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**The Cooperative System
in
Costa Rica**

**Cooperative Financing Study
Consultant Report**

prepared by

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for

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A. INTRODUCTION

USAID/Costa Rica requested Agricultural Cooperative Development International to analyze the present situation of the cooperative system in Costa Rica, and the possibilities of its development and consolidation in the coming years. Special interest existed in the mechanisms being used by the cooperatives to finance their activities.

In order to accomplish the objectives of the study, as defined in the terms of reference (see Annex A), the team members devoted part of their time visiting as many cooperative institutions as was possible. Emphasis was given on those visits to the secondary level institutions of the cooperative sector, as well as the most relevant leaders presently active in the operation and planning of cooperative activities. A list of the institutions visited is attached as Annex B.

Many documents were reviewed by the team members including general economic information on Costa Rica, legal background for banking and cooperative operations, and specific reports and materials related to the institutions visited.

General findings and recommendations do not represent or express the views or positions of the contracting agencies involved; they are the sole responsibility of the team members, who are the authors of this report.

We wish to express our gratitude to all people and institutions visited for their kind cooperation and friendly reception which made it possible for us to have a pleasant and productive stay. We hope this report will serve the purpose of cooperative enhancement for the benefit of the Republic of Costa Rica.

San Jose, Costa Rica, August 31, 1982.

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B. SUMMARY AND RECOMMENDATIONS

This report presents a general overview of the cooperative system in Costa Rica, its finance potential, and prospects for its growth and consolidation as one of the best alternatives for the organization and development of economic activities which will benefit the whole country.

These are some of the most important findings of the study, followed by a series of recommendations which, if adopted, will hopefully contribute to the transformation of the cooperative system into the most dynamic economic enterprise, and the most relevant social organization.

1. Findings

- 1.1 The law considers cooperative associations as one of the most effective means for the country's development, and it provides for their access to the financial and credit resources at all levels, involving in this process the government banking system and INFOCOOP.
- 1.2 The law establishes that INFOCOOP shall operate as a cooperative development institution which has financial as well as other objectives aimed at the institution building of cooperatives.
- 1.3 The law does not specify which cooperatives should receive financing from INFOCOOP or other sources, but its limited funding prevents the institute from serving the secondary level cooperatives which have already advanced past the initial stages of organization.
- 1.4 The government banking system, which provides over half of the cooperatives' funding, considers these institutions as INFOCOOP's clientele, and does not generally understand and accept their role in cooperative financing.
- 1.5 It was not possible, with the existing information, to determine the credit granted to cooperatives (as corporate entities). Their financing is included in the portfolio of the government commercial banks, classified under agriculture, livestock, etc., in accordance with the activity sector of the investment plan.

The figures given on the survey carried out by INFOCOOP show that this institute has a relatively low share (9.6%) in the overall credit that is granted to the cooperatives.

- 1.6 The cooperatives receive treatment similar to that received by private enterprises insofar as the processing of credit at the commercial banks is concerned. They do not receive preferential treatment in this regard, or in the matter of rates of interest.
- A general feeling among some members and leaders of the cooperative movement is that, in order to be able to carry out a greater role in development, for which credit is necessary, it is essential to have a financing institution that is imbued with the philosophy of the cooperative movement, understands its problems, and has the capability to handle the demand for credit by cooperatives.
- 1.7 The analysis of the credit program for the year 1982 shows that the agricultural/livestock sector is considered of top importance, since 77 percent of the total resources is allocated to it. Cooperatives in Costa Rica are largely involved in agriculture and livestock, and they are directly or indirectly benefited by these allocations from the credit program.
- 1.8 Twenty percent of the Costa Rican active population belongs to a cooperative organization, and at least one third of the 175,000 members is directly involved in productive activities whether urban or rural.
- 1.9 Membership in cooperatives is highest in credit unions (47%) followed by multiple service cooperatives (17.7%) and agricultural cooperatives (13.6%). Because credit unions and multiple service cooperatives also have significant investments in agriculture, the total cooperative impact on the agricultural sector is considerable.
- 1.10 The capital contribution of members is very small, considering that cooperatives have had many years of operation. Agricultural cooperatives have the highest average contribution per member with $\text{¢}4.112$ (US \$70). Multiple service cooperatives have $\text{¢}3,698$ (US \$66) and credit unions have $\text{¢}2.848$ (US \$51). The total capital stock of all cooperatives as of December 31, 1979 was over 653 million colones.
- 1.11 No capitalization process as a general policy is implemented, except the investment or capitalization of surplus. This situation keeps cooperatives in a weak position.

- 1.12 Agricultural cooperatives have the largest operating volumes, especially the coffee grower organizations, followed by beef exporters, and dairy processors.
- 1.13 No policies exist for the development and expansion of cooperatives as viable commercial entities that have an economic as well as social function.
- 1.14 No clear information is available on the number of cooperatives that are actively operating as viable economic enterprises, totally financed through their volume of business. Of the 350 cooperatives it is assumed that a small number have reached this level of operation.

