a.
1960	28,075	9,959,222.15	354.74
1961	n.a.	11,522,255.64	n.a.
1962	35,190	14,836,203.59	421.60
1963	36,071	15,455,948.40	428.49
1964	37,732	17,176,537.05	455.22
1965	41,218	20,712,560.69	502.51
1966	39,141	19,554,301.08	499.59
1967	39,964	20,948,356.32	524.18
1968	38,465	21,183,219.02	550.71
1969	37,252	22,734,123.69	610.28
1970	38,015	25,337,946.25	666.52
1971	41,922	29,157,199.36	695.51
1972	43,553	32,018,198.08	735.15

Sources: The same as in Table 17.
See notes.

Table 22

Costa Rica: BNCR. Department of Rural Credit. Annual rates of growth of credit outstanding at December 31st.

<u>Year</u>	<u>Number of new Juntas</u>	<u>Rate of growth of the number of loans.</u>	<u>Rates of growth of the amounts outstanding.</u>	<u>Rates of growth of the average size of loan.</u>
1937	4	n.a.	-	n.a.
1938	4	n.a.	266.87	n.a.
1939	5	n.a.	139.33	n.a.
1940	5	56.65	64.54	5.04
1941	-	19.75	26.07	5.20
1942	1	n.a.	22.35	n.a.
1943	7	n.a.	4.57	n.a.
1944	1	n.a.	37.34	n.a.
1945	1	n.a.	17.13	n.a.
1946	2	n.a.	27.93	n.a.
1947	-	n.a.	25.27	n.a.
1948	1	7.93	15.73	7.23
1949	1	17.91	26.13	6.96
1950	1	16.09	42.26	22.54
1951	4	10.05	23.97	12.66
1952	1	5.42	16.74	10.73
1953	1	- 0.82	7.03	7.90
1954	1	0.33	8.97	8.60
1955	3	6.35	12.57	5.85
1956	4	n.a.	17.19	n.a.
1957	-	n.a.	1.21	n.a.
1958	-	n.a.	n.a.	n.a.
1959	-	n.a.	n.a.	n.a.
1960	2	n.a.	n.a.	n.a.
1961	-	n.a.	15.69	n.a.
1962	3	n.a.	12.88	n.a.
1963	-	2.50	4.18	1.63
1964	2	4.60	11.13	6.24
1965	-	9.24	20.59	10.39
1966	-	- 5.04	- 5.59	- 0.58
1967	2	2.10	7.13	4.92
1968	-	- 3.75	1.12	5.06
1969	-	- 3.15	7.32	10.82
1970	-	2.05	11.45	9.22
1971	1	10.28	15.07	4.35

Sources : The same as in Table 17.
See notes.

Table 23

Costa Rica: BNCR. Department of Rural Credit. Average number of loans and balances outstanding per Junta Rural. 1937-1971. U.S. Dollars.

<u>Year</u>	<u>Number of Juntas</u>	<u>Balances outstanding per Junta</u>	<u>Number of loans per Junta</u>
1937	4	4,988.72	n.a.
1938	8	9,150.96	n.a.
1939	13	13,496.76	281
1940	18	16,038.44	318
1941	18	20,219.42	381
1942	19	23,437.36	n.a.
1943	26	22,293.41	n.a.
1944	27	29,483.62	n.a.
1945	28	33,300.35	n.a.
1946	30	39,759.97	n.a.
1947	30	49,808.36	486
1948	31	55,785.48	508
1949	32	68,161.40	580
1950	33	94,025.81	653
1951	37	103,964.58	641
1952	38	118,169.90	658
1953	39	123,238.81	636
1954	40	130,931.39	622
1955	43	137,111.59	615
1956	47	147,000.46	n.a.
1957	47	148,785.45	600
1958	47	n.a.	n.a.
1959	47	n.a.	n.a.
1960	49	203,249.43	573
1961	49	235,148.07	n.a.
1962	52	285,830.84	677
1963	52	297,229.78	694
1964	54	318,084.01	699
1965	54	383,565.92	763
1966	54	362,116.68	725
1967	56	374,077.78	714
1968	56	378,271.76	687
1969	56	405,966.48	665
1970	56	452,463.32	679
1971	57	511,529.80	735
1972	57	561,722.77	764

Sources : The same as in Table 17.
See notes.

During the second sub-period the average rate of growth of the number of balances outstanding was 12.48 per cent per year, while the average rate of growth of the value of those balances was 25.75 per cent per year. The third sub-period shows a decline in the rate of growth of the value of balances outstanding, to 10.97 per cent per year for 1953-1960, while the number of balances outstanding almost stagnated, experiencing an average rate of growth of 1.79 per cent for the same years. Finally, the sub-period 1960-1971 is characterized by average rates of growth of 10.26 and 3.73 per cent per year for the value and number of balances outstanding respectively.

The average amount outstanding for the whole period 1937-1971 was \$ 8,488,831, almost twice the average amount given out. This average value of balances outstanding grew from an average of \$ 139,328 for the first sub-period, to \$ 19,048,156 for the last sub-period. At June 30, 1972, there were 43,553 balances outstanding with a value of \$ 32,018,198.

The average size of the outstanding balance grew at a rate of 8.9 per cent per year for 1939-1971, from \$48 in 1939 to \$ 735 in 1971.

The average number of balances outstanding per Junta Rural grew from 281 in 1939 to 735 in 1971, at an average annual rate of growth of 3.28 per cent for the period. This growth was more rapid during the first two sub-periods, while the third sub-period actually experienced a negative rate of growth of 1.95 per cent per year.

The average value of the balances outstanding per Junta grew from \$ 4,989 in 1937 to \$ 511,530 in 1971. This implies an average annual rate of growth of 14.91 per cent for the whole period. Growth was persistent, with high rates of growth for the four sub-periods.

There is a wide range of variation in the number and value of balances outstanding at each individual Junta. According to Table 24, the number of balances outstanding ranged, at the end of 1971, from 71 at the Junta of Escazú, a small town near San José, to 3,080 at the Junta of Puriscal, one of the first four Juntas. The number of balances outstanding at this last Junta represented 7.35 per cent of the total.

The value of balances outstanding ranged from \$ 34,496 at the Junta of Escazú, to \$ 1,527,937 at the Junta of Nicoya. This last figure represented 5.24 per cent of the total for all the Juntas.

At the end of 1971 there were 10 Juntas with more than 1,000 loans outstanding, while 21 Juntas had only between 250 and 500 loans outstanding. Only three Juntas had balances outstanding for more than one million dollars, but 22 more Juntas had balances outstanding for more than half a million dollars.

Table 24

Costa Rica: BNCR. Department of Rural Credit. Balances and number of loans outstanding at December 31st, 1971, at 57 Juntas Rurales. U.S. Dollars.

<u>Junta Rural</u>	<u>Number of loans</u>	<u>Outstanding balances</u>	<u>Average size of loan</u>	<u>Number %</u>	<u>Balances %</u>
Pérez Zeledón	1,782	756,437	424	4.25	2.59
Puriscal	3,080	1,385,653	450	7.35	4.75
Tarrazú	1,397	548,982	393	3.33	1.88
Acosta	404	137,474	340	0.96	0.47
Escazú	71	34,496	486	0.16	0.12
Desamparados	666	241,094	362	1.58	0.83
Coronado	392	345,161	881	0.93	1.18
Santa Ana	219	184,295	842	0.52	0.63
Palmares P.Z.	859	429,365	499	2.04	1.47
Pejibaye	718	321,183	447	1.61	1.10
Turrialba	1,199	747,239	623	2.86	2.56
Paraiso	267	210,612	781	0.63	0.72
Oreamuno	346	318,694	921	0.82	1.09
Guarco	688	323,840	471	1.64	1.11
Alvarado	353	206,097	584	0.84	0.71
Tobosi	448	115,889	259	1.06	0.40
Heredia	240	291,233	1,213	0.57	1.00
Belén	333	251,142	754	0.79	0.86
Sarapiquí	543	403,053	742	1.29	1.38
Puntarenas	398	503,250	1,264	0.94	1.73
Golfito	320	649,592	902	1.71	2.23
Osa	588	391,375	666	1.40	1.34
Quepos	861	679,360	789	2.05	2.33
Esparta	349	295,290	846	0.83	1.01
Buenos Aires	1,381	890,970	645	3.29	3.06
Montes de Oro	600	405,544	676	1.43	1.39
Jicaral	755	595,622	789	1.80	2.04
Tambor	481	713,242	1,483	1.14	2.45

(Continues...)

Table 24 (Cont...)

<u>Junta Rural</u>	<u>Number of loans</u>	<u>Outstanding balances</u>	<u>Average size of loan</u>	<u>Number %</u>	<u>Balances %</u>
Alajuela	330	423,749	1,284	0.79	1.45
Grecia	678	586,333	865	1.62	2.01
San Carlos	1,528	825,042	540	3.64	2.83
Orotina	605	512,196	847	1.44	1.76
Naranjo	518	278,259	537	1.24	0.95
Palmares	722	438,316	607	1.72	1.50
San Ramón	1,591	996,163	626	3.80	3.42
Atenas	636	398,727	627	1.52	1.37
Alfaro Ruiz	651	337,501	518	1.55	1.16
Venecia	451	222,795	494	1.08	0.76
Turrúcares	409	252,002	616	0.98	0.86
Fortuna	963	768,369	798	2.30	2.64
Pital	633	412,475	652	1.51	1.41
Los Chiles	582	562,228	966	1.39	1.93
Upala	527	416,193	790	1.26	1.43
Cañas	385	490,007	1,273	0.92	1.68
Santa Cruz	1,862	973,417	523	4.44	3.34
Nicoya	2,085	1,527,937	733	4.97	5.24
Liberia	642	766,071	1,193	1.53	2.63
Tilarán	776	839,828	1,082	1.85	2.88
Abangares	712	666,230	936	1.70	2.28
Carrillo	916	885,309	966	2.19	3.04
Bagaces	484	653,008	1,349	1.15	2.24
Arenal	380	566,874	1,492	0.91	1.93
Carmona	1,181	1,037,259	878	2.82	3.56
La Cruz	329	291,355	886	0.78	1.00
Limón	325	190,815	587	0.78	0.65
Siquirres	323	155,820	482	0.77	0.53
Pococí	560	306,739	548	1.34	1.05

Sources: BNCR. Unpublished records.

The average value of balances outstanding in 1971 was \$ 511,530, while the average number of loans outstanding was 735 per Junta. Finally, the average size of a loan outstanding ranged from \$ 259 for the Junta of Tobosi to \$ 1,492 for the Junta of Tambor.

The development of the portfolio of the Department of Rural Credit depends on the structure of credit given out by term of the loan. Credit given out after December 31st and repaid before the end of the year, i.e. very short term credit, does not affect the comparison between balances outstanding at the end of two consecutive years. On the other hand, the longer the period of the loan, the more will balances outstanding grow. This same fact, however, will affect the capacity of the Department to continue lending at the same rate, unless additional funds become available.

In fact, the structure of credit from the Department of Rural Credit of the BNCR by term of the loan has changed significantly through time. The tendency has been for the average period of the loan to increase. As a consequence of this, the value of balances outstanding has grown more rapidly than the amounts of credit given out during the year. This is particularly clear in the case of the last two sub-periods, to the point that the stagnation which characterized the third sub-period is less marked in the case of balances outstanding, and that the absolute reductions in the amounts of credit given out each year which characterized the fourth sub-period are not reflected in reductions in the value of balances outstanding, except for 1966.

5.06 Structure of Credit by Term of Loan

The number of operations authorized and the amounts of credit given out may be classified according to the term of the loans. Short term loans are for one year or less; medium term loans are for terms of one to ten years; and long term loans are for more than ten years.

The class limits chosen by the BNCR for this classification do not allow a very fruitful examination. One would like to have more information, in particular, about those loans classed as medium-term loans, which range from purely operation loans, granted for some 18 months, to fixed investment loans, granted for seven or eight years. Long term loans are mostly devoted to land purchases and home building.

Information before 1960 is very scarce. Before the separate Department of Rural Credit was created, the Juntas Rurales loaned funds from the Commercial Department of the BNCR, originally on a short term basis only. Since 1941, both short term and medium term loans were made with funds from the Commercial Department,

Table 25

Costa Rica: BNCR. Department of Rural Credit. Amounts of credit given out, according to term of the loan. U.S. Dollars.

Year	Short term and Medium term		%		Long term		%	
1946	1,000,531		93.99		63,974		6.01	
1947	1,219,527		92.04		105,402		7.96	
1948	1,030,267		73.75		366,729		26.25	
1951	2,936,677		92.35		243,231		7.64	
1952	3,377,410		91.35		319,883		8.65	
1953	3,242,153		90.50		340,513		9.50	
1954	3,306,555		89.66		381,522		10.34	
1955	3,561,845		89.41		421,704		10.59	
	Short term	%	Medium term	%	Long term	%		
1960	2,268,722	34.49	2,185,414	33.22	2,124,361	32.29		
1961	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
1962	2,178,456	23.63	6,307,452	68.37	739,907	8.02		
1963	1,682,572	23.29	5,020,239	69.50	520,373	7.20		
1964	1,790,143	20.18	6,907,516	67.87	172,611	1.96		
1965	2,124,537	19.88	8,430,799	78.89	131,938	1.23		
1966	2,622,211	42.61	3,464,552	56.29	67,708	1.10		
1967	2,658,549	27.48	6,997,539	72.34	16,692	0.17		
1968	2,277,398	26.18	6,420,841	73.80	2,030	0.02		
1969	1,675,409	18.04	7,601,669	81.89	5,655	0.06		
1970	1,957,489	18.88	8,409,016	81.12	-	-		
1971	2,960,753	18.94	12,584,306	80.52	83,531	0.53		

Sources: Central Bank. Unpublished records.
 BNCR. "Memoria Anual". Several years.
 Luis Echeverría, Ibid.
 See notes.

while a few long term loans were made with funds from the Mortgage Department of the BNCR. These long term loans represented less than 10 per cent of the amounts given out by the Juntas Rurales, as indicated in Table 25. With respect to the number of transactions, long term loans represented between 2 and 4 per cent of the total.

During the decade of the 1960's the composition of the amounts of credit given out during the year by the Juntas Rurales experienced a transformation. Short term loans became much less important and long term loans almost disappeared.

The importance of the amounts loaned on a short term basis dropped from 34 per cent in 1960 to 18 per cent in 1969. The importance of medium term credit increased from 68 per cent in 1960 to 82 per cent in 1969. Long term loans, which represented 32 per cent of the amounts given out in 1960, dropped sharply and consistently until 1970, when no long term credit was given out at all. In 1971 long term credit for \$ 83,531 was given out.

The number of loans authorized experienced the same pattern, although it is not as marked as in the case of the amounts given out.

The change in the structure of credit by term of loan reflects the stagnation and significant reductions during several years of the amounts of credit and number of loans authorized on a short term basis. For the period 1962-1971 there were few variations around the average of 5,485 loans. Variations were also not pronounced around the average of \$ 2,192,751 of short term credit for the sub-period. The average rate of growth of this amount was 2.45 per cent per year.

While the amount of short term credit given out stagnated, the amount of medium term credit increased at an average annual rate of growth of 17.25 per cent, rising from \$ 2,185,414 in 1960 to \$ 12,584,306 in 1971. The number of medium term loans, however, declined during most of this sub-period, from 11,123 in 1962 to 8,815 in 1970.

Both the number of loans and the amounts of credit given out on a long term basis consistently declined during the fourth sub-period. The amounts given out dropped from \$ 2,124,361 in 1960 to \$ 83,531 in 1971. This last figure represents 12 loans of an unusually large average size of \$ 6,961, with which the Juntas reinitiated their long term lending, after having completely eliminated it in 1970.

During 1962-1971 short term loans had an average size of \$ 400, just over one half the average size of medium term loans, which was of \$ 733. The average size of long term loans was \$ 1,594. Both short and medium term loans experienced substantial increases in their average sizes, at rates of 7.22 and 6.70 per cent respectively.

Table 26

Costa Rica: Number of loans and average size of loan, according to term of the loan.
1947-1971. U.S. Dollars.

Year	Number				Average size of loan				
	Short and medium term		Long term		Short & Medium	Long term			
		%		%					
1947	12,223	96.69	418	3.31	99.77	252.16			
1951	18,882	97.31	521	2.69	155.53	466.85			
1952	19,349	96.77	645	3.23	174.55	377.10			
1953	17,373	96.48	633	3.52	186.72	537.93			
1954	16,208	96.26	630	3.74	204.01	605.59			
1955	16,253	95.79	714	4.21	219.15	590.62			
	<u>Short term</u>	<u>%</u>	<u>Medium term</u>	<u>%</u>	<u>Long term</u>	<u>%</u>	<u>Short term</u>	<u>Medium term</u>	<u>Long term</u>
1960	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1961	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1962	7,676	39.78	11,123	57.65	494	2.57	478.19	567.06	1,497.79
1963	5,646	35.05	10,107	62.75	354	2.20	448.45	496.71	1,469.98
1964	5,434	33.52	10,669	65.82	106	0.65	547.24	647.44	1,628.40
1965	5,750	32.36	11,950	67.26	67	0.38	601.52	705.51	1,969.23
1966	5,889	50.03	5,849	49.61	43	0.36	521.96	592.33	1,574.60
1967	6,348	39.52	9,703	60.41	12	0.07	602.18	721.17	1,390.98
1968	5,082	36.20	8,954	63.79	1	0.01	619.81	717.09	2,030.08
1969	3,117	25.98	8,876	77.99	3	0.02	773.82	856.43	1,885.08
1970	4,333	32.95	8,815	67.04	-	-	778.45	953.94	-
1971	5,572	31.02	12,381	68.92	12	0.06	869.95	1,016.42	6,960.90

Sources: The same as in Table 25.
See notes.

The same pattern of behavior is apparent with respect to the value of balances outstanding, classified according to term of the loans. The importance of short term loans dropped from 26 per cent in 1957 to 10 per cent in 1969, while the importance of medium term credit increased from 54 per cent in 1957 to 89 per cent in 1969. Long term credit, which represented 20 per cent of the total outstanding in 1957, almost disappeared during the period.

These changes in the structure of the portfolio of the Department of Rural Credit may be explained partly in terms of the changes in the sources of funds from domestic to foreign, and in terms of the conditions accompanying loans from AID. Early AID loans were specifically earmarked for medium term credit. There was actually a prohibition to lend at less than two years. The conditions imposed from abroad matched both the traditional concern of bankers with collateral and the rise of the market for meat, and thus allowed a substantial increase in the importance of credit for livestock, which is used as a chattel mortgage, in the portfolio of the Juntas Rurales.

SOURCES OF FUNDS

6.01 Domestic and foreign sources

The Department of Rural Credit has obtained the funds required for its operation from three types of sources: a) its capital and reserves; b) domestic funds, in the form of loans from the Central Bank or loans from the Commercial Department of the BNCR; and c) foreign funds, either directly in the form of loans from private foreign banks or international organizations, or indirectly through the Central Bank.

The relative importance of these sources has varied substantially. Previously to 1960 domestic funds were the only source of finance for the Department, and they grew pari passu with its operations. In 1960 foreign funds, from the Chase Manhattan Bank, represented 16.22 of balances outstanding.

A loan from the Development Loan Fund was added in 1962 to the funds from the Chase Manhattan Bank. That year, funds from this last bank represented 16.20 per cent, while funds from the Development Loan Fund represented 26.18 per cent of balances outstanding, which implies that the total importance of foreign funds was 42.38 per cent.

Since then, foreign funds have represented between 40 and 50 per cent of balances outstanding. The year when the importance of foreign funds was greatest was 1965, when they represented 50.02 per cent of balances outstanding. The importance of external financing has remained more or less at this level. The last AID loan is administered by the Central Bank, which allocates foreign and domestic counterpart funds to the commercial banks, according to demand, and which requires these banks to return to the Central Bank the amounts recovered, for further reallocation among them.

6.02 Capital and reserves

Before 1959, when the Juntas Rurales were a dependency of the Commercial Department of the BNCR, the main source of their funds were the resources of the Commercial Department itself. The Juntas received a proportion of those funds, in competition with the other lines of credit of that Department.

Since 1953 the Central Bank was legally authorized to make loans to the BNCR, specifically for its small farmer program.

When the Department of Rural Credit of the BNCR was created, it was endowed with funds which constituted its original capital.

This capital was divided into two parts. \$ 751,880 corresponded to Rural Credit itself, while \$ 601,504 corresponded to the Land and Colonies Section of the Department. When this last section was transformed into the independent Instituto de Tierras y Colonización the capital of the Department was correspondingly reduced.

At the time of its creation, important plans existed for the capitalization of the Department. Subsequent changes in its organization and functions brought the process of capitalization to an end by 1962. Between 1962 and 1968 its capital remained at the stagnant level of \$ 865,436. Some capitalization has taken place during the last three years, induced in particular by counterpart requirements related to the last AID loans. By 1971 the capital of the Department had a value of \$ 1,658,613. This represented 5.30 per cent of balances outstanding. This is a smaller importance of capital, as a source of funds, than the one it had when the Department was originally created. In 1960 capital had represented 7.50 per cent of balances outstanding.

While capital represented, for the sub-period 1960-1971, 89.98 to 98.76 per cent of the net worth of the Department of Rural Credit, the legal reserve, whose formation is required by law of all corporations, represented less than 10 per cent, in all years. As a result, reserves constituted an insignificant proportion of balances outstanding. These reserves grew slowly, reaching the level of \$ 88,177 in 1971.

6.03 Domestic loans

The other two domestic sources of funds are loans from the Central Bank and loans from the Commercial Department of the BNCR. Loans from the Central Bank represented between 32.40 and 37.98 per cent of all loans obtained by the Department of Rural Credit, as well as between 31.89 and 54.27 per cent of balances outstanding, for the period 1960-1971.

Loans from the Central Bank were relatively more important at the beginning of the sub-period. As more and more foreign sources of funds became available, their relative importance accordingly decreased. In 1970 the debt outstanding with the Central Bank was \$ 8,082,707. This amount grew to \$ 11,563,865 in 1971, but this last figure includes funds from the last AID loan, administered by the Central Bank.

According to the law, loans from the Central Bank must have a term of one year or less. The structure of the portfolio of the Department of Rural Credit, with its emphasis on medium term loans, would make impossible the repayment of this loan if it were called at the end of any year. In practice, the Central Bank automatically renews the loan every year. Frequently, the Central Bank merely renewed the loan for the same amount lent the previous year. Notable exceptions are net additions to this loan that the Central Bank has been forced to make as counterpart commitments of AID loans.

Table 27

Costa Rica: BNCR. Department of Rural Credit. Balance Sheet. U.S. Dollars.

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
<u>Assets</u>	11,279,978	12,674,463	15,401,077	15,865,150
Bank deposits and cash	263,652	350,950	471,993	317,174
Balances outstanding	9,960,575	11,524,216	14,838,671	15,460,347
Short term	1,814,800	1,957,083	2,009,138	1,721,292
Medium term	6,744,369	7,915,797	10,710,025	11,274,802
Long term	1,400,053	1,649,458	2,117,040	2,238,803
Other	1,353	1,878	2,467	225,450
Investments	1,038,712	785,538	68,515	66,247
Other assets	17,039	13,758	21,899	21,382
<u>Liabilities</u>	9,909,606	11,181,089	14,518,004	14,970,939
On demand and due in 30 days	173	74	536	1,478
Due in more than 30 days	114,311	158,038	156,033	116,237
Credit	9,699,569	11,023,982	14,168,863	14,639,367
Central Bank	5,405,541	8,345,865	5,203,008	5,142,857
Commercial Department	2,678,118	2,678,118	2,678,118	2,678,118
Chase Manhattan	1,615,910	n.a.	2,405,332	1,870,813
Loan Development Fund	-	-	3,882,406	4,947,579
AID	-	-	-	-
Other liabilities	95,553	91,375	192,572	213,858
<u>Net worth</u>	761,317	832,373	883,074	894,211
Capital	751,880	819,110	865,436	865,436
Legal reserve	9,437	13,263	17,638	28,775

(Continues....

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Table 27 (Cont.)

	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
<u>Assets</u>	17,362,025	21,428,102	20,140,533	21,255,825
Bank deposits and cash	103,989	644,749	514,531	218,166
Balances outstanding	17,181,536	20,718,018	19,560,837	20,957,292
Short term	1,668,260	2,072,677	2,515,027	2,541,224
Medium term	13,457,140	16,805,536	15,290,086	17,715,745
Long term	1,724,333	1,519,942	1,274,782	119,209
Other	331,802	319,864	480,942	581,114
Investments	62,905	58,116	54,099	61,009
Other assets	13,595	7,219	11,066	19,358
<u>Liabilities</u>	16,451,929	20,507,434	19,199,181	20,305,866
On demand and due in 30 days	1,858	424	1,539	4,675
Due in more than 30 days	159,414	242,091	125,263	166,682
Credit	16,046,413	19,958,943	18,767,714	19,798,631
Central Bank	5,714,286	6,466,165	6,466,165	7,518,797
Commercial Department	2,678,118	3,129,245	2,828,493	3,429,997
Chase Manhattan	1,336,295	801,777	267,259	0
Development Loan Fund	4,917,714	4,818,165	4,718,617	4,619,068
AID	1,400,000	4,743,590	4,487,180	4,230,769
Other liabilities	244,243	305,975	304,654	335,877
<u>Net worth</u>	910,096	920,668	941,352	944,546
Capital	865,436	865,436	865,436	865,436
Legal reserve	44,661	55,232	75,916	79,110

(Continues....

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Table 27 (Cont.)

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
<u>Assets</u>	22,009,659	23,248,542	25,928,133	29,682,894
Bank deposits and cash	725,089	400,842	476,592	391,437
Balances Outstanding	21,183,219	22,734,124	25,337,946	29,157,229
Short term	2,171,637	2,188,811	2,851,965	2,370,490
Medium term	18,377,775	19,854,984	21,795,551	26,086,703
Long term	99,535	86,836	67,014	130,075
Other	534,271	603,493	623,416	569,932
Investments	71,054	83,290	78,812	88,620
Other assets	30,296	30,286	34,782	45,637
<u>Liabilities</u>	21,047,843	22,169,592	24,602,518	28,024,281
On demand and due in 30 days	18,259	183,269	15,795	20,929
Due in more than 30 days	11,702	136,101	181,960	235,622
Credit	20,416,146	21,333,218	23,790,952	26,965,207
Central Bank	7,518,797	7,518,797	8,082,707	11,563,865
Commercial Department	3,125,336	2,734,358	3,390,766	3,590,766
Development Loan Fund	4,369,653	n.a.	3,844,094	3,567,317
AID	5,395,594	11,080,063	8,473,385	8,243,259
Other liabilities	430,378	517,005	613,811	802,522
<u>Net worth</u>	961,816	1,078,949	1,325,614	1,658,612
Capital	865,436	1,045,436	1,270,436	1,570,436
Legal Reserve	96,380	33,513	55,179	88,177

Sources: BNCR. "Memoria Anual". Several years.

See notes.

The relative importance of the loan from the Commercial Department has decreased steadily from 26.88 per cent of outstanding balances in 1960, to 12.31 per cent in 1971. In 1960 this loan represented 27.39 per cent of the funds borrowed by the Department, while in 1971 this proportion had dropped to 13.32 per cent. The absolute level of this loan remained at \$ 2,687,118 between 1960 and 1964. After that year it experienced slight fluctuations and reached the level of \$ 3,590,766 in 1971.

As is the case with the loan from the Central Bank, the BNCR has, in practice, merely renewed this loan from one year to the next, for more or less the same amount. As a consequence of these practices, important net additions to the funds of the Department have almost exclusively come from foreign sources.

6.04 Foreign loans

Foreign funds were employed in the provision of small farmer credit for the first time in 1960. The Central Bank allocated for that purpose a part of a loan from the Chase Manhattan Bank of New York. The Juntas Rurales were authorized a limit of \$ 2,939,850 in their use of these funds.

However, the Juntas Rurales were able to complete only 3,275 transactions for an amount of \$ 1,615,910, the remaining \$ 1,323,940 not being used that year. This is an abnormally high proportion of non-used funds and the BNCR explained the situation in terms of the specific purposes for which these funds had to be allocated. Bank officials believed that the demand for credit for these purposes was not large enough to absorb all the funds. Probably the truth was that the Juntas Rurales were not flexible enough to accommodate an important change in their portfolio and were not very responsive to the existence of excess demands for credit, given the mechanisms of allocation of credit with the rate of interest at an under-equilibrium level.

The Central Bank continued authorizing the Juntas to use funds from the Chase Manhattan loan until 1965, when the loan was repaid. The Department of Rural Credit soon acquired the flexibility and habits which made possible the quick disbursement of most of the funds authorized in connection with this loan. This flexibility was retained later, when loans from AID also imposed special conditions or were limited for specific purposes. The BNCR always complained about these limitations, on economic grounds, claiming that they did not recognize the nature of the real demand for credit. There might be some truth in these complaints. The fact is, however, that the BNCR soon learnt how to switch funds from one use to another in order to maintain what it believed to be the optimum structure of its credit portfolio. It was possible for the BNCR, therefore, to satisfy the conditions imposed by AID loans and, at the same time, divert funds originated domestically in

such a way as to maintain the said desired structure.

With the last AID loan this freedom of allocation was lost to the degree that the Central Bank affects the allocation of funds, but again, there is no reason why the criterium of the Central Bank should coincide with that of AID officials. In practice, however, there has been more coincidence of opinion between the Central Bank and AID than between AID and the BNCR.

During 1961 the BNCR negotiated with the Development Loan Fund a loan for \$ 5,000,000; which after being renegotiated with AID became known as No. 515-L-003. This loan was approved by Law No. 2,850 of October 26, 1961, and in January 1962 the BNCR received the first disbursement for \$ 500,000. On January 15 of the same year the Juntas Rurales made the first loan with these funds.

Subsequent disbursements were made upon presentation to AID of loans already authorized by the Juntas Rurales. The last disbursement took place in September, 1963. That is, the total amount of the loan was lent by the Juntas in less than 20 months. This is a very quick rate of disbursement.

The limitations concerning the use of these funds included the prohibition to finance the purchase of farm land, which the Juntas believe reflects their social objectives, as well as the refinancing of old loans. A prohibition to lend for coffee or cotton was also incorporated. The maximum size of loan allowed was \$ 15,000, about twice the limit then enforced by the Juntas Rurales. No one with a net annual income of more than \$ 5,000 was to be financed. The minimum term for loans was set at two years.

AID charged a rate of interest of 3 and 1/2 per cent per year and the loan was to be paid in 20 years, with amortizations every six months.

Law 3,207 of October 15, 1963 authorized a second \$ 5,000,000 loan from AID, known as No. 515-L-005. All disbursements, starting in May, 1964, were made against loans already authorized by the Juntas Rurales. The disbursements, which required the comprobatation of imports of certain products from the United States, presented no difficulty. The last disbursement took place in October, 1965; i.e. 18 months later.

Basically, the same limitations as with the loan No. 515-L-003 were imposed on the use of the funds. The program provided medium- and long-term loans to small farmers and agricultural cooperatives, and financed livestock, agricultural supplies and equipment, agricultural services and capital improvements to farms. The loan agreement stipulated that the rate of interest charged by the Juntas should not exceed 6 per cent per annum. The interest rate charged by AID was 2 and 1/2 per cent plus a commission fee of 3/4 of one per cent. Semi-annual payments of \$ 128,205 during 20 years were to cancel the loan.

Law 3,896 of June 20, 1967 authorized a third \$ 5,000,000 loan from AID, known as No. 515-L-017. The first disbursement took place in July of the same year. Disbursement was slower than with previous loans, because of the mechanics of converting dollar loan funds into local currency for direct use by the Juntas Rurales.

The procedure, which was supposed to alleviate a balance of payments problem confronted by the United States, made funds in excess of \$ 2,500,000 available to open a line of credit for the purchase of U.S. produced fertilizer or fertilizer ingredients. Costa Rican importers availing themselves of this line of credit in the United States would pay the BNCR in local currency for dollars expended in the United States on fertilizer purchases. The local currency so generated would then be made available by the BNCR for loans for medium and small size farmers.

The procedure was criticized because it was possible to buy fertilizers in Europe at lower prices than in the United States. As a consequence, Costa Rican importers did not indicate much interest in utilizing the line of credit opened by the loan. This made the disbursement difficult. Finally, the largest Costa Rican importer of fertilizer raw materials accepted the award of almost all of the \$ 2,500,000 line of credit. This company, a subsidiary of a U.S. supplier of fertilizer raw material, designated the parent company as supplier.

This loan required the Government of Costa Rica to make contributions to the permanent capital of the Department of Rural Credit from 1967 through 1974, as has been indicated. It was also required that the BNCR developed a staff of technicians that would provide technical assistance. This condition was never put into effect. The loan agreement prohibited the BNCR from using AID funds during the life of the loan to finance, directly or indirectly, the production, processing or marketing of coffee, cotton or sugar.

The last AID loan, authorized on August 11, 1970, became known as No. 515-L-022. It led to the creation of a credit fund of \$ 7,000,000, of which AID provided \$ 3,500,000 and the Central Bank the rest. This fund is relent through the four commercial banks to small farmers. The commercial banks have to return to the Central Bank the amounts collected and the Central Bank keeps allocating the funds to the commercial banks, according to demand conditions. This mechanism was designed in an effort to increase efficiency and aggressiveness on the part of the commercial banks through competition among them.

The Juntas Rurales have lent less than one half of these funds, a lower proportion than the traditional importance of the Juntas Rurales would suggest. The initial disbursement was made on May 28, 1971. By May 1972 all the funds had been disbursed.

AID charged the Central Bank a rate of interest of 2 per cent per year for ten years and of 3 per cent per year for the remaining 30 years. For the first five years the Central Bank will relend at 3 and 1/2 per cent per year to the commercial banks; during the following five years it will relend at 2 and 1/2 per cent per year, and for the rest of the period at 3 and 1/2 per cent again. The Central Bank lends counterpart funds to the commercial banks at a rate of 2 per cent per year. The usual limitations concerning crops not to be financed were imposed. ^{1/}

6.05 Balance Sheet

The relative importance of the various sources of funds for the Department of Rural Credit of the BNCR is reflected in the Balance Sheet of the Department. Table 27 presents data on assets, liabilities and net worth for the period 1960-1971.

Balances outstanding are the most important asset of the Department. They represented between 88.30 per cent and 98.96 per cent of total assets. The value of these assets grew at an average rate of 10.26 per cent per year between 1960 and 1971, while total assets grew at an average rate of 9.19 per cent per year.

Other assets included available funds in the form of cash and bank deposits which represented, in general, less than 3 per cent of total assets. Investments, which included real estate received as payment of loans, which the BNCR is required to sell within a certain period; equipment and securities, represented a negligible proportion of total assets, except for the years 1960-1961. At that time, the Department possessed securities which it had received as part of its founding capital and which were eventually sold in order to generate funds for lending operations.