2. Recommendations

- 2.1 An increased coordination between cooperative organizations is a basic requirement for the system to operate both efficiently and effectively in the accomplishment of its purposes and objectives.
- 2.2 A cooperative development plan must be put into effect under the coordination of CONACOOOP and with the participation of INFOCOOP and the secondary level cooperative organizations. An operation strategy must be developed, taking into consideration the availability as well as the limitation of resources -- both human and financial. In this plan, a major emphasis must be given to the concept of cooperative development as a system which has to grow in a coordinated way.
- 2.3 An urgent need exists to define capitalization alternatives and mechanisms to build up the capital of cooperative organizations at all levels. Capitalization has to be a continuing process sustained through the use members make of their institutions.
- 2.4 Technical assistance support must be given to the entire cooperative system. Foreign expertise should concentrate at the third level organizations: CONACOOOP-INFOCOOP-BANCOOP for whom a comprehensive technical assistance program should be prepared which will take into consideration both intensive in-country training as well as the opportunity to visit similar institutions and learn from experiences in other countries. The assistance should be conceived as

a long term activity with specific inputs as cooperatives move from stage to stage.

- 2.5 In order to increase the financial resources available to the cooperative system, it is suggested that the PL 480 funds, which will be channeled to BANCOOP, enter as a capital contribution to the institution through investment certificates. These certificates, earning a yearly interest, should then be transferred by the government to INFOCOOP, also as a capital contribution. With the income generated from the interest on the certificates, INFOCOOP should finance activities related to cooperative development so as to consolidate a number of cooperatives each year.
- 2.6 It must be emphasized that for cooperatives to make a real contribution to Costa Rican society, they must operate as viable commercial enterprises. If this is not achieved, they will not be able to meet their long-term social and economic objectives.

C. THE GENERAL ECONOMIC AND FINANCIAL SITUATION

1. Balance of Payments

Costa Rica's external debt in the public sector is about \$2.61 billion, and estimates of the private sector external debt range from \$900 million to \$1.5 billion. An initial proposal by the GOCR for the restructuring of the debts was rejected by the commercial banks, and a second proposal for new loans in the amount of \$225 million to cover interest due in 1982 plus the delinquencies of 1981 is currently under discussion. Even favorable projections indicate a continuing negative balance of payments through 1985. If additional foreign financing does not become available, default and possible economic collapse could result.

2. Financial Reforms

During 1981, the fiscal deficit of the central government was reduced by 53% in constant prices (35% in current colones). This was made possible by the government holding expenditures in check, with only an 8.7% increase in current colones between 1980 and 1981; and by a devaluation of the colon which substantially increased revenues from export and import duties.

The poor performance of the major public sector autonomous institutions (public utilities) however, resulted in combined deficits that consumed the paper savings of the central government and left an overall additional deficit of \$200 million. During 1982, the government is complying with IMF recommendations to raise the rates for public utilities. Although the new rates have been approved for implementation, only the water rates have gone into effect to date.

3. Inflation

The general consumer price index for San Jose increased by 65% in 1981, while the increase in the national general wholesale price index was 117%. The higher rate of increase in the wholesale price index foreshadows additional increases in the consumer price index in coming months. The money supply increased by 39 percent during the first 11 months of 1981. This rate of increase, caused in large part by the devaluation, is obviously excessive and is a major cause of inflation.

4. Credit

During the first eleven months of 1981, total credit of the consolidated banking system increased from 21

billion colones to 23.1 billion, an increase of 10%. Credit to the public sector increased by 14% and to the private sector by 7.6%. Bank authorities clearly exercised restraint in 1981 because bank credit expansion generally, and particularly credit granted to the private sector, was sharply negative in real terms.

While the foregoing economic comments do not deal specifically with cooperative considerations, it can be assumed that the impact of credit, monetary problems and inflation will be no less severe for cooperatives and their sources of financing than for other segments of the economy.

For general information on Costa Rica see Annex C.

D. LEGAL FRAMEWORK OF THE COOPERATIVE SYSTEM

1. Historical Evolution

- 1943 -- The first Law of Cooperative Associations was enacted as part of the Labor Code.
- May 1947 -- The National Bank of Costa Rica created a section for the development of agricultural and industrial cooperatives.
- September 1953 -- The section within the bank was upgraded to the Department for the Development of Cooperatives by the law of the national banking system, with greater resources for the financing and development of cooperatives.
- March 1973 -- The Law of Cooperatives created the National Institute for the Development of Cooperatives (INFOCOOP). This institution replaced the department and was granted its own legal, administrative and functional autonomy.
- May 1982 -- The Law of Cooperative Associations is a revision of the law of 1973. The regulations of this law have not yet been issued and still remain in committee (August 1982).