The value of all these assets increased from \$ 11,279,978 in 1960 to \$ 29,682,894 in 1971. The value of total liabilities, on the other hand, grew from \$ 9,909,606 in 1960, to \$ 28,014,281 in 1971. This last growth implied an average rate of 9.91 per cent per year for the period.

The most important component of liabilities were loans received, which represented between 96.22 and 98.59 per cent of total liabilities. The sources of these funds have already been examined.

Finally, net worth increased from \$ 761,317 in 1960, to \$ 1,658,613 in 1971, at a growth rate of 7.43 per cent per year on the average. The most important component was capital, which represented more than 90 per cent, while the legal reserve represented less than 10 per cent.

^{1/} For a detailed analysis of this loan, see the paper by the American Technical Assistance Corporation for the Spring Review.

Medium term loans are a very important proportion of total assets. They represented between 59.79 per cent, in 1960, and 87.88 per cent, in 1971, of total assets. The increased importance of these loans reflects the change in the structure of credit by term of loan examined in the previous section.

Some have considered this development as undesirable, in view of the importance of funds borrowed by the Department due in less than one year. The legal constraint on the term of these loans, from the Central Bank and from the Commercial Department of the BNCR, however, has become ineffective, since the practice of renewals has transformed them, for all purposes, into long term loans. Commitments related to AID loans have assured the permanency of such practices.

OBJECTIVES

7.01 Social and Economic Objectives

The laws and regulations that shaped the organization of the Juntas rurales indicated their objectives in a very vague fashion. In most cases they merely asserted that their function was to "grant agricultural credit in order to promote the economic and social welfare of the small farmer". A latent conflict has been present ever since the creation of the Juntas Rurales between these economic and social objectives.

The economic objective may be identified with the goal of increasing productivity and the output of certain crops, in particular products of popular consumption. The social objective may be regarded as an attempt to help small farmers to achieve a minimum standard of living regarded as socially desirable, even though they are not necessarily considered as potentially capable of increasing their productivity.

The economic objectives were present in the law of 1914 and have gained importance through time, to the point that they dominate the operation of the Juntas Rurales. The social objectives have not been completely disregarded and several of the activities of the Juntas are rationalized in terms of these objectives. These activities, however, are secondary in the operations of the Juntas.

The channelling of funds towards the small farmer is considered, per se, as a social objective and, to this extent, there is a fusion of the two goals. To guarantee that credit from the Juntas Rurales would be available mostly to small farmers, a ceiling was imposed on the amount that a person may borrow from the Juntas. In practice, however, a person may borrow up to the ceiling from the Junta and also obtain additional funds from other bank branches.

The ceiling thus reflects the social objective, i.e. concern with the small farmer. Increases in the ceiling, however, have basically reflected pressures generated by concern with productivity and output growth. Changes in the ceiling are presented in Table 28.

In order to decide if a farmer has reached the limit of credit per person, the Junta takes into account the transactions in which both he and his wife appear either as a borrower or as a cosigner.

Some of the increases in the ceiling came after studies of the Central Bank, which claimed that the increases would allow the Juntas to lend to medium size farmers, and that this would "equilibrate their portfolio", as well as promote the economic objectives of the program.

There was concern at the Central Bank about too much emphasis on the social objectives. The proof for this was the apparent stagnation in the level of productivity of users of bank credit. It was viewed that bank credit had merely been an instrument for maintaining the level of production of small farmers, rather than a tool for change.

Table 28

Costa Rica: BNCR. Department of Rural Credit. Ceilings on credit per person at a Junta Rural. U.S. Dollars.

<u>Year</u>	<u>Ceiling per person</u>	<u>Rate of Exchange</u>
1914	116.82	2.14
1936	405.84	6.16
1943	1,084.99	5.53
1947	1,280 to 1,920	6.25
1948	1,548 to 1,858	6.46
1949	1,799 to 2,057	7.78
1950	1,724.14	8.70
1952	2,962.96	6.75
1959	6,015.04	6.65
1960	7,518.30	6.65
1961	7,518.30	6.65
1962	7,518.30 to 15,038	6.65
1963	15,038.00	6.65

Source: Central Bank. "Crédito al Pequeño Productor Agropecuario Costarricense". San José. 1964.

The study by the Central Bank claimed that, with a few exceptions, such as coffee, productivity was very low. Apparently, small farmers who had been using bank credit for 20 years or more had not increased their income at all. The question faced by the study was the feasibility of providing subsidized credit to small farmers without any increase in productivity resulting thereof. How could the Juntas Rurales find the resources necessary to expand their operations? The study suggested that the Juntas made a distinction between two types of credit; that with social objectives and that with economic objectives. The resources allocated to each of these two goals would then be separated and the conditions of the loans could be different. This recommendation, however, was never put into effect.

The availability of foreign funds has had different effects on the ceiling. In 1960 and in 1962 the ceiling was raised on occasion of the negotiation of loans with the Chase Manhattan Bank and the Development Loan Fund, respectively. The ceiling then allowed for transactions involving the Development Loan Fund resources eventually became the limit for all kinds of transactions at the Juntas Rurales and it has not been changed since then.

The negotiation with AID of loans specifically destined to the small farmer has provoked concern with these limits and there have been some attempts at defining what is a small farmer.

7.02 The definition of small farmer

As a consequence of the last AID loan the Central Bank defined in January, 1972, the objectives of "small farmer credit", and provided the commercial banks with an operational concept of small farmer.

It was decreed that the objectives of small farmer credit, to be channelled through the Department of Rural Credit of the BNCR, and the Oficinas de Crédito al Pequeño Agricultor of the other commercial banks in the system, were the following:

- a) to improve the economic and social conditions of the small-farmer entrepreneur;
- b) to create new sources of production and of employment in the rural areas and to stimulate the development of agricultural activities of major importance for the national economy;
- c) to increase production and productivity of small agricultural enterprises;
- d) to stimulate the use of improved methods of cultivation and of farm management, and in general the rational allocation of productive resources;
- e) to promote and consolidate the rural-family property of land; and
- f) to promote the development and efficiency of small rural industries.

Small farmer credit was limited to all those individuals or enterprises with net income not greater than seven times the "ingreso mínimo vital" (minimum vital income) for agricultural activities. Net income was defined as the total surplus, real or imputed, earned by the applicant and his wife in all their activities, non-agricultural included, after the normal expenses of their enterprise and other activities during the year were paid. It includes, therefore, the remuneration to the entrepreneur for his administrative tasks and any other work done in his own firm.

Minimum vital income is defined as the product of the minimum legal wage corresponding to an ordinary work shift in non-classified agricultural activities times 312, i.e. 52 times 6. The Central Bank is empowered to fix and change these limits in the future. The limit on net income for 1972 was set at \$ 3,759.

For 1972, the ceiling on a loan to be granted to one person was set at 25 times the minimum vital income, i.e. at \$ 15,038. Given this limit, however, it is important to examine the actual size of the loans given out at the Juntas Rurales and compare it with the size of loans at other bank branches.

Table 29

Costa Rica: BNCR. Department of Rural Credit. Amounts given out, according to size of loan. 1962-1971. U.S. Dollars.

Size		1962	1963	1964
From	15 to 75	180,941	152,955	110,533
From	76 to 150	713,319	610,256	523,743
From	151 to 376	1,305,157	1,142,358	1,244,780
From	377 to 752	1,645,373	1,318,824	1,623,482
From	753 to 1,128	803,357	636,236	754,055
From	1,129 to 1,504	1,239,670	832,231	1,159,381
From	1,505 to 2,256	1,000,161	758,590	1,026,519
From	2,257 to 3,008	727,250	517,248	847,950
From	3,009 to 3,760	448,685	247,534	403,270
From	3,761 to 4,511	525,663	390,109	354,797
From	4,512 to 6,015	437,020	323,271	417,464
From	6,016 to 7,519	141,323	225,152	348,038
From	7,520 to 11,278	34,286	26,316	11,146
From	11,279 to 15,038	23,609	42,105	45,113

Size		1965	1966	1967
From	15 to 75	107,259	88,077	95,663
From	76 to 150	555,088	378,015	455,490
From	151 to 376	1,407,879	943,313	1,276,300
From	377 to 752	1,747,340	1,112,796	1,641,038
From	753 to 1,128	877,387	541,521	856,061
From	1,129 to 1,504	1,385,233	763,567	1,356,764
From	1,505 to 2,256	1,191,840	999,091	1,286,839
From	2,257 to 3,008	1,023,571	368,797	840,094
From	3,009 to 3,760	522,512	259,683	482,617
From	3,761 to 4,511	508,053	209,732	435,345
From	4,512 to 6,015	657,647	227,771	363,619
From	6,016 to 7,519	575,228	262,105	573,925
From	7,520 to 11,278	87,895	-	9,023
From	11,279 to 15,038	38,346	-	-

Size		1968	1969	1970	1971
	15 to 75	78,300	41,735	53,147	36,721
	76 to 150	337,218	232,448	256,260	319,184
	151 to 376	1,131,461	912,249	936,207	1,338,102
	377 to 752	1,593,066	1,567,153	1,720,218	2,548,407
	753 to 1,128	831,434	926,145	990,647	1,491,745
	1,129 to 1,504	1,214,804	1,372,128	1,319,448	2,036,864
	1,505 to 2,256	1,168,312	1,363,856	1,509,262	2,104,363
	2,257 to 3,008	889,763	1,091,124	1,221,687	1,775,326
	3,009 to 3,760	405,575	452,623	648,997	954,604
	3,761 to 4,511	326,117	465,564	587,185	812,610
	4,512 to 6,015	386,702	403,325	536,149	985,771
	6,016 to 7,519	328,872	330,105	567,147	874,958
	7,520 to 11,278	8,647	16,008	20,150	266,101
	11,279 to 15,038	-	-	-	83,835

Source: Central Bank. Unpublished records.

Table 30

Costa Rica: BNCR. Department of Rural Credit. Number of loans authorized, according to size of loan. 1962-1971.

<u>Size</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
15 to 75	2,912	2,447	1,766	1,707	1,460
76 to 150	5,675	4,825	4,123	4,372	2,927
151 to 376	5,012	4,426	4,722	5,290	3,517
377 to 752	2,864	2,322	2,818	3,052	1,945
753 to 1,128	845	668	798	922	571
1,129 to 1,504	883	601	838	995	553
1,505 to 2,256	496	380	516	595	488
2,257 to 3,008	258	184	299	360	132
3,009 to 3,760	126	69	112	146	73
3,761 to 4,511	120	90	81	116	48
4,512 to 6,015	77	58	75	119	41
6,016 to 7,519	19	31	48	80	36
7,520 to 11,278	4	3	1	10	-
11,279 to 15,038	2	3	3	3	-
<u>Size</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
15 to 75	1,675	1,487	761	968	631
76 to 150	3,544	2,602	1,734	2,008	2,420
151 to 376	4,764	4,180	3,312	3,424	4,874
377 to 752	2,863	2,785	2,759	3,039	4,487
753 to 1,128	901	883	978	1,039	1,565
1,128 to 1,504	984	875	993	956	1,470
1,505 to 2,256	650	600	693	774	1,084
2,257 to 3,008	300	317	391	439	635
3,009 to 3,760	136	115	129	184	272
3,761 to 4,511	100	75	108	136	187
4,512 to 6,015	66	72	75	100	182
6,016 to 7,519	79	45	61	79	123
7,520 to 11,278	1	1	2	2	29
11,279 to 15,038	-	-	-	-	6

Source: Central Bank. Unpublished reports.

7.03 The size distribution of loans

The Department of Rural Credit considers that the social objective has been adequately pursued on the basis of the relatively small average size of loan granted. Between 1937 and 1971 the average size of loan was \$ 339. However, during the whole period this average grew at an annual rate of 9.66 per cent, from \$ 38 in 1937 to \$ 870 in 1971.

The Department also boasts of the large number of significantly small loans granted. The impact of the operations of the Juntas on income distribution thus merits a close scrutiny.

The distribution of loans from the Juntas Rurales by size of loan has not changed significantly during the period 1962-1971. Loans have been classified into 14 categories according to their size. The various categories have a different amplitude; e.g. the first category goes from \$ 15 to \$ 75, while the last one goes from \$ 11,279 to \$ 15,038, this last figure being the ceiling on a loan per person. The data thus provides more information about loans of smaller sizes, which are more numerous.

Table 29 gives the total amounts of credit given out during the year for each of the 14 categories. Table 30 gives the number of loans corresponding to each category. Table 31 gives the percentage distribution of these numbers and amounts.

Between 70 and 85 per cent of the total number of loans authorized during each year were concentrated in the first four categories, i.e. had sizes between \$ 15 and \$ 752. However, only between 30 and 45 per cent of the total amount given out each year corresponded to loans in the same categories.

Between 17 and 45 per cent of the number of loans were very small, i.e. were below \$ 150. These loans, however, represented only between 2 and 10 per cent of the amounts of credit given out. At the other extreme, the number of loans above \$ 3,009 represented between one and eight per cent of the total, while the amounts given out in loans of these sizes corresponded to between 16 and 37 per cent of the total amount.

Between 1962 and 1968 the largest number of loans were between \$ 75 and \$ 376, representing between 50 and 55 per cent of the total. During the years 1969-1971, however, loans below \$ 150 became much less numerous in comparison to the total, and loans between \$ 150 and \$ 752 represented about 50 per cent of the total. This reflected a steady decline in the number of loans of less than \$ 75, which by 1971 thus became a negligible proportion of the total. The average rate of growth of this number was a negative 15.63 per cent per year. The number of loans between \$ 150 and \$ 376 stagnated during the period, while the number of loans between \$ 75 and 150 declined dramatically, at an average negative rate of 9.04 per cent per year.

Table 31

Costa Rica: BNCR. Department of Rural Credit. Percentage distributions of the number of loans and amounts of credit given out, according to size of loan.

Size	1962		1963		1964		1965		1966	
	Number	Amount								
15 to 75	15.09	1.96	15.19	2.11	10.90	1.25	9.61	1.00	12.38	1.43
76 to 150	29.41	7.73	29.96	8.45	25.49	5.90	24.61	5.19	24.82	6.14
151 to 376	25.97	14.14	27.48	15.82	29.13	14.03	29.77	13.17	29.83	15.33
377 to 752	14.84	17.83	14.42	18.26	17.39	18.30	17.18	16.35	16.50	18.08
753 to 1,128	4.38	8.71	4.15	8.81	4.92	8.50	5.19	8.21	4.84	8.80
1,129 to 1,504	4.57	13.44	3.73	11.52	5.17	13.07	5.60	12.96	4.69	12.41
1,505 to 2,256	2.57	10.84	2.36	10.50	3.18	11.57	3.35	11.17	4.14	16.23
2,257 to 3,008	1.34	7.88	1.14	7.16	1.84	9.56	2.03	9.58	1.12	5.99
3,009 to 3,760	0.66	4.86	0.43	3.43	0.69	4.55	0.82	4.89	0.62	4.22
3,761 to 4,511	0.63	5.70	0.56	5.40	0.50	4.00	0.65	4.75	0.41	3.41
4,512 to 6,015	0.41	4.73	0.36	4.48	0.46	4.71	0.67	6.15	0.35	3.70
6,016 to 7,519	0.10	1.54	0.19	3.12	0.30	3.92	0.45	5.38	0.31	4.26
7,520 to 11,278	0.02	0.37	0.02	0.36	0.02	0.13	0.06	0.82	-	-
11,279 to 15,038	0.01	0.27	0.02	0.58	0.01	0.51	0.02	0.36	-	-

Size	1967		1968		1969		1970		1971	
	Number	Amount								
15 to 75	10.43	0.99	10.59	0.90	6.34	0.45	7.36	0.51	3.51	0.23
76 to 150	22.06	4.71	18.54	3.88	14.45	2.50	15.27	2.47	13.47	2.04
151 to 376	29.66	13.19	29.78	13.00	27.61	9.83	26.04	9.03	27.13	8.56
377 to 752	17.82	16.97	19.84	18.31	23.00	16.88	23.11	16.59	24.98	16.31
753 to 1,128	5.61	8.85	6.29	9.55	8.15	9.98	7.90	9.56	8.71	9.54
1,129 to 1,504	6.13	14.03	6.23	13.96	8.28	14.78	7.27	12.73	8.18	13.03
1,505 to 2,256	4.05	13.30	4.27	13.43	5.78	14.69	5.89	14.56	6.03	13.46
2,257 to 3,008	1.37	8.69	2.26	10.24	3.26	11.75	3.34	11.78	3.53	11.36
3,009 to 3,760	0.85	4.99	0.82	4.66	1.08	4.88	1.40	6.26	1.51	6.11
3,761 to 4,511	0.62	4.50	0.53	3.75	0.90	5.02	1.03	5.66	1.04	5.20
4,512 to 6,015	0.41	3.76	0.51	4.44	0.63	4.34	0.76	5.17	1.01	6.31
6,016 to 7,519	0.49	5.93	0.32	3.78	0.51	4.72	0.60	5.47	0.68	5.60
7,520 to 11,278	0.01	0.09	0.01	0.10	0.02	0.17	0.02	0.19	0.16	1.70
11,279 to 15,038	-	-	-	-	-	-	-	-	0.03	0.54

Source: Central Bank. Unpublished records.

Table 32

Costa Rica: BNCR. Department of Rural Credit. Percentage Accumulative Distribution
of the number of loans and amounts given out, according to size of loan.

Size	1962		1963		1964		1965		1966	
	Number	Amount								
15 to 75	15.09	1.96	15.19	2.11	10.90	1.25	9.61	1.00	12.38	1.43
76 to 150	44.50	9.69	45.15	10.56	36.39	7.15	34.22	6.19	37.20	7.57
151 to 376	70.47	23.83	72.63	26.38	65.52	21.18	63.99	19.33	67.03	22.90
377 to 752	85.31	41.66	87.05	44.64	82.91	39.48	81.17	35.71	83.53	40.98
753 to 1,128	89.69	50.37	91.20	53.45	87.83	47.98	86.36	43.92	88.37	49.78
1,129 to 1,504	94.26	63.81	94.93	64.97	93.00	61.05	91.96	56.88	93.06	62.19
1,505 to 2,256	96.83	74.65	97.29	75.47	96.18	72.62	95.31	68.04	97.20	78.42
2,257 to 3,008	98.17	82.53	98.43	82.63	98.02	82.18	97.34	77.63	98.32	84.41
3,009 to 3,760	98.83	87.39	98.86	86.06	98.71	86.73	98.16	82.52	98.94	88.63
3,761 to 4,511	99.46	93.09	99.42	91.46	99.21	90.73	98.81	87.27	99.35	92.04
4,512 to 6,015	99.87	97.82	99.78	95.94	99.67	95.44	99.48	93.42	99.70	95.74
6,016 to 7,519	99.97	99.36	99.97	99.06	99.97	99.36	99.93	98.80	100.00	100.00
7,520 to 11,278	99.99	99.73	99.99	99.42	99.99	99.49	99.99	99.62	-	-
11,279 to 15,038	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	-	-

Size	1967		1968		1969		1970		1971	
	Number	Amount								
15 to 75	10.43	0.99	10.59	0.90	6.34	0.45	7.36	0.51	3.51	0.23
76 to 150	32.49	5.70	29.13	4.78	20.79	2.95	22.63	2.98	16.98	2.27
151 to 376	62.15	18.89	58.91	17.78	48.40	12.78	48.67	12.01	44.11	10.83
377 to 752	79.97	35.86	78.71	36.09	71.40	29.66	71.78	28.60	69.09	27.14
753 to 1,128	85.58	44.71	85.04	45.64	79.55	39.64	79.68	38.16	77.80	36.68
1,129 to 1,504	91.71	58.74	91.27	59.60	87.83	54.42	86.95	50.89	85.90	49.71
1,505 to 2,256	95.76	72.04	95.54	73.03	93.61	69.11	92.84	65.45	92.01	63.17
2,257 to 3,008	97.63	80.73	97.80	83.27	96.87	80.85	96.18	77.23	95.54	74.53
3,009 to 3,760	98.48	85.72	98.62	87.93	97.95	85.74	97.58	83.49	97.05	80.64
3,761 to 4,511	99.10	90.22	99.15	91.68	98.85	90.76	98.61	89.15	98.09	85.84
4,512 to 6,015	99.51	93.98	99.66	96.12	99.48	95.10	99.37	94.32	99.10	92.15
6,016 to 7,519	99.99	99.91	99.98	99.90	99.99	99.82	99.97	99.79	99.78	97.75
7,520 to 11,278	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	99.94	99.45
11,279 to 15,038	-	-	-	-	-	-	-	-	100.00	100.00

Source: Central Bank. Unpublished records.

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At the other extreme, the number of loans in the two classes between \$ 6,016 and \$ 11,278 showed the greatest increase of all classes of loans, with an average rate of growth of 24 per cent per year. The number of loans above \$ 11,279 also increased rapidly, at an average rate of 13 per cent per year. This dramatic growth took place mostly at the end of the period.

The same pattern of growth was experienced by the amounts given out per class of loan. The amounts given out for loans of less than \$ 75 diminished consistently throughout the period. The average rate of growth was the negative 16.24 per cent per year. The same was the case with loans between \$ 76 and \$ 150. The amounts given out for this class of loans decreased at an average negative rate of 8.55 per cent per year. Correspondingly, the relative importance of the amounts given out for loans of these two classes dropped from 8 per cent of the total at the beginning of the period to one per cent at the end.

At the other extreme, the relative importance of the amounts given out for the three largest categories increased from 2 per cent in 1962 to 15 per cent in 1971. The amounts given out for these three classes of loans experienced the highest average rates of growth, of 22.45; 25.56 and 15.12 per cent per year, respectively. The quickest growth took place towards the end of the period.

Tables 33, 34 and 35 give the distribution by size of loan of the amounts given out and of the number of loans authorized during the year, classified by term of loan. The shape of the distribution is significantly different for the various types of credit. There is a greater concentration of loans of smaller sizes in the case of short term credit. In the case of medium term credit, loans of a somewhat greater size represent a more important proportion of the total; and for long term credit, the more numerous loans are still of a larger size. Loans of the largest sizes, however, occurred in the category of medium term credit. This reflects in part the greatly diminished importance of long term credit, which has even been absent during some of the recent years. In 1971, however, an important number of large size, long term loans were given out.

The relatively small size of the loans from the Juntas Rurales becomes apparent in a comparison between a Junta and another small branch. Table 36 presents a comparison of the transactions carried out at the Junta Rural and at the Sucursal of the BNCR in Turrialba, a growing medium size town.

There are no large differences in terms of the number of loans authorized each year. In the case of the Junta Rural, however, the tendency towards a reduction in the number of loans which characterizes all the Juntas is marked. In the case of the Sucursal there is an stagnation in the number of loans.

In terms of the amounts given out, the differences between the two offices are substantial. The amounts given out by the Sucursal were between 4 and 12 times greater than the amounts given out at the Junta Rural.

Table 33

Costa Rica: BNCR. Department of Rural Credit. Amounts of short-term credit given out, according to size of loan. U.S.Dollars

<u>Size</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
15 to 75	116,880	76,152	62,894	61,738
76 to 150	361,392	268,287	248,988	258,039
151 to 376	425,940	338,124	370,629	411,840
377 to 752	361,458	293,689	317,024	355,360
753 to 1,128	134,684	102,809	87,383	122,594
1,129 to 1,504	289,323	169,083	172,217	230,150
1,505 to 2,256	128,165	151,316	137,857	134,598
2,257 to 3,008	146,617	105,158	152,692	180,857
3,009 to 3,760	35,564	47,263	54,203	100,865
3,761 to 4,511	57,669	27,068	36,090	97,669
4,512 to 6,015	42,105	59,564	63,008	60,481
6,016 to 7,519	44,361	44,060	87,143	110,346
7,520 to 11,278	34,286	-	-	-
11,279 to 15,038	-	-	-	-
<u>Size</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	
15 to 75	52,975	51,094	34,456	
76 to 150	237,542	260,162	186,359	
151 to 376	449,482	525,613	458,333	
377 to 752	447,711	454,508	391,147	
753 to 1,128	181,227	174,511	159,974	
1,129 to 1,504	247,011	258,188	219,586	
1,505 to 2,256	286,556	189,752	198,375	
2,257 to 3,008	193,496	171,338	167,425	
3,009 to 3,760	125,624	117,068	88,256	
3,761 to 4,511	118,060	96,165	87,970	
4,512 to 6,015	99,594	119,127	129,669	
6,016 to 7,519	182,932	241,023	155,850	
7,520 to 11,278	-	-	-	
11,279 to 15,038	-	-	-	
<u>Size</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	
15 to 75	19,043	39,609	23,466	
76 to 150	104,814	146,038	165,383	
151 to 376	265,322	336,675	511,738	
377 to 752	276,808	340,487	600,692	
753 to 1,128	142,288	143,821	276,827	
1,129 to 1,504	175,839	155,541	258,376	
1,505 to 2,256	194,707	177,068	258,220	
2,257 to 3,008	153,932	212,699	291,739	
3,009 to 3,760	63,053	59,391	107,125	
3,760 to 4,511	66,316	109,008	106,962	
4,512 to 6,015	105,603	137,992	175,712	
6,016 to 7,519	107,684	99,158	168,273	
7,520 to 11,278	-	-	16,241	
11,279 to 15,038	-	-	-	

Source: Central Bank. Unpublished records.

Table 34

Costa Rica: BNCR. Department of Rural Credit. Amounts of medium-term credit given out, according to size of loan. U.S.Dollars.

<u>Size</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
15 to 75	64,061	76,743	47,639	45,521
76 to 150	351,656	339,210	274,756	296,897
151 to 376	863,746	792,475	869,941	993,605
377 to 752	1,203,694	965,482	1,291,338	1,384,952
753 to 1,128	593,985	488,945	653,664	745,217
1,129 to 1,504	834,677	599,321	957,036	1,149,706
1,505 to 2,256	760,258	520,266	873,022	1,040,334
2,257 to 3,008	496,450	364,331	657,805	818,102
3,009 to 3,760	327,069	165,053	338,029	411,778
3,761 to 4,511	361,242	285,138	305,399	397,798
4,512 to 6,015	344,329	203,256	343,479	570,805
6,016 to 7,519	82,677	151,618	239,150	449,844
7,520 to 11,278	-	26,316	11,146	87,895
11,279 to 15,038	23,609	42,104	45,113	38,346
<u>Size</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	
15 to 75	35,102	44,569	43,844	
76 to 150	140,473	195,331	150,859	
151 to 376	492,576	750,199	673,128	
377 to 752	659,591	1,184,913	1,201,919	
753 to 1,128	350,639	680,648	671,460	
1,129 to 1,504	510,964	1,095,869	995,217	
1,505 to 2,256	703,740	1,093,026	967,905	
2,257 to 3,008	159,962	666,350	722,338	
3,009 to 3,760	130,826	365,549	317,320	
3,761 to 4,511	84,153	334,668	238,147	
4,512 to 6,015	117,353	244,493	257,033	
6,016 to 7,519	79,173	332,902	173,023	
7,520 to 11,278	-	9,023	8,647	
11,279 to 15,038	-	-	-	
<u>Size</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	
15 to 75	22,692	13,538	13,254	
76 to 150	127,634	110,223	153,801	
151 to 376	646,928	599,531	826,365	
377 to 752	1,289,789	1,379,731	1,947,714	
753 to 1,128	783,857	846,826	1,214,918	
1,129 to 1,504	1,196,289	1,163,907	1,778,488	
1,505 to 2,256	1,166,948	1,332,194	1,846,143	
2,257 to 3,008	934,294	1,008,988	1,483,588	
3,009 to 3,760	389,570	589,606	847,479	
3,761 to 4,511	399,248	478,178	705,647	
4,512 to 6,015	297,722	398,156	788,345	
6,016 to 7,519	330,692	467,989	656,523	
7,520 to 11,278	16,008	20,150	249,860	
11,279 to 15,038	-	-	83,835	

Source: Central Bank. Unpublished records.

Table 35

Costa Rica: BNCR. Department of Rural Credit. Amounts of long-term credit given out, according to size of loan. U.S.Dollars.

<u>Size</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
15 to 75	-	60,150	-	-
76 to 150	271	2,759	-	150
151 to 376	15,472	11,759	4,211	2,434
377 to 752	80,221	59,606	15,120	7,028
753 to 1,128	74,688	44,481	13,008	9,576
1,129 to 1,504	115,669	63,827	30,128	5,377
1,505 to 2,256	111,737	87,008	15,639	18,908
2,257 to 3,008	84,173	47,759	34,439	24,611
3,009 to 3,760	86,053	35,218	11,038	9,869
3,761 to 4,511	106,752	77,903	13,308	12,586
4,512 to 6,015	50,576	60,451	10,977	26,361
6,016 to 7,519	14,286	29,474	21,744	15,038
7,520 to 11,278	-	-	-	-
11,279 to 15,038	-	-	-	-

<u>Size</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
15 to 75	-	-	-
76 to 150	-	-	-
151 to 376	1,256	489	-
377 to 752	5,494	1,617	-
753 to 1,128	9,655	902	-
1,129 to 1,504	5,592	2,707	-
1,505 to 2,256	8,794	4,060	2,030
2,257 to 3,008	15,339	2,406	-
3,009 to 3,760	3,233	-	-
3,760 to 4,511	7,519	4,511	-
4,512 to 6,015	10,827	-	-
6,016 to 7,519	-	-	-
7,510 to 11,278	-	-	-
11,279 to 15,038	-	-	-

<u>Size</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
15 to 75	-	-	-
76 to 150	-	-	-
151 to 376	-	-	-
377 to 752	556	-	-
753 to 1,128	-	-	-
1,129 to 1,504	-	-	-
1,505 to 2,256	2,201	-	-
2,257 to 3,008	2,898	-	-
3,009 to 3,760	-	-	-
3,761 to 4,511	-	-	-
4,512 to 6,015	-	-	21,714
6,016 to 7,519	-	-	50,162
7,520 to 11,278	-	-	-
11,279 to 15,038	-	-	11,654

Source: Central Bank, unpublished records.

Table 36

Costa Rica: Credit given out at the Junta Rural and at the Sucursal of the BNCR in Turrialba. U.S. Dollars.

Year	Junta Rural			Sucursal		
	Number	Amount	Average	Number	Amount	Average
1964	554	333.948	603	647	1,341,465	2,073
1965	671	406.240	605	378	1,742,820	4,611
1966	331	279.609	844	445	1,421,974	3,195
1967	317	190.562	601	483	1,890,053	3,913
1968	246	169.428	689	454	2,060,980	4,540
Total	2,119	1,379,790	652	2,407	8,357,291	3,472

Source: Francisco A. Tejada. Ibid.

The average size of a loan from the Sucursal was \$ 3,472 for the five years reported, while the average size of a loan from the Junta was \$ 652. This comparison, which is typical of many other Sucursal-Junta or Agencia-Junta combinations, on the one hand reflects the tendency to allocate credit up to the point when marginal cost is equal at all locations, but on the other hand indicates how, given the limitations imposed on the transactions of the Juntas Rurales, there is credit available for the small farmer at a specialized bank office.

7.04 Credit and Land Tenure.

The Department of Rural Credit measures its impact on the welfare of the small farmer in terms of various arbitrary indexes, which are supposedly connected with social characteristics. These indexes include the proportion of loans given out to leasers of land, as different from farm owners.

This reflects the particular preoccupation of the nationalized banks with guarantees and collateral. Since leasers do not own land that they can mortgage, the banks tend to think that lending to them is not economically justified, and that when they do lend to this type of client, they are doing so on the basis of "social" considerations. There is no reason, however, to infer that leasers are less productive or less capable or repayment than owners or that their activities are less economically justified.

Table 37

Costa Rica: BNCR Department of Rural Credit. Credit given out according to the form of possession of the farm by the borrower. U.S. Dollars.

Amounts given out

<u>Year</u>	<u>Owners</u>	<u>%</u>	<u>Leasers</u>	<u>%</u>	<u>Owners- Leasers</u>	<u>%</u>
1950	1,707,916	66.94	752,161	29.48	91,438	3.58
1955	2,689,877	72.93	876,045	23.75	122,153	3.31
1960	5,319,072	80.85	1,193,250	18.13	66,203	1.01
1961	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1962	8,891,099	81.70	1,640,837	17.78	47,364	0.51
1963	5,867,314	81.23	1,259,220	17.43	96,650	1.34
1964	7,489,720	84.44	1,326,513	14.59	54,038	0.61
1965	8,955,360	83.79	1,638,073	15.33	93,841	0.88
1966	4,735,648	76.95	1,352,818	21.98	66,005	1.07
1967	7,716,302	79.77	1,835,228	18.97	121,251	1.26
1968	6,911,532	79.44	1,657,502	19.05	131,236	1.51
1969	7,766,399	83.66	1,370,709	14.77	145,609	1.57
1970	8,759,714	84.50	1,517,671	14.64	89,118	0.86
1971	13,068,773	83.62	2,391,040	15.30	168,777	1.08

	<u>Number of loans</u>				<u>Owners</u>		<u>Average size</u>		<u>Owners</u>
	<u>Owners</u>	<u>%</u>	<u>Leasers</u>	<u>%</u>	<u>Leaser</u>	<u>%</u>	<u>Owners</u>	<u>Leasers</u>	<u>Leasers</u>
1943	3,813	55.49	2,710	39.44	349	5.08	n.a.	n.a.	n.a.
1950	10,386	58.51	6,744	37.99	622	3.50	164	112	147
1952	11,633	58.18	7,610	38.06	751	3.76	n.a.	n.a.	n.a.
1953	11,070	61.48	6,264	34.79	672	3.73	n.a.	n.a.	n.a.
1954	10,818	64.25	5,377	31.93	643	3.81	n.a.	n.a.	n.a.
1955	10,938	64.47	5,524	32.56	505	2.98	246	159	242
1956	11,999	68.08	5,364	30.43	262	1.41	n.a.	n.a.	n.a.
1958	11,835	70.97	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1960	11,697	73.15	4,056	25.36	236	1.48	455	294	281
1961	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1962	14,517	75.28	4,634	24.06	134	0.69	613	354	353
1963	11,169	75.37	3,484	23.51	166	1.12	525	361	582
1964	12,713	78.43	3,382	20.86	115	0.71	589	392	470
1965	13,790	77.62	3,845	21.64	132	0.74	649	426	711
1966	8,592	72.87	3,055	25.91	144	1.22	551	443	458
1967	11,902	74.10	3,980	24.78	181	1.12	648	461	670
1968	10,647	75.85	3,214	22.90	176	1.25	649	515	746
1969	9,679	80.81	2,165	18.05	134	1.12	802	633	1,087
1970	10,278	78.17	2,757	20.97	113	0.86	852	550	789
1971	14,048	78.20	3,769	20.98	148	0.82	930	634	1,140

Source: BNCR. "Memoria Anual". Several years.

The banks also believe that leasers have a more restricted access than owners to other sources of credit. Given limited access to credit, the willingness of the Juntas Rurales to lend to these farmers is conceived as a social function. There is, however, no empirical evidence of such limitations.

Table 37 gives the number and amounts of loans granted during each year according to the form of land tenure of the borrower. Owners of the land obtained more than 70 per cent of the loans, and received about 80 per cent of the amounts given out.