2. The Current Law and Cooperative Financing

This law, as did prior co-op legislation, emphasizes the importance of the cooperative movement "because it is one of the most effective means for the economic, social, cultural, and democratic development of the country's inhabitants."
(Article 1.)

To enable the cooperative associations to achieve these development goals, the law assures that they have access to financial and credit resources, and identifies INFOCOOP and the national banking system as the principal providers of these resources.

The law authorizes INFOCOOP to carry out all kinds of credit transactions, to make rediscounts, to serve as financial agent, to endorse loans, to obtain national and international loans, to seek the economic participation of state entities for cooperative develop-

ment, and to administer the National Fund for Employee-Owned and -Managed Cooperatives. This fund consists of an initial sum of 20 million colones and an additional 40 million colones to be granted to INFOCOOP over the four years following the enactment of the legislation.

The law, however, does not specify financing for those cooperative associations that have moved past the primary stage of organization and which are already operating as secondary level enterprises and which therefore require financial resources in amounts and on terms other than that required by primary level organizations.

For this purpose, the cooperative associations could establish, in accordance with the new law, a national or regional credit union. It appears, however, that after the passage of the new BANCOOP legislation, this recently created bank may serve the function envisioned in the new '82 cooperative law.

The government banking system, which has traditionally been the largest financier of cooperatives, is enjoined by the new law to allocate a sum not less than 1% of the total of their credit portfolios to cooperative associations.

The new law establishes the right to receive savings and demand deposits from members, without any limitation as to amounts and terms, only for savings and credit cooperatives. Outside of the loans that the other cooperatives can obtain from INFOCOOP or the banking sector, the non-savings and credit associations have a very limited capacity for attracting financial resources. They can, however, obtain resources through the acquisition of additional equity shares by members over and above the one voting certificate. Also, the non-savings and loans cooperatives can issue "cuotas de inversion" (see Art. 75 and Art. 76 of the new Cooperative Law) or investment certificates, which must be represented by nominative value certificates that are non-transferable and approved by INFOCOOP.

To encourage capitalization in the cooperative by members, the new law provides for interest to be paid on equity capital at a rate not to exceed the rate established by the Central Bank of Costa Rica for bank bonds. This is currently 8% -- not a particularly attractive rate of return with 60% inflation. Although the new law is somewhat confusing as to the rates of interest that may be paid on the investment certificates, it does stipulate that the maximum amount of investment

certificates a cooperative may issue shall not be greater than the total cooperative assets as certified in the cooperative's financial statements not more than six months prior to the emission of the investment certificates (see Art. 76 of the new Cooperative Law). The interest earned on these investment certificates is tax free and is also free from any other assessments. The investment certificates can be used by the cooperatives to constitute guarantees, especially for government obligations, and also sold to members and private investors. The interest paid to certificate holders is a preferential payable and should be paid prior to any dividends or interest on equity capital which must be paid from net savings (net profit). In short, the interest a cooperative must pay to certificate holders should be charged as an interest expense and accounted for as a cost of doing business as opposed to a dividend type payment made from net profit or savings.

The disparity in interest rates between returns to equity and returns paid on investment certificates discourages farmer members from accumulating long term equity investment capital in their cooperatives. The cooperatives, on the other hand, are able to raise borrowed money from members, investors or the government by issuing investment certificates with rates of return slightly less than commercial borrowing rates due to the tax advantages accruing to the holder of the investment certificates. Unfortunately, accumulation of long term equity capital in a cooperative during highly inflationary periods is discouraged by the higher returns readily available in the financial markets.

E. THE FINANCIAL SYSTEM AND COOPERATIVE FINANCING

1. The National Banking System

This system is made up of the following Institutions:

- i) Banco Central de Costa Rica
- ii) Banco Nacional de Costa Rica
- iii) Banco de Costa Rica
- iv) Banco Anglo Costarricense
- v) Banco de Credito Agricola de Cartago
- vi) Private Commercial Banks
- vii) Finance Corporations

a) The Central Bank of Costa Rica

This bank is the system's governing body and is subject to the Office of the General Comptroller of the Republic and also to the permanent supervision and control of the Auditor's Office of the National Banking System. It functions as any central bank, issuing money, setting interest rates, and regulating and supervising the member banks and financial institutions of the system.

b) Government Commercial Banks.