An additional number of owners, who were also leasers of land, got about one per cent of the loans and of the amounts given out. Leasers of land, on the other hand, obtained more than 20 per cent of the loans and between 15 and 20 per cent of the total amount.

The largest loans were those for owners who were also leasers. These seemed to be relatively large and dynamic entrepreneurs who were not content to sow their own land but who complemented it with leased land. In the case of these farmers, the average size of loan was \$ 703 for the sub-period 1962-1971. The average size of loan for owners was \$ 683, about 50 per cent greater than the average size of loan for leasers, of \$ 466.

Besides differences in the size of their farms, these differences possibly reflect the attitude of the Juntas towards the more satisfactory collateral represented by the farmer's own land.

Concern with the ownership of land is reflected in another of the social objectives of the Juntas Rurales, i.e. the provision of credit for the purchase of farms. Loans to build a house or to remove a mortgage on the farm, because of a loan with a non-bank source of credit, are also considered as reflecting interest in social problems.

Table 38 gives the amounts of credit given out for purchases of land, removal of mortgages and house building, between 1942 and 1959. The amount of credit given out for these purposes increased rapidly during the period. Although credit for these purposes has remained available at the Juntas Rurales, no separate information about these transactions is available after 1959. Figures on the number of loans suggest that on the average about 1,500 loans per year were granted for the purchase of farms and about 1,000 loans were granted for the removal of mortgages, during the first half of the 1960's. It is interesting to note that AID loans have been forthcoming to the Juntas Rurales only under the condition that those funds not be used for these purposes.

Table 38

Costa Rica: BNCR. Department of Rural Credit. Amounts of credit given out for the purchase of farms, removal of mortgages and construction of a house. U.S. Dollars.

<u>Year</u>	<u>Purchase of land</u>	<u>Removal of mortgage</u>	<u>House building</u>
1942	61,250	n.a.	n.a.
1945	91,058	n.a.	n.a.
1946	85,787	n.a.	n.a.
1947	121,531	8,621	12,061
1948	128,473	3,541	n.a.
1949	322,780	20,911	43,185
1950	261,433	n.a.	n.a.
1951	303,727	n.a.	n.a.
1952	429,281	30,481	459,762
1953	499,195	40,553	539,749
1954	577,070	31,138	608,208
1955	565,627	9,293	574,920
1956	63,451	9,368	72,820
1957	685,909	41,545	727,455
1958	724,010	70,926	794,936
1959	834,081	84,526	918,606

Source: BNCR. "Memoria Anual". Several years.

ORGANIZATION AND PROCEDURES

8.01 Structure

The Department of Rural Credit consists of a network of 57 Juntas Rurales and of a central office in San José. It is one of the four departments of the BNCR.

The "Junta Directiva General" (General Board of Directors) is the maximum authority of the BNCR. It is appointed by the Executive branch of the General Government and, in turn, appoints the General and Assistant Managers of the BNCR, the Auditor, and the members of the local boards of the Juntas Rurales and of other bank branches. It defines the general economic and financial policies of the BNCR, within the framework provided by the law and the guidelines from the Central Bank. It delegates in the General Manager the day-to-day administration of the BNCR.

The General Board of Directors determines, except in the cases when the Central Bank specifically does it, maximum limits of credit for every branch of the BNCR; a ceiling on the amount of credit that each branch can lend to any individual person or firm for each type of loan, as well as the maximum amount that each individual or firm may borrow from all of the branches of the BNCR; commission fees and other charges; maximum terms for each type of loan; and minimum security margins that must exist between the amount of a loan and the effective value of the goods and property offered as collateral.

The Department of Rural Credit is headed by a "Jefe General" (General Chief). However, it is the "Jefe de Juntas Rurales" or "Jefe de Operaciones" (Chief of operations of Juntas Rurales) who deals with all the technical and regulatory aspects of the day-to-day provision of rural credit. Only when there is a special case, because of the nature and/or magnitude of the transaction, it is brought to the attention of the General Chief, who is responsible, in the last instance, for the adequate performance of the Department.

The "Subjefe de Juntas Rurales" (Deputy chief) has responsibilities similar to those of the Chief. These three officials make the final decisions, accepting or rejecting the resolutions taken by the local boards of the Juntas Rurales. In the daily routine of operation, their opinion represents the criterium of the central office. Although the General Board of Directors or the General Manager of the BNCR could theoretically override any decisions made by them, in practice this rarely happens.

The "Jefe de Asistencia Técnica Agrícola" (Technical Assistance Chief) has been recently added to the Department, as the BNCR has been required to devote more attention to the problem of technical assistance. He supervises the limited activities of the BNCR in this area and coordinates them with the programs of other institutions. The "Sub-jefe de Contabilidad" (Accounting Chief) is in charge of accounting, statistics and collecting.

The central office in San José has a group of "revisores" (revisers) who examine all the work of each Junta Rural, on the basis of written reports sent regularly by the Juntas. The activities of the Juntas are also supervised by the "inspectores" (inspectors), usually agronomists, who visit the localities where the Juntas operate, watching over their performance and informing to the central office. This vigilance includes the direct supervision, in the field, of the investment of the funds loaned. The Auditor, in turn, has his own inspectors, who perform basically the same functions for his office.

8.02 The local board

The local board of each Junta consisted of five members ever since 1914. A reorganization in 1957 reduced the number of its members to three. These must be at least of 25 years of age, reside in the zone of operation of the Junta, and not be related to each other. The members of the board are appointed by the General Board of Directors of the BNCR for one year, but can be reappointed indefinitely at the BNCR's will. The delegate of the Junta recommends three names as candidates and, when there is another branch of the BNCR in the locality, such as a Sucursal or Agencia, its manager does the same.

The General Board of Directors of the BNCR has the power to dissolve the local board at any time, or to replace any of its members. The board is supposed to meet twice a month. On their first meeting, they elect a President and a Secretary of the board. Two of the members are empowered to resolve any question.

The members of the board and their relatives may obtain loans from the Junta, but they must be absent from the meeting when their application is discussed, and final approval has to be given by the central office in San José.

The local board is not responsible for designing general policies of agricultural credit. Rather, it is entrusted with the distribution of the funds allocated to the Junta. It considers credit applications and approves or rejects them, following the directives emanating from the central office in San José. The members of the board are responsible to the BNCR, with their own property, for any transgression against the law and regulations which authorize their activities and any misbehavior. They are not held responsible for losses arising from credit operations, when these have been authorized according to the legal norms.

8.03 The delegate

The "delegado" (delegate) is entrusted with the technical banking functions of the Junta. He is in charge of appraisals of property offered as collateral and of inspections of guarantees. Usually an agronomist, he advises both the clients of the Juntas, with respect to their applications, and the members of the local board, with respect to their obligations.

The delegate considers credit applications, corroborates the information that they contain, investigates the solvency and moral character of the clients, helps them in formulating their requests and in designing their investment plans, and authorizes the transaction, once he is satisfied, and informs the local board at their next meeting, for their consent. Once the loan is granted, he is responsible for supervising the investment of the funds and for their recovery. In practice, his attention is mainly devoted at protecting the guarantee.

At the meetings of the board, that he must always attend, he has voice but not a vote. He can, however, veto any resolution, i.e. he is empowered to suspend the execution of any resolution of the board until there is a definite pronouncement of the central office in San José. Three days after each meeting of the board he is required to send a copy of the minutes to the central office, with his comments. The central office is also empowered to veto any resolution of a local board.

The delegate is also required to report to the central office about the general economic conditions in his area, in particular those that may affect the demand for credit: production trends, product prices, marketing arrangements, etc. He provides information about the state of his portfolio and about the existence of excess demand for or excess supply of funds. The central office, in turn, attempts to reallocate funds according to these reports. There are some important seasonal movements of funds among several Juntas Rurales.

The Commercial Department of the BNCR maintains Sucursales or Agencias in several of the same localities where there is a Junta Rural. When this is the case, the Sucursal or Agencia provides the Junta with all kinds of supporting functions: accounting, treasury, cashier; and for these services it receives a percentage of the interest charged on the loans made by the Junta Rural. In summary, in those localities where the Commercial Department already possesses an infrastructure -manpower and equipment- the Junta Rural enjoys these services. Also, the manager of the Sucursal or Agencia is often authorized to approve, together with the delegate of the Junta, loans up to a limit indicated by the central office, which are then brought to the local board for final approval.

Instructions from the central office are sent to the Juntas Rurales by means of circular letters. There is a collection of thousands of these circular letters, originating in resolutions of the General Board of Directors, orders from the General Manager, recommendations from the Legal Section, Auditor, etc., and instructions from the Chief of Juntas Rurales. Each time that a new member is appointed to a local board, he is informed about the legal regulations concerning his job, but there is no way to supply him with knowledge of these innumerable regulations that are contained in the circular letters. In this respect the local boards have to rely largely on the information gradually transmitted to them by the delegate, usually an older official of the BNCR.

To the extent that such is the case, the local board is reduced to an advisory committee, which provides information about the economic and moral solvency of the potential borrowers. The delegate, on the other hand, maintains a position of pre-eminence because of his greater knowledge of the regulations.

Furthermore, due to the chaotic structure of regulatory rules, the central office has been forced to systematically revise every one of the resolutions of the local boards, in order to assure that the regulations are being put into effect. This leads to a considerable amount of red-tape and bureaucratic maneuvering. In turn, it delays the authorization of loans.

The size and frequency of the reports that he has to send to the central office absorbs a large part of the delegate's time, in detriment to the technical functions that he is supposed to perform. As time has passed, the delegate has lost his ability to provide technical assistance and has been transformed from an agronomist into a bureaucrat.

One of the most interesting features of the Juntas Rurales is the delegation of authority to the delegate-local board combination. This delegation permits an important reduction in the costs of information to the bank. Delegation of power to authorize loans should make procedures quicker, reducing the cost to the client. The delegate and the members of the local board are in a better position to judge conditions and evaluate problems specific to each area than officials at the central office. Efficient officials at a local office can make more effective and timely decisions than a distant central office.

It is very important, therefore, that the selection of the delegates be very careful. Of equal importance is an efficient system of communication between the central office and the Juntas. If these two conditions were met, the revision by the central office of every resolution of the Juntas Rurales seems redundant and too costly.

Finally, the delegate is supposed to provide technical assistance to the clients of the Juntas Rurales. This has not been possible in practice.

The service of technical assistance is some 30 years old in Costa Rica. However, the service has grown very slowly. For this reason, the great majority of Costa Rican farmers have not received any kind of technical assistance, or have had access to it only in a very limited scale. There have been, however, some rather successful examples, like the case of coffee. Due to concentration of resources for technical assistance in coffee, it was possible to more than double output per hectare in less than 15 years and eventually attain the highest yield per area in the world.

Farmers financed by the banks are no exception. As with the rest of Costa Rican farmers, in most cases they lack access to adequate technical assistance services. The Juntas provide, under the title of "technical assistance", some help in writing the loan application, supposedly directed towards the elaboration of an investment plan that would permit the farmer the best allocation of his resources. The main interest of the BNCR is the easy recuperation of the funds lent. However, assistance concerning the technical aspects of his operations, in particular agronomic aspects, is not forthcoming from the Juntas, but is the responsibility of the Ministry of Agriculture.

In several opportunities the commercial banks have recognized the importance of coupling credit with technical assistance, both before and after the loan is authorized, for the success of the farmer and in order to transform credit into an instrument of modernization, increased productivity and capitalization. These, however, have been no more than good intentions.

8.04 Credit limits and collateral

The policies and methods followed in the distribution of small farmer credit are based on the Organic Law of the National Banking System and on the regulations derived from this law, on the resolutions of the Central Bank and on the directives put forward by the General Board of Directors and the General Manager of the BNCR.

These regulations impose limits on the amount of credit that a given individual or firm may receive, which vary according to the type of banking office. The limit for the Commercial and Cooperative Departments is 15 per cent of the capital and legal reserve. In the case of the Mortgage Department, the limit is 5 per cent of the capital and legal reserve, and in no case may a loan exceed \$ 90,676. In the case of the Juntas Rurales and of the Oficinas de Crédito al Pequeño Agricultor the ceiling is \$ 15,038 per person.

All loans have to be guaranteed to the satisfaction of the BNCR. Before granting the loan, the Junta is required to value the guarantee. This has in practice become one of the most important functions of the delegate. Guarantees may be real, i.e. real-estate mortgages or chattel mortgages; or personal, i.e. cosigners.

The most frequent cases of chattel mortgages are on crops, present and future; livestock and machinery and equipment. The Juntas frequently demand a chattel mortgage on these items in order to more directly control the investment of the funds. Cosigners, in turn, have to be persons whose economic and moral solvency is well known to the Junta. In no case is the personal signature of the borrower enough.

There are limits on the loans as a proportion of the value of the collateral. In the case of land mortgages, the limit per loan is 75 per cent of the value of the farm. In the case of chattel mortgages, the limits are 60 per cent of the estimated value of annual crops, 80 or a 100 per cent of the estimated value of several types of livestock, and 80 per cent of the value of machinery and equipment. A cosigner is accepted for loans that represent no more than 25 per cent of his net worth. Other transactions in which the same person appears as a cosigner are also taken into account and deduced from his net worth.

Table 39 shows the amounts given out according to the type of collateral offered. Between 1943 and 1962 the amounts of credit secured with a cosigner diminished in importance from 57 to 25 per cent of the total of credit given out each year. Loans guaranteed with a chattel mortgage, or with a chattel mortgage and a cosigner, as indicated for the category of multiple collateral, increased their importance from 21 to 28 per cent and from 10 to 29 per cent, respectively. This reflects, in part, the specific requests that loans with funds from AID be required a multiple collateral, i.e. a chattel mortgage plus a cosigner.

Loans guaranteed with a land mortgage represented about 12 per cent of the amounts of credit given out by the Juntas Rurales during those years. These transactions were usually larger than other transactions. A loan guaranteed with a land mortgage had an average size about twice that of any other loan. Loans backed by the Consejo Nacional de Producción as a cosigner were usually the loans of smallest size. In terms of the number of loans authorized, those secured with a land mortgage were relatively less important, while those secured with a cosigner represented an important proportion of the total.

Table 40 gives the balances outstanding at June 30, 1972, classified according to the type of collateral used. About 40 per cent of the loans outstanding were secured with a chattel mortgage, a type of guarantee whose importance has been increasing ever since the early 1960's.

Table 39

Costa Rica: BNCR. Department of Rural Credit. Amounts of Credit Given Out, According to Type of Collateral Used. U. S. Dollars

<u>Type of Collateral</u>	<u>1943</u>	<u>1950</u>	<u>1955</u>	<u>1960</u>	<u>1962</u>
Cosigner	273,985	1,629,474	1,921,353	2,304,511	2,265,113
Consejo de Produccion	-	-	-	611,278	509,323
Chattel Mortgage	100,602	538,496	1,204,962	1,534,586	2,584,211
Land Mortgage	60,902	227,519	450,827	897,293	1,164,060
Multiple	46,015	156,090	406,466	1,230,827	2,703,158
<u>Percentage Structure</u>					
Cosigner	56.90	63.86	48.23	35.03	24.55
Consejo de Produccion	-	-	-	9.29	5.52
Chattel Mortgage	20.89	21.10	30.25	23.33	28.01
Land Mortgage	12.65	8.92	11.32	13.64	12.62
Multiple	9.56	6.12	10.20	18.71	29.30

Source: Central Bank

Table 40

Costa Rica: BNCR. Department of Rural Credit. Balances Outstanding at June 30, 1972;
By Type of Collateral. U. S. Dollars

	<u>Short Term</u>	<u>%</u>	<u>Medium Term</u>	<u>%</u>	<u>Long Term</u>	<u>%</u>	<u>Total</u>	<u>%</u>
Cosigner	1,490,690	39.63	4,315,750	15.42	-	-	5,806,440	18.13
Chattel Mortgage	247,083	6.57	12,656,756	45.21	-	-	12,903,839	40.30
Land Mortgage	881	0.02	4,013,802	14.34	260,254	100.00	4,274,938	13.35
Multiple	2,022,896	53.78	7,610,086	25.04	-	-	9,032,982	28.21

Source: BNCR. Unpublished Records.

Most of these chattel mortgages are on livestock and the tendency has been accentuated by the requirements of early AID loans. The relative importance of land mortgages has remained more or less at the same level of 13 per cent. Similarly, loans secured with multiple guarantees -chattel mortgages plus cosigners- still represent about 28 per cent of the total, while the importance of loans secured merely with a cosigner has diminished to 18 per cent of the total.

Naturally, the type of guarantee varies with the term of the loan. All long term loans were secured with a land mortgage, but this type of credit was infrequent and the value of these loans was less than one per cent of the total volume of credit outstanding. About 14 per cent of medium term loans were also secured with a land mortgage. The most frequent type of collateral in the case of medium term loans, however, was the chattel mortgage, used in 45 per cent of the cases. Only 15 per cent of the value of medium term loans was secured with a cosigner. This is a very small proportion, considering that the Juntas, year after year, basically work with the same set of borrowers. It is also an important change, considering that in 1954 about 56 per cent of the number of loans and 49 per cent of the value of loans were secured with a personal guarantee.

In the case of short term loans a larger proportion of cosigners is used. This includes the cases in which the Consejo Nacional de Producción acts as a cosigner. The most frequent type of collateral used in the case of short term loans, however, is the combination of a cosigner and a chattel mortgage, used in 54 per cent of the cases, although these loans represented only 6 per cent of the value of the portfolio of the Department of Rural Credit.

The Consejo Nacional de Producción is explicitly authorized by law to act as a cosigner in the case of small farmers who do not have other forms of collateral. The limit on the amount to be guaranteed is \$ 15,038, the same ceiling imposed on transactions with the Juntas Rurales. In addition, the Consejo must devote at least 70 per cent of its capacity as a cosigner to loans of less than \$ 3,008. For these purposes husband and wife are considered as a single person.

The Consejo, in turn, demands from the farmer a chattel mortgage on the crops that the farmer plans to cultivate with the loan and a cosigner. These requirements, plus the fact that authorization by the Consejo usually takes complicated and lengthy procedures make this type of collateral little frequent.

During certain periods there has been a tendency of farmers not to pay their loans when they have been cosigned by the Consejo. Farmers somehow believed that the Government owed the service to them, that the more affluent State could better afford to pay. Bank officials, in turn, were not as devoted in supervising the guarantee

as with other types of loans, because they could always demand payment from the Consejo. Losses, therefore, were substantial. These losses look particularly important in face of the insignificant losses experienced by the Juntas Rurales themselves.

Between 1948 and 1971 the Consejo guaranteed 38,952 loans for an amount of \$ 13,348,824. During the same period the Consejo had to pay \$ 840,151 to the commercial banks, acting as a cosigner. However, the Consejo was able to recuperate \$ 185,829 from the farmers later, so that the net loss for the Consejo was only \$ 654,322, still a sizable amount.

Table 41 reports the number and amounts of loans guaranteed by the Consejo for the whole period 1948-1971, classified by crops, as well as the area financed with those loans. Loans for rice represented 36.26 per cent of the total number of loans and 56.78 per cent of the total amount guaranteed. Very important also, in terms of the number of loans guaranteed, were corn and beans. In terms of the amounts backed, however, the importance of these two last crops is much smaller. Loans for cotton were also important in terms of the amount secured.

The Juntas Rurales, as well as other bank offices, are supposed to control the use of the funds. This control is exercised through the "investment plan". The borrower has to report to the Junta the plan, in a form already prepared by the BNCR. This plan is legally binding for the borrower. The Junta, in turn, corroborates the investment of the funds and, if the borrower devotes them to another use, the Junta immediately calls the loan.

As a means of controlling the use of the funds, the Juntas usually do not give all the funds immediately to the farmer, except in the cases when the funds are needed at once, according to the nature of their use. More frequently, the borrower receives the funds in installments, each one of them with the approval of the delegate. This approval depends, in many cases, upon presentation of bills and other documents demonstrating the use of the funds. Despite all this vigilance, the diversion of funds is frequent. Furthermore, the Junta has no way of knowing what the use of the funds, being fungible, is at the margin.

8.05 Terms of loans and rates of interest.

Maximum terms are calculated according to the use of the funds. Credit for the annual cycle of production has a maximum term of one year. For longer cycles of production, the usual terms are from one to two years. Investment and livestock loans have a maximum of 8 years, while credit for the purchase of land has a maximum of 20 years. In the case of livestock there are specific limits according to age, type and objective.

Table 41

Costa Rica: Consejo Nacional de Producción. Loans in which the Consejo acted as a cosigner. Amounts accumulated for the period 1948-1971. U.S. Dollars.

<u>Purpose of loan</u>	<u>Number of loans</u>	<u>%</u>	<u>Amounts guaranteed</u>	<u>%</u>	<u>Average size of loan</u>	<u>Area financed hectares</u>	<u>Dollars per hectare</u>	<u>Hectares per loan</u>
Rice	14,124	36.26	7,580,021	56.78	537	72,854	104.04	5.16
Corn	13,413	34.43	2,377,935	17.81	177	50,201	47.37	3.74
Beans	10,076	25.87	1,122,887	8.41	111	33,625	33.39	3.34
Cotton	148	0.38	669,931	5.02	4,527	3,166	211.60	21.39
Cacao	314	0.81	100,876	0.76	321	4,337	23.26	13.81
Coffee	25	0.06	57,895	0.43	2,316	14	-	0.55
Sugar cane	52	0.13	32,496	0.24	625	112	290.14	2.16
Potatoes	123	0.32	24,913	0.19	203	48	523.39	0.39
Plantain	314	0.81	148,786	1.11	474	753	197.59	2.40
Sorgum	48	0.12	78,988	0.59	1,646	1,225	64.46	25.53
Tobacco	14	0.04	29,617	0.22	2,115	59	499.44	4.24
Tomatoes	4	0.01	15,187	0.11	3,797	27	570.98	6.64
Pineapple	2	-	15,811	0.12	7,906	26	608.12	12.94
Millet	30	0.08	13,023	0.10	434	189	68.90	6.30
Poultry	33	0.08	115,842	0.87	3,510	-	-	-
Beef	2	-	16,692	0.13	8,346	-	-	-
Hogs	10	0.03	26,465	0.20	2,647	-	-	-
Industry	44	0.11	785,920	5.89	17,862	-	-	-
Others	176	0.45	135,601	1.07	769	754	-	-
Total	38,952	100.00	13,348,824	100.00	343	167,390	106.24	5.13

Source: Raúl Hess. Unpublished document.

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Payment of principal and interest is based on the nature of the investment of the funds and on the borrower's capacity to pay. Payment is usually in periodic amortizations, with no more than one year in between.

Rates of interest are set by the Central Bank. Usually, there is a small set of rates applicable to wide classes of credit. In general, there is the presumption that all of these rates are below their equilibrium level. The Central Bank, however, has changed these rates in very few occasions.

At present, the most important rates in force are the following: I) Rediscount rates:

- a) Documents due in less than 360 days, related to production and storage of agricultural and industrial products of national origin, and to the generation of electricity, and other forms of energy, as well as the provision of public services; and documents due in less than 180 days, related to the distribution and trade of those products.....5 per cent yearly.
- b) Documents due in less than 180 days, related to the storage and trade of products not included in a)..... 8 per cent yearly.
- II) Rates charged on loans from the Central Bank:
 - a) Loans for no more than one year, to the Department of Rural Credit of the BNCR and to the Oficinas de Crédito al Pequeño Agricultor..... 2 per cent per year.
 - b) Loans for less than 90 days to the commercial banks, guaranteed with Government bonds..... 4 per cent per year.
- III) Rates of interest to be charged by the commercial banks:
 - a) Discount of promissory notes derived from the storage in "Almacenes de Depósito" (warehouses) of raw materials, machinery, and equipment for agriculture, livestock and industrial products of national origin..... 6 per cent per year.
 - b) Discount of drafts derived from exports of national products..... 7 per cent per year.
 - c) Credit for agriculture, livestock, fishing, industry and mining, and loans to the Government and public institutions for works of infrastructure..... 8 per cent per year.
 - d) Credit for the transportation, storage and trade of products of national origin, and the generation of electricity and other forms of energy..... 9 per cent per year.
 - e) Commercial and personal credit..... 12 per cent per year.
- IV) Rates of interest to be paid on deposits:
 - a) Savings accounts..... 3 per cent per year.
 - b) Several forms of time deposits.....up to 12 per cent per year.

In the case of loans financed with foreign funds, the rate of interest charged is determined in each case by the Central Bank, according to the cost of the funds. For this reason, an important part of agricultural credit is granted at rates higher than 8 per cent per year.

On the basis of these rules, the Juntas Rurales charge 8 per cent per year on all their loans. Before 1966, the rate of interest on agricultural credit was 6 per cent per year. In 1966 the Central Bank raised the rate for agricultural credit to 8 per cent, but did not raise the rate for the Juntas Rurales, which remained at 6 per cent per year. In 1967, however, this last rate was also raised to 8 per cent per year. Funds from the Chase Manhattan Bank were re-lent at a preferential rate of 5 per cent per year. The effective rate charged by the Juntas Rurales in all these cases was higher than the nominal rate, given that interest is collected in advance, usually at least three months in advance. Real rates of interest charged are somewhat lower, given an average rate of inflation of 2 to 3 per cent per year.

No commission fees or other fees are charged at the Juntas Rurales. Other bank offices charge a commission fee of 2 per cent for one time, as a payment for the expenses of the study previous to the loan. They also charge one per cent per year as a commission fee for the inspection of collateral and for the periodic control of the investment.

The effective cost of a loan to the borrower is thus lower in the case of the Juntas Rurales than in the case of the other bank branches. There is a subsidy implicit, which could be viewed as a preferential rate of interest. In addition, loans from the Juntas Rurales are exempt of the expenses necessary for the legal formalization of the transaction, which include Registry fees, stamps, lawyer fees, etc. At other branches a mortgage for \$ 1,500 costs about \$ 30, while a mortgage for \$ 15,000 costs about \$ 200 in legal fees.

8.06 Loan application

In the case of the Juntas Rurales the delegate and his assistant help the farmer to fill the necessary forms and to elaborate the investment plan. This service is not available, on a regular basis, at other bank branches. At these other offices, the borrower is requested to present accounting information and other data, adequately certified. In the case of the Juntas Rurales, the farmer is not requested these formal proofs and the Junta itself has to corroborate the veracity of the information.

In 1966 it was estimated that a Junta takes, on the average, between 15 and 75 days in order to authorize a loan. If there are complications, or if the case is special in some respect, it may take even longer. The time spent depends on the nature of the guarantee and on the knowledge about the client that the Junta may possess. The ranges presented in Table 42 were calculated during a period when funds were available, i.e. they do not reflect the waiting that is necessary when there are no funds available at the Junta or other bank branch.

Table 42

National Banking System: Time spent in authorizing a loan. 1966.

<u>Type of Collateral</u>	<u>Central office</u>	<u>Sucursal</u>	<u>Agencia</u>	<u>Junta Rural</u>
Cosigner	5 to 10	8 to 15	10 to 20	15 to 30 days
Chattel mortgage	8 to 30	15 to 30	20 to 30	20 to 30 days
Land mortgage	15 to 40	20 to 40	20 to 40	35 to 75 days

Source: El Crédito Agrícola en Costa Rica. Comité Interamericano de Desarrollo Agrícola. 1966.

The same study reported that variability is much greater in the case of the Juntas Rurales, with transactions taking in many cases much longer periods of time to be authorized. Delays occur in many instances because officials of the Junta, and not a lawyer, are in charge of the legal formalization of the transaction.

Loan applications are received all the time. The local board of the Junta meets twice a month and revises the applications that the delegate has completed. If the Junta does not have available funds, it nevertheless authorizes the loans, which are later disbursed, when funds become available, in strict chronological order. The volume of loans that have been so authorized at each point in time may be substantial. At October 20, 1963, the total amount authorized and not disbursed was \$ 2, 188,770.

Table 43 presents the number and amounts of transactions authorized by the Juntas, but not completed for lack of funds. At December 31st, 1971, the total amount of these transactions reached \$ 2, 174,760. This represented 1,753 loans. About 58 per cent of these loans were for livestock, while 42 per cent had been requested for agriculture. This "demand", as the BNCR calls it, was in turn allocated among domestic and foreign sources of funds. About 73 per cent of the total was assumed to be eventually satisfied with domestic funds, while 27 per cent was allocated to the various AID loans.

Table 43 also indicates that at the same date 703 loans, for the amount of \$ 829,454, were being processed. The same proportions of 58 and 42 per cent corresponded to livestock and agriculture, respectively, as was the case with loans authorized and not disbursed. This delay in the authorization and disbursement of funds has become an important rationing mechanism during periods of shortages of funds.

Table 43

Costa Rica: BNCR. Department of Rural Credit. Transactions Authorized and Not Disbursed and Applications at December 31st 1971. U. S. Dollars

<u>Type of Credit</u>	<u>Authorized</u>		<u>Applications</u>	
	Number	Amount	Number	Amount
Agriculture	922	911,500	357	343,305
Livestock	826	1,257,998	343	476,600
Industry	5	5,263	3	9,549
Foreign Funds	-	584,217	-	245,529
Domestic Funds	-	1,590,544	-	583,925
Total	1,753	2,174,761	703	476,600

Source: BNCR. Unpublished Records.

PERFORMANCE

9.01 Evaluation

The performance of the Juntas Rurales over a relatively long period of time was described in the previous sections. Special attention was devoted to the period 1937-1971 and, in particular, to the sub-period 1960-1971, as is also the case in this last section.

An evaluation of the performance of the Juntas Rurales as a means for providing small farmer credit is a difficult task. It involves, on the one hand, the choice of criteria to determine success or lack of success. It requires, on the other hand, the measurement of the relevant variables.

The criteria chosen for the evaluation should reflect the objectives of the program. However, these objectives are multiple and there is no indication about which weights to attach to each of them. Also, they are often vague and sometimes contradictory. Success in one area might automatically imply lack of success in another area. But even if it were clear which criteria are appropriate and unquestionable, the data required are not always available. Therefore, from the available information one has to derive, in an indirect fashion, more or less meaningful conclusions, while relying, at the same time, on casual observations and on intuitive perceptions about the values of some of the variables.

There is no doubt that, in general, the Juntas Rurales have been a rather successful program, particularly in comparison with other small farmer programs in less developed countries.

This success is more evident in terms of traditional banking objectives. Actually, as a banking operation the performance of the Juntas Rurales is almost impeccable. In terms of some less traditional objectives the influence of the Juntas Rurales has also been very beneficial, although they have not expanded their role to its fullest significance.

Undoubtedly, not all small farmers have been reached, and not always the sub-set of those reached has been close to an ideal target. In many other cases, those farmers reached by the program have shown no progress and it is likely that the same would have been the case with many of those that have not been reached. Nevertheless, many small Costa Rican farmers have had access to bank services which are not frequent in less developed countries and, in the absence of which, the rural sector would still be poorer.

Possibly, a larger set of small farmers would have been reached had more rational economic policies been followed by the relevant authorities, particularly with respect to rates of interest. Also, if efforts in other areas, specially technical assistance, would have been more systematic, the final impact of the availability of small farmer credit would have been more dramatic.

9.02 Repayment

A high volume of repayment is traditionally considered as a sign of success. It reflects, presumably, managerial efficiency as well as an adequate selection of borrowers. To the extent that a high level of repayment is a consequence of the success of the productive undertakings of the borrowers, and does not result from sales of assets, it is desirable. Not only does it permit the continuation of the program, but it also creates the discipline necessary for the permanent and successful use of credit on the part of the client.

In the case of the Juntas Rurales, the level of repayment has been very high. This was particularly true for the earlier sub-periods. Since their creation in 1914 and before the Depression of the 1930's, the Juntas experienced no loss due to defaults. Once the problems caused by the Depression were overcome, a high level of repayment was again maintained. For the sub-period 1937-1952 only 36 loans, totaling \$ 2,390, were not repaid.

After the Department of Rural Credit was separated from the Commercial Department of the BNCR, losses due to defaults have been somewhat higher, although still very limited, both in absolute and relative terms. For the years 1960-1969 the Income Statement of the Department of Rural Credit, presented in Table 44, indicates that such losses fluctuated between \$ 1,776 and \$ 8,852 per annum, during the decade. They represented between 1.11 and 0.16 per cent of the total expenses of the Department. This is an almost insignificant amount.

That the proportion of loans defaulted and accounted as losses be very small does not mean, however, that all loans are paid when they become due, or that partial amortizations and payments of interest occur on the dates indicated beforehand. Table 45 presents the number of loans for which there has been some delay in the payment of amortization or of interest.

About one fourth of all loans outstanding show some delay. However, more than half of the delays are for less than 30 days. The Department of Rural Credit considers that delays for less than 90 days are "normal" and that the amounts involved will be automatically collected in a short period of time. Once payment has been delayed for more than 90 days, the Department undertakes action that might eventually lead to judicial procedures and foreclosure.

Table 44

Costa Rica: BNCR. Department of Rural Credit. Income Statement. U.S. Dollars.

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
<u>Income</u>	516,956	633,472	766,178	878,897	947,701
Interest earned	515,600	632,861	765,382	878,394	945,323
Commission fees	166	142	68	-	-
Non-financial profits	1,191	469	727	503	2,378
<u>Expenses</u>	533,601	653,286	760,451	866,440	929,898
Interest paid	80,381	202,836	286,223	362,022	362,367
Commission fees	100,992	70,878	72,886	75,577	84,625
Administrative expenses	340,095	370,204	391,445	409,206	442,608
Losses due to default	5,932	3,085	2,435	4,408	3,172
Depreciation	6,194	6,281	7,462	7,710	7,803
Reserves	-	-	-	7,519	29,323
<u>Net profit or loss</u>	- 16,645	- 19,814	+ 5,727	+ 12,457	+ 17,803

(Continues....)

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Table 44 (Cont.)

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
<u>Income</u>	1,137,839	1,191,068	1,192,622	1,428,639	1,509,490
Interest earned	1,136,238	1,187,657	1,191,567	1,427,545	1,508,209
Commission fees	1,259	490	695	735	569
Non-financial profits	343	2,921	361	359	712
<u>Expenses</u>	1,114,174	1,145,323	1,145,619	1,346,582	1,460,897
Interest paid	428,227	442,491	454,128	479,084	471,219
Commission fees	115,557	121,903	129,156	151,727	151,212
Administrative expenses	488,166	506,798	523,079	635,156	732,681
Losses due to default	2,969	2,652	1,776	8,852	6,488
Depreciation	7,826	7,570	7,404	7,853	9,073
Reserves	71,429	63,910	30,075	63,910	90,226
<u>Net profit or loss</u>	+ 23,666	+ 45,745	+ 47,004	+ 82,057	+ 48,592

Source: BNCR. "Memoria Anual". Several years.

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Table 45

Costa Rica: BNCR. Department of Rural Credit. Number of loans outstanding with delays in the payment of amortization and/or interest. December 31st of each year.

<u>Delays</u>	<u>1968</u>	<u>1970</u>	<u>1971</u>	<u>1972</u> */
1 to 30 days	5,413	5,103	5,360	4,758
31 to 60 days	2,087	1,758	2,027	1,975
61 to 90 days	863	682	787	953
91 to 180 days	609	515	604	794
181 to 1 year	1,148 +/-	401	437	580
1 to 2 years		220	184	270
2 to 3 years		236	182	176
3 to 4 years		117	118	153
4 to 5 years		123	109	71
More than 5 years		167	159	193
Total delayed	10,120	9,322	9,967	9,950
Total on time	28,345	28,693	31,955	33,603
Total portfolio	38,465	38,015	41,922	43,553

*/ At June 30th.

+/- 181 days and more.

Sources: BNCR. "Memoria Anual" 1968. Unpublished records.

Table 46 presents the value of balances outstanding for which there has been some delay in the payment of amortizations or interest. About two-thirds of the value of such balances corresponds to those with delays in the payment of interest, while one-third corresponds to those that are delayed in the payment of amortizations or of both amortizations and interest. It seems that farmers are less cautious with regard to the payment of interest.

More than 70 per cent of the value of balances outstanding corresponds to transactions for which there is no delay. About 15 per cent of the value of such balances corresponds to transactions with delays of less than 30 days. Between 10 and 15 per cent of the value of the said balances corresponds to transactions with delays for more than 30 days and up to 5 years and more. Less than 3 per cent of the value, however, is represented by transactions delayed for more than one year.

Table 47 presents the actual value of the amortizations and interest payments not made on time. This value represents about 10 per cent of the value of the balances corresponding to delinquent transactions, and about 2.5 per cent of the total value of all balances outstanding.

Table 46

Costa Rica: BNCR. Department of Rural Credit. Value of balances outstanding corresponding to transactions with delays in amortizations and payment of interest. U.S. Dollars. December 31st of each year.

Delays	1960	%	1962	%	1968	%
1 to 30 days	1,368,245	13.74	2,237,484	15.08	3,218,159	15.19
31 to 60 days	513,834	5.16	891,137	6.01	1,218,248	5.75
61 to 90 days	183,699	1.84	393,609	2.65	532,180	2.51
91 to 180 days	155,887	1.57	408,479	2.75	363,481	1.72
181 to 1 year	161,311*	1.62	408,402*	2.75	690,374*	3.26
1 to 2 years						
2 to 3 years						
3 to 4 years						
4 to 5 years						
More than 5 years						
Total delayed	2,382,977	23.93	4,339,111	29.25	6,022,442	28.43
Total on time	7,576,245	76.07	10,497,093	70.75	15,160,777	71.57
Total portfolio	9,959,222	100.00	14,836,204	100.00	21,183,219	100.00

Delays	1969	%	1970	%	1971	%
1 to 30 days	3,287,524	14.46	3,359,103	13.25	3,750,875	12.86
31 to 60 days	1,098,600	4.83	1,145,364	4.52	1,417,649	4.86
61 to 90 days	575,970	2.53	481,149	1.89	642,656	2.20
91 to 180 days	420,171	1.85	410,952	1.62	422,839	1.45
181 to 1 year	301,579	1.33	222,684	0.87	320,664	1.10
1 to 2 years	203,693	0.90	148,089	0.58	113,156	1.39
2 to 3 years	109,080	0.48	115,064	0.45	61,321	0.21
3 to 4 years	76,124	0.33	78,072	0.30	62,441	0.21
4 to 5 years	47,884	0.21	48,521	0.19	65,422	0.23
More than 5 years	55,489	0.24	89,428	0.35	75,016	0.26
Total delayed	6,176,115	27.17	6,098,426	24.06	6,932,038	23.77
Total on time	16,558,008	72.83	19,239,518	75.93	22,225,160	76.23
Total portfolio	22,734,124	100.00	25,337,945	100.00	29,157,198	100.00

Source: BNCR. "Memoria Anual". Several Years. Unpublished records.

* More than 180 days.

Table 47

Costa Rica: BNCR. Department of Rural Credit. Value of amortizations and interest payments not made on time. December 31st of each year. U.S. Dollars.

<u>Delays</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972 * /</u>
1 to 30 days	185,623	236,935	242,471	263,971
31 to 60 days	68,321	79,870	128,583	124,623
61 to 90 days	32,350	57,596	68,850	63,175
91 to 180 days	85,534	64,681	78,208	74,215
181 to 1 year	50,581	55,083	47,617	67,658
1 to 2 years	53,356	28,159	43,977	57,876
2 to 3 years	49,843	31,025	22,847	34,961
3 to 4 years	28,531	14,556	19,716	36,121
4 to 5 years	24,794	16,522	35,822	15,868
More than 5 years	25,267	24,140	27,839	47,608
Total delayed	604,201	608,568	715,933	786,113

Source: BNCR. Unpublished records.

The high level of repayment enjoyed by the Juntas Rurales reflects both desirable and undesirable characteristics of the process of selection of borrowers. A desirable feature is the use of "inside information" possessed by the members of a local board about the credit-worthiness of fellow farmers who are potential bank clients.

The importance of this feature -the use of local knowledge- cannot be overemphasized, although it is impossible to quantify its influence. There have been, in other countries, numerous instances of active but unsuccessful urban bank officials who have attempted to administer rural credit operations. In almost every case they have found that the information requirements for successful transactions with rural borrowers have been unmanageable.

The Department of Rural Credit, with the help of the local boards, has been able to select borrowers on the basis of intimate personal knowledge of the client and of the circumstances which affect his capacity for repayment. Given this careful selection, the level of repayment has been very high.

On the other hand, the selection of borrowers has been frequently based on strict collateral requirements. Rather than a decisive factor, these might have been redundant, except to the extent that the farmers might have been more eager to pay than otherwise, in order not to lose their assets. However, to the extent that such has been the case, it reflects the high value of those assets, given their potentially high productivity, as well as the high value of the credit which permits the use of those assets.

Given the high value of subsidized credit, relatively guaranteed for those who are regular clients of the Juntas Rurales, these beneficiaries have found uneconomic not to repay their loans. The fact that more or less the same set of farmers appear as clients of the Juntas year after year indicates, to some extent, that these farmers have been able to maintain their production at a level that at least permits repayment and that makes defaulting undesirable.

The high level of repayment is also a consequence of the high frequency of extensions of terms and of renewals of loans. Before using judicial means for the collection of delinquent loans the Juntas Rurales employ all means at their disposal to obtain repayment or a satisfactory arrangement of the payment schedule.

A varied set of circumstances are used as excuses for the extensions. Most frequent are delays in the marketing of the crops. Unforeseen circumstances such as illness, plagues, draught, floods, as well as reductions in prices are also argued.

Extensions of the term also result from the practice followed in general by the banks of granting credit on a short term basis, with the idea of subsequently extending the term. The Juntas thus authorize loans for one year, in cases where the nature of the investment requires medium term credit, with the intention of renewing them. The objectives are to generate a document which the BNCR may rediscount at the Central Bank, as well as the closer supervision of the guarantee implied in the revision of the term.

The practice of renewals is undesirable to the extent that it prevents farmers from planning on a longer horizon, and to the extent that it temporarily freezes an important proportion of the portfolio of the Juntas. However, the flexibility that it permits when circumstances make repayment difficult is desirable.

The Juntas Rurales have managed very successfully to let the farmer know that repayment is expected and that judicial procedures will follow if this is not the case, while on the other hand they have been in the position to adjust the burden for farmers unable to repay due to circumstances outside of their control. Farmers have found that this chance to repay is valuable and eventually most loans have been collected.

9.03 Profits and losses.

Emphasis on collateral as a means of selecting borrowers reflects the risk aversion of the nationalized banks. A reduction in losses due to default is indeed one of the few mechanisms that bank managers have at their disposal in order to reduce costs. This emphasis on collateral was presumably accentuated because of the low rates of interest that the Juntas Rurales and banks in general were

allowed by Central Bank regulations to charge on their loans and which in the case of the Juntas Rurales did not cover the costs of providing small farmer credit.

Table 48 presents the accounting losses and profits reported for the Department of Rural Credit of the BNCR. Between 1940 and 1961 the small farmer credit program of the BNCR, organized in various ways, showed losses which fluctuated between \$ 11,341 and \$ 72,710 per year. No profit was ever reported during this period. After 1962, the Department has produced a profit every year, which reached a peak of \$ 82,057 in 1968. This profit, however, is an illusion, at least to the extent that several costs and expenses necessary for the functioning of the Department are not included in the Income Statements reported in Table 44.

There are several services provided by the BNCR to its four departments, a proportion of which is not included as a cost for the Department of Rural Credit. These services include the expenses of the General Board of Directors, Auditor, Manager's office, Legal Section, etc., as well as equipment located at the central office in San José, such as a computer. If all these costs were taken into account, most of the time the Juntas would report a loss instead of a profit. Although no one has calculated these additional costs, the consensus among students of the Juntas Rurales is that, without these subsidies, the income of the Juntas would not cover their costs.

Some officials have argued that these subsidies are justified given the social objectives of the Juntas Rurales. The fact that the Juntas do not cover their costs implies, however, that less resources are allocated to them than would otherwise be the case. It is quite likely that differences in cost functions among departments have affected the size of the loan from the Commercial Department of the BNCR to the Department of Rural Credit.

It is true that the tendency to concentrate resources at the central office, examined in a previous section, which results from attempts by the banks to minimize costs under a set of complicated constraints, is very much compensated to the extent that the Department of Rural Credit has its own separate capital and sources of funds, specifically earmarked for small farmers. But the tendency towards concentration is still present and influences the geographical allocation of funds among the various Juntas as well as causing the stagnation of the loan from the Commercial Department.

The tendency of banks to reduce certain costs is also reflected in the stagnation in the number of loans authorized by the Juntas Rurales, ever since 1952. The total costs of processing a loan are more or less the same for all loans, irrespective of their size. By maintaining the number of loans authorized stagnant, the Juntas Rurales have been able to greatly diminish the rate of growth of the costs of granting credit.

Table 48

Costa Rica: BNCR. Department of Rural Credit. Annual Profits or Losses. U.S. Dollars. 1940-1969.

<u>Year</u>	<u>Profit or loss</u>	<u>As percentage of balances outstanding</u>	<u>As percentage of credit given out</u>	<u>As percentage of income (expenses)</u>	
1940	- 11,341	3.93	4.36		
1941	- 11,887	3.27	3.80		
1942	- 14,446	3.24	3.89		
1943	- 22,477	3.88	4.67		
1944	- 22,649	2.85	3.39		
1945	- 26,220	2.81	3.54		
1946	- 25,309	2.12	2.38		
1947	- 38,286	2.56	2.89		
1948	- 47,252	2.73	3.38		
1949	- 54,803	2.51	2.61		
1950	- 25,396	0.82	1.00		
1951	- 30,214	0.79	0.95		
1952	- 64,986	1.45	1.76		
1953	- 68,001	1.41	1.90		
1954	- 72,710	1.39	2.00		
1955	- 62,181	1.05	1.58		
1956	- 53,641	0.78	1.17		
1957	- 37,942	0.54	0.86		
1958	n.a.	n.a.	n.a.		
1959	n.a.	n.a.	n.a.		
1960	- 16,645	0.17	0.25	3.22	(3.12)
1961	- 19,814	0.17	0.32	3.13	(3.03)
1962	+ 5,727	0.04	0.06	0.75	(0.75)
1963	+ 12,457	0.08	0.17	1.42	(1.44)
1964	+ 17,803	0.10	0.20	1.88	(1.91)
1965	+ 23,666	0.11	0.22	2.08	(2.12)
1966	+ 45,745	0.23	0.74	3.84	(3.99)
1967	+ 47,004	0.22	0.49	3.94	(4.10)
1968	+ 82,056	0.39	0.94	5.74	(6.09)
1969	+ 48,592	0.21	0.52	3.22	(3.33)

Sources: Luis Echeverría. Opus cit.
BNCR. "Memoria Anual". 1960-1969.

By lending to the same set of farmers year after year, the Juntas Rurales have been able to reduce risks and costs of information. The change in the structure of their portfolio from short term to medium term loans also implies reductions in the cost of granting credit.

With a given number of borrowers and a growing portfolio, rapidly enlarged by inflows of foreign funds, the average size of loan has steadily increased. Costs basically fixed per loan and larger loans have resulted in reduced costs per dollar loaned. All these factors have influenced the change of profitability in the operation of the Juntas Rurales.

The stagnation in the number of borrowers and the increase in the average size of loan contradict, however, some of the less traditional criteria for success, criteria based on the social as well as the economic objectives of the program. The BNCR has, of course, merely reacted to policies imposed by the Central Bank and to rules contained in banking legislation. Nevertheless, given the independent status of the Department, an important group of relatively small farmers have been serviced. If higher rates of interest could be charged by the Juntas Rurales, which covered the higher costs of providing small farmer credit, the developments described here would become less accentuated.

9.04 Economic impact

A complete evaluation of the performance of the Juntas Rurales should include an analysis of the impact of their operations on total output, productivity levels, resource allocation, farmers' income and its distribution. The information available does not permit such an analysis, given time and resources allowed for the study. Some facts which indicate apparent trends will be reported here.

The Juntas Rurales lend for agriculture, livestock and industry. Table 49 presents the amounts of credit given out for these three activities. Livestock received 59.22 per cent of the volume of credit given out during the sub-period 1962-1971; agriculture received 38.75 per cent of that total, while the importance of loans for industry was minimal.

The most important development was the steady increase in the relative importance of credit for livestock. In 1950 this type of credit represented 28.41 per cent of the total, while in 1971 it represented 67.36 per cent. Despite some changes in definition, the structural change is very substantial.

On the other hand, the importance of credit for agriculture diminished from 50.67 per cent in 1950, to 32.32 per cent in 1971. This change in the structure of credit according to the activity financed is also reflected in the figures for the balances outstanding contained in Table 50.

Table 49

Costa Rica: BNCR. Department of Rural Credit. Credit given out during the year, according to activity financed. U.S. Dollars.

<u>Year</u>	<u>Agriculture</u>	<u>%</u>	<u>Livestock</u>	<u>%</u>	<u>Industry</u>	<u>%</u>
1943	201,053	45.06	148,271	33.23	96,842	21.71
1950	1,292,932	50.67	724,962	28.41	533,684	20.92
1955	1,813,985	45.54	918,797	23.06	1,250,827	31.40
1960	3,141,353	47.75	3,318,647	50.45	118,496	1.80
1961	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1962	4,165,633	49.01	4,207,647	49.51	124,886	1.47
1963	3,260,302	45.13	3,877,350	53.68	85,533	1.18
1964	3,728,497	42.03	5,053,983	56.98	87,790	0.99
1965	4,293,833	40.18	6,294,242	58.89	99,199	0.93
1966	3,205,240	52.08	2,893,948	47.02	55,283	0.90
1967	3,753,641	38.80	5,874,094	60.73	45,046	0.47
1968	3,301,252	37.94	5,270,029	60.57	128,989	1.48
1969	2,864,427	30.86	6,380,587	68.74	37,704	0.41
1970	3,357,143	32.38	n.a.	n.a.	n.a.	n.a.
1971	5,050,813	32.32	10,526,860	67.36	50,917	0.33

Number of plans

1962	12,125	59.18	8,033	39.21	330	1.61
1963	9,048	54.91	7,231	43.89	198	1.20
1964	9,797	52.95	8,490	45.89	214	1.16
1965	10,860	51.41	10,055	47.60	210	0.99
1966	8,853	63.93	4,892	35.33	82	0.59
1967	10,116	54.26	8,427	45.20	102	0.55
1971	9,187	44.76	11,271	54.91	68	0.33

Average size per plan

1962	343.56		523.80		378.44
1963	360.33		536.21		431.98
1964	380.58		595.29		410.23
1965	395.38		625.98		472.38
1966	362.05		591.57		647.19
1967	371.06		697.06		441.63
1971	549.78		933.98		748.79

Source: BNCR. "Memoria Anual". Several years. Central Bank. Op. cit.

Table 50

Costa Rica: BNCR. Department of Rural Credit. Balances outstanding at December 31st, according to activity financed. U.S. Dollars.

<u>Year</u>	<u>Agriculture</u>	<u>%</u>	<u>Livestock</u>	<u>%</u>	<u>Industry</u>	<u>%</u>
1955	3,356,391	56.93	2,412,782	40.93	126,316	2.14
1961	5,332,932	46.28	5,893,684	51.15	295,639	2.57
1965	8,283,008	39.99	12,124,060	58.53	305,564	1.48
1966	8,032,932	41.08	11,247,669	57.52	273,684	1.40
1967	7,904,361	37.73	12,810,075	61.15	233,985	1.12
1968	6,997,499	33.03	13,749,489	64.91	436,230	2.06
1969	6,396,595	28.14	15,553,348	68.41	784,180	3.45
1970	6,608,334	26.08	17,553,852	69.28	1,175,760	4.64
1971	7,903,020	27.11	21,090,535	72.34	163,645	0.56
1972*	9,636,968	30.10	22,234,064	69.44	147,166	0.46

* At June 30th.

Source: BNCR. Unpublished records.

Between 1962 and 1971 the amount of credit given out for agriculture grew at an average annual rate of 1.29 per cent while the amount of credit given out for livestock grew at an average annual rate of 10.73 per cent. This growth reflects several developments. On the one hand, there was a growing market for meat. On the other hand, cattle constitutes a very desirable chattel mortgage in the eyes of bank officials. Finally, requirements of the earlier AID loans to lend only on a medium and long term basis were satisfied by lending for livestock. To the extent that the structural change is due to the last two reasons, this is an unfavorable development and possibly implies over-investment in livestock vis-a-vis crops. In the second best world in which the development took place it is not possible, however, to derive a priori a definite conclusion regarding the advantages and disadvantages of it.

The change in structure was also accompanied by the increase in the average size of loan. The two developments are linked, since the average size of a loan for livestock is about twice that of a loan for agriculture.

Tables 51 through 54 show the amounts of credit given out each year for some of the most important crops, as well as their relative importance. In terms of the amounts financed, the most favored crops have been rice and coffee. These two crops were also favored in general by the National Banking System but, particularly in the case of coffee, their importance within the Juntas Rurales was smaller than in the case of the commercial departments. Meat -beef- was the most favored livestock activity. In this case, the concentration of credit is greater than for the whole System.

Table 51

Costa Rica: BNCR. Department of Rural Credit. Amounts of credit given out during the year, according to crop financed. U.S. Dollars.

<u>Year</u>	<u>Rice</u>	<u>Beans</u>	<u>Corn</u>	<u>Tobacco</u>	<u>Cotton</u>	<u>Jute</u>	<u>Sorgum</u>	<u>Onion</u>
1937	7,233	3,468	4,006	1,864	n.a.	n.a.	n.a.	n.a.
1943	36,390	8,421	57,774	44,812	n.a.	n.a.	n.a.	n.a.
1950	328,872	104,211	347,970	47,368	n.a.	n.a.	n.a.	n.a.
1952	505,695	100,057	503,717	54,114	n.a.	n.a.	n.a.	n.a.
1953	521,952	91,785	386,370	63,618	n.a.	n.a.	n.a.	n.a.
1954	508,850	52,788	378,875	50,144	n.a.	n.a.	n.a.	n.a.
1955	522,105	84,962	359,399	76,842	n.a.	n.a.	n.a.	n.a.
1956	718,209	85,642	367,666	94,695	n.a.	n.a.	n.a.	n.a.
1960	761,136	89,221	312,189	108,121	n.a.	n.a.	n.a.	n.a.
1962	923,703	86,683	295,210	153,763	-	n.a.	n.a.	33,083
1963	648,211	53,474	234,917	108,903	n.a.	10,068	3,459	36,865
1964	604,122	40,085	264,494	140,492	4,962	n.a.	10,586	24,677
1965	759,295	78,757	278,249	191,861	29,639	18,263	21,977	39,358
1966	965,798	72,383	327,601	204,707	65,654	21,767	32,609	38,263
1967	1,209,864	68,474	522,338	233,708	44,511	5,346	52,214	43,241
1968	1,035,940	72,180	381,053	286,767	28,571	15,446	13,353	46,107
1969	775,789	22,256	260,451	175,338	8,271	7,519	6,917	n.a.
1970	865,714	225,714	213,233	122,406	-	7,820	5,714	n.a.
1971	1,283,141	193,101	531,420	102,556	-	11,529	451	n.a.
						14,180	17,023	n.a.

(Continues.....)

1960

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Table 51 (Cont.)

<u>Year</u>	<u>Coffee</u>	<u>Sugarcane</u>	<u>Cacao</u>	<u>Pineapple</u>	<u>Plantain</u>	<u>Potatoes</u>	<u>Tomatoes</u>	<u>Fruits</u>
1937	1,091	211	n.a.	n.a.	n.a.	60	n.a.	n.a.
1943	16,842	7,368	n.a.	n.a.	n.a.	12,481	n.a.	n.a.
1950	174,023	47,218	n.a.	n.a.	n.a.	117,293	n.a.	n.a.
1952	269,672	89,989	n.a.	n.a.	n.a.	138,460	n.a.	1,550
1953	223,447	50,956	n.a.	n.a.	n.a.	126,875	n.a.	331
1954	285,218	37,627	n.a.	n.a.	n.a.	137,208	n.a.	301
1955	276,842	56,541	n.a.	n.a.	n.a.	134,286	n.a.	526
1956	195,794	23,485	n.a.	n.a.	n.a.	143,632	n.a.	n.a.
1960	226,534	88,872	69,223	n.a.	n.a.	75,098	22,105	n.a.
1962	1,184,270	390,601	21,732	21,630	6,173	70,165	27,086	10,346
1963	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	25,759	n.a.
1964	954,839	528,513	10,412	8,693	19,427	68,468	34,723	17,015
1965	1,199,474	449,508	16,767	13,486	23,440	75,339	43,835	12,722
1966	498,641	234,063	3,860	11,078	29,078	84,751	57,417	9,820
1967	426,708	169,838	8,033	18,504	49,075	129,241	81,684	13,744
1968	400,150	147,970	5,263	11,880	37,444	n.a.	n.a.	14,286
1969	476,541	266,917	9,474	23,331	42,947	n.a.	n.a.	28,421
1970	770,977	327,368	10,376	11,729	39,549	n.a.	n.a.	16,692
1971	1,162,979	388,900	13,101	17,195	109,169	n.a.	n.a.	14,451

Sources: BNCR. "Memoria Anual". Several years.
Central Bank. Unpublished records.

Table 52

Costa Rica: BNCR. Department of Rural Credit. Amounts of credit given out for livestock and relative importance with respect to the total amount given out. U.S. Dollars.

<u>Year</u>	<u>Beef</u>	<u>%</u>	<u>Dairy</u>	<u>%</u>	<u>Pork</u>	<u>%</u>	<u>Chicken</u>	<u>%</u>
1937	2,665	12.20	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1943	48,852	10.95	70,526	15.81	1,645	0.37	n.a.	n.a.
1950	184,511	7.23	383,008	15.01	4,060	0.16	n.a.	n.a.
1952	314,777	8.50	61,788	n.a.	n.a.	n.a.	n.a.	n.a.
1953	348,603	9.73	62,716	n.a.	n.a.	n.a.	n.a.	n.a.
1954	278,890	7.66	80,544	n.a.	n.a.	n.a.	n.a.	n.a.
1955	335,188	8.41	414,135	10.40	6,165	0.15	n.a.	n.a.
1960	2,030,507	n.a.	382,105	4.29	18,195	0.28	n.a.	n.a.
1962	3,077,305	35.74	696,655	8.20	92,458	1.09	117,485	2.02
1963	3,161,548	43.77	596,414	8.26	91,088	1.26	346,750	4.80
1964	3,888,126	43.83	865,630	9.76	169,082	1.91	114,128	1.29
1965	5,166,883	48.34	853,254	7.98	103,170	0.97	130,981	1.23
1966	2,440,576	39.66	41,677	0.39	19,861	0.32	90,187	1.47
1967	5,015,931	57.86	741,883	7.67	35,209	0.36	76,183	0.79
1968	4,482,550	51.52	597,654	6.87	22,992	0.26	565,574	6.50
1969	5,759,203	62.04	527,835	5.69	37,007	0.40	56,541	0.61
1970	6,223,218	60.03	608,301	5.87	38,617	0.37	126,692	1.22
1971	8,535,639	54.62	1,716,617	10.98	107,714	0.69	162,453	1.04

Sources: BNCR. "Memoria Anual". Several years.
Central Bank. Unpublished records.

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Table 53

Costa Rica: BNCR. Department of Rural Credit. Relative importance of credit for various crops with respect to the total amounts given out per year.

<u>Year</u>	<u>Rice</u>	<u>Beans</u>	<u>Corn</u>	<u>Tobacco</u>	<u>Cotton</u>	<u>Jute</u>	<u>Sorghum</u>	<u>Onion</u>
1937	33.11	15.87	18.34	8.53	n.a.	n.a.	n.a.	n.a.
1943	8.16	1.89	12.95	10.04	n.a.	n.a.	n.a.	n.a.
1950	12.89	4.08	13.64	1.86	n.a.	n.a.	n.a.	n.a.
1952	13.66	2.70	13.60	1.46	n.a.	n.a.	n.a.	n.a.
1953	14.57	2.56	10.78	1.78	n.a.	n.a.	n.a.	n.a.
1954	13.97	1.45	10.40	1.38	n.a.	n.a.	n.a.	n.a.
1955	15.62	2.13	9.02	4.24	n.a.	n.a.	n.a.	n.a.
1956	15.66	1.87	8.02	2.07	n.a.	n.a.	n.a.	n.a.
1960	11.57	1.36	4.75	1.64	n.a.	n.a.	n.a.	0.50
1962	10.87	1.02	3.47	1.81	-	0.12	0.04	0.43
1963	8.97	0.74	3.25	1.51	n.a.	n.a.	n.a.	n.a.
1964	6.81	0.45	2.98	1.58	0.06	0.21	0.25	0.44
1965	7.10	0.74	2.60	1.80	0.28	0.20	0.31	0.36
1966	15.69	1.18	5.32	3.33	1.07	0.09	0.85	0.70
1967	12.51	0.71	5.40	2.42	0.46	0.16	0.14	0.48
1968	11.91	0.83	4.38	3.30	0.33	0.09	0.08	n.a.
1969	8.36	0.24	2.81	1.89	0.09	0.08	0.06	n.a.
1970	8.35	2.18	2.06	1.18	-	0.11	-	n.a.
1971	8.21	1.24	3.39	0.66	-	0.09	0.11	n.a.

<u>Year</u>	<u>Coffee</u>	<u>Cacao</u>	<u>Sugar cane</u>	<u>Pineapple</u>	<u>Plantain</u>	<u>Potatoes</u>	<u>Tomatoes</u>	<u>Fruits</u>
1937	4.99	n.a.	0.96	n.a.	n.a.	0.28	n.a.	n.a.
1943	3.77	n.a.	1.65	n.a.	n.a.	2.80	n.a.	n.a.
1950	5.76	n.a.	1.85	n.a.	n.a.	4.60	n.a.	n.a.
1952	7.28	n.a.	2.43	n.a.	n.a.	3.74	n.a.	n.a.
1953	6.24	n.a.	1.42	n.a.	n.a.	3.54	n.a.	n.a.
1954	7.83	n.a.	1.03	n.a.	n.a.	3.77	n.a.	n.a.
1955	6.95	n.a.	1.44	n.a.	n.a.	3.37	n.a.	n.a.
1956	4.27	n.a.	0.51	n.a.	n.a.	3.13	n.a.	n.a.
1960	3.44	1.05	1.35	n.a.	n.a.	1.14	0.34	n.a.
1962	13.94	0.26	4.60	0.25	0.07	0.83	0.32	n.a.
1963	n.a.	0.11	0.43	0.02	n.a.	n.a.	n.a.	n.a.
1964	10.76	0.12	5.96	0.10	0.22	0.77	0.39	0.19
1965	11.22	0.16	4.21	0.13	0.22	1.75	0.41	0.12
1966	8.10	0.06	3.80	0.18	0.47	1.38	0.93	0.16
1967	4.41	0.08	1.76	0.19	0.51	1.34	0.84	0.14
1968	4.60	0.06	1.70	0.14	0.43	n.a.	n.a.	0.16
1969	5.13	0.10	2.88	0.25	0.46	n.a.	n.a.	0.31
1970	7.44	0.10	3.16	0.11	0.38	n.a.	n.a.	0.16
1971	7.44	0.08	2.49	0.11	0.70	n.a.	n.a.	0.09

Sources: Same as in Table 51.

Table 54

Costa Rica: BNCR. Department of Rural Credit. Credit to crops as percentage of credit given out to agriculture.

<u>Year</u>	<u>Rice</u>	<u>Beans</u>	<u>Corn</u>	<u>Tobac- co</u>	<u>Cot- ton</u>	<u>Jute</u>	<u>Sor- ghum</u>	<u>Onion</u>
1937	35.12	16.84	19.45	9.05	n.a.	n.a.	n.a.	n.a.
1943	18.10	4.19	28.74	22.29	n.a.	n.a.	n.a.	n.a.
1950	25.44	8.06	26.91	3.66	n.a.	n.a.	n.a.	n.a.
1955	34.29	4.68	19.81	1.93	n.a.	n.a.	n.a.	n.a.
1960	24.23	2.84	9.94	3.44	n.a.	n.a.	n.a.	1.05
1962	22.17	2.08	7.09	3.69	-	0.24	0.08	0.88
1963	19.88	1.64	7.21	3.34	n.a.	n.a.	n.a.	n.a.
1964	16.20	1.08	7.09	3.77	0.13	0.49	0.59	1.06
1965	17.68	1.83	6.48	4.47	0.69	0.51	0.76	0.89
1966	30.13	2.26	10.22	6.39	2.05	0.17	1.63	1.35
1967	32.23	1.83	13.92	6.23	1.19	0.41	0.36	1.23
1968	31.48	2.19	11.54	8.69	0.87	0.23	0.21	n.a.
1969	27.08	0.78	9.09	6.12	0.29	0.27	0.20	n.a.
1970	25.79	6.32	6.35	3.65	-	0.34	0.01	n.a.
1971	25.40	3.82	10.52	2.03	-	0.28	0.34	n.a.

<u>Year</u>	<u>Coffee</u>	<u>Cacao</u>	<u>Sugar cane</u>	<u>Pine- apple</u>	<u>Plant- ain</u>	<u>Pota- toes</u>	<u>Toma- toes</u>	<u>Fruits</u>
1937	5.30	n.a.	1.02	n.a.	n.a.	0.29	n.a.	n.a.
1943	8.38	n.a.	3.66	n.a.	n.a.	6.21	n.a.	n.a.
1950	11.37	n.a.	3.65	n.a.	n.a.	9.07	n.a.	n.a.
1955	15.26	n.a.	3.12	n.a.	n.a.	7.40	n.a.	n.a.
1960	7.21	2.21	2.82	n.a.	n.a.	2.39	0.70	n.a.
1962	28.43	0.52	9.38	0.52	0.15	1.68	0.65	n.a.
1963	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1964	25.61	0.28	14.17	0.23	0.52	1.84	0.93	0.46
1965	27.93	0.39	10.47	0.31	0.55	0.70	1.02	0.30
1966	15.56	0.12	7.30	0.35	0.91	2.64	1.79	n.a.
1967	11.37	0.21	4.52	0.49	1.31	3.44	2.18	0.37
1968	12.12	0.16	4.48	0.36	1.13	n.a.	n.a.	0.43
1969	16.64	0.33	9.32	0.81	1.50	n.a.	n.a.	0.99
1970	22.97	0.31	9.75	0.35	1.18	n.a.	n.a.	n.a.
1971	23.03	0.26	7.70	0.34	2.16	n.a.	n.a.	0.29

Sources : The same as in Table 51.

The amounts loaned for rice represented between 6.81 and 33.11 per cent of the total of credit given out and between 16.20 and 35.12 of the amount of credit for agriculture given out each year. During the decade of the 1960's the Juntas made about 2,000 loans for rice per year, with an average size of loan which increased from \$ 374 in 1964 to \$ 915 in 1971. About 10,000 hectares of rice were financed each year, mostly on a short term basis.

The amounts loaned for coffee represented between 3.44 and 11.22 per cent of the total amount of credit and between 5.30 and 28.43 per cent of the amount of credit for agriculture. About 1,500 loans for coffee were made per year during the 1960's. These loans had an average size of about \$ 700 and most of them were medium term loans.

A relatively large number of loans, about 2,000 per year, were granted for corn, with an average size of about \$ 200. Credit for this crop represented between 2.06 and 18.34 per cent of the total given out and between 6.35 and 28.74 per cent of the total for agriculture. Loans for beans were less numerous and of smaller size, while loans for tobacco, although of small size as well, were numerous, averaging about 1,000 per year.

The number of loans for sugar cane diminished during recent years, while during some of these years the average size of loan surpassed \$ 1,000. Credit for corn, beans and tobacco was basically short term credit, while credit for sugar cane was mostly medium term. This was also the case with cacao, for which a very small number of loans were granted.

Potatoes were a crop relatively more favored in the past. Plantains, pineapples and other fruits, on the other hand, have recently increased their importance.

The most striking growth is that of the amount of credit for beef. In 1950 it represented 7.23 per cent of the total given out, while in 1969 it represented 62.04 per cent of that total. In 1971 \$ 8,535,639 were given out for this activity.

The list of crops financed is relatively long, with many crops not reported here being granted very small amounts of credit. In general, however, the Juntas Rurales have loaned, year after year, for the same products, in more or less the same proportions. Also, there has been a tendency to concentrate credit on crops well known to the Juntas, for which they have considerable experience. Innovation and risk taking have been usually avoided. Again, it could be claimed that the low rate of interest charge has discouraged a more aggressive allocation of credit by the Juntas Rurales.

The evidence concerning the impact of credit from the Juntas Rurales on the process of change of technical practices and on productivity is very scarce and not conclusive. A few studies have tentatively concluded that the impact has been minimal.

In several instances it has been asserted that small farmers borrowing from the Juntas Rurales have remained stagnant, producing the same crops, with the same technology, in order to generate the same level of income. These assertions are frequently made on the basis of casual observations, but there is possibly some truth in them. Basically, the Juntas Rurales have not been, per se, an instrument for change. They have not provided any technical assistance of importance. The conservative attitude which characterizes the National Banking System has influenced how they allocated funds.

Nevertheless, the absence of technical change in many sectors of Costa Rican agriculture need not be blamed on the Juntas Rurales. Even though, in a second best world, the Juntas Rurales could have played a more active role in the area of technical assistance, they did not have a comparative advantage in this area, and other institutions had been entrusted with these responsibilities.

The presence of the Juntas Rurales, on the other hand, and the accessibility to credit which they permitted to an important group of small farmers, might have been instrumental in allowing, at least, some of the changes that did take place during the period and which might have been abortive in their absence.

Although the Juntas Rurales have not, in general, been as aggressive a program of small farmer credit as one would have desired. They have, however, rendered very valuable services to the rural sector of Costa Rica. If these services have not induced a more dynamic transformation of that sector, more than the fault of the Juntas Rurales, this reflects wrong monetary policies and the absence of systematic efforts in other areas.