These are Banco Nacional de Costa Rica, the Banco de Costa Rica, the Banco Anglo Costarricense, and the Banco de Credito Agricola de Cartago. These banks function as commercial banks in obtaining loans and rediscounts of credit from the Central Bank. They also receive deposits from and make loans to the public, including legal entities such as cooperatives, in accordance with the provisions established by the board of directors of the Central Bank. In addition these banks may, with the endorsement of the Central Bank, obtain medium and long term loans from foreign financial institutions, provided that these loans are intended to finance economic development programs. The public may have demand deposits and operate checking accounts with these banks.

c) Private Commercial Banks

These banks operate in much the same way as the government commercial banks except that they may not operate with loans or rediscounts from the Central Bank. Although by law they may not receive deposits from the public, in practice the law is interpreted to allow them to issue investment certificates, which function in the same way as time deposits.

d) Finance Corporations

These institutions operate under the regulations and supervision of the Central Bank and generally provide short term loans at interest rates higher than the banks.

1.1 Credit Program

The credit activities of the national banking system is classified by sector and is detailed in Annex D. The actual amount of credit granted to cooperative associations is impossible to determine because the banks' records classify it according to sector rather than the individual or corporate nature of the recipients.

INFOCOOP is currently carrying out a survey on credit granted to cooperatives and the following data indicates credit to the 102 cooperatives studied as of July 1982.

TABLE NO. 1
CREDIT IN FORCE, IN ORIGINAL AMOUNTS

SOURCE OF RESOURCES	AMOUNT IN THOUSANDS OF COLONES	PERCENTAGE %
G.B.S.	166,377.6	51.3
FEDECOOP	72,331.7	22.2
OTHER SOURCES	31,257.6	9.8
INFOCOOP	31,012.6	9.6
PRIVATE BANKS	15,861.1	4.8
FOREIGN BANKS	7,975.2	2.5
ALL SOURCES	324,815.8	100.0

G.B.S. -- Government Banking System (State Commercial Banks)

Other Sources: Savings and Loan Cooperatives. The Agrarian Development Institute and others.

Foreign Banks: Inter-American Development Bank (IDB)
CentroAmerican Bank for Economic Integration

In general, there is no preferential treatment in the granting of credit to cooperatives. Thus the cooperatives and their members have the same access to the domestic and foreign resources of the public and private financial institutions. One ostensible exception is the special allocation to the credit program for Farm Worker-Managed/Owned Enterprises (Instituto de Desarrollo Agrario (IDA)), which contemplates maximum subsidized interest rates of 6 and 7%. Because the Central Bank adds an annual commission rate to these interest rates, bringing them to 12%, the defacto cost of the credit is the same for all banking system loans to small farmers. In addition, the amount allocated for such credit in 1982 is 20 million colones, a relatively insignificant amount.*

1.2 Agricultural Credit

The agriculture and livestock sectors have historically received between 37 and 45 per cent of the credit extended by the government banking system. While there has been a constant upward trend in the absolute amount of the credit given to these sectors, there have been periodic fluctuations in the percentages relative to total credit given. It should be noted that in 1982 the agriculture and livestock sectors will receive 77% (8.4% billion colones) of the total credit extended by the government banking system.

The national export products (coffee, bananas, sugar cane, cacao and beef cattle) have benefited the most from official credit. In 1973, these products received 85 percent of the total agricultural/livestock credit. In 1980, this trend changed when its share dropped to 53.5 percent, while internal market products got the remaining 46.5 percent.

*The IDA program was founded in 1970 and suspended operations in 1980 due to budget problems. It apparently was revived in 1982.

In 1979, the relative share of the various organizations of the government banking system in agricultural/livestock credit was as follows:

Banco Nacional de Costa Rica	56%
Banco de Costa Rica	22%
Banco Anglo Costarricense	18%
Banco Credito Agricola de Cartago	4%

The Banco Nacional de Costa Rica, in addition to having a larger share of the credit, has a larger national coverage and tends to favor mainly a large number of small- and medium- size farmers. Small farmers have by and large received credit by the agricultural credit rural boards of the Banco Nacional de Costa Rica. These boards were created under a 1914 law, its object being to free small farmers from speculative interest rates. In 1937, the boards became further consolidated when it was required that an agriculturalist should head each of them. In 1959, the rest of the state commercial banks were authorized to include sections for small farmer credit.

The 1982 definition by the Central Bank of a small farmer is any individual meeting the following requirements:

- i) He is engaged in agricultural/livestock activities.
- ii) His subsistency depends exclusively on the land he works.
- iii) His annual gross income is not more than $\text{C}\$265,200$ (approximately US \$10,000 a year).
- iv) The operations he carries out in the government banking system has, as a maximum credit limit, the sum of $\text{C}\$300,000$.

The current rate of interest charged small farmers is 12 percent, which is approximately half the going rate of interest. The 1982 credit program includes 228.5 million colones for small farmers.

Annex E includes some figures on the granting of credit at the Offices of the Small Farmer, Department of Rural Credit of the National Bank.

There are also other sources of credit available for small farmers at the Banco Nacional, originating in foreign sources. For example:

IDB-FIDA Program 678/SF/CR for US \$20,0 million
AID Program 515-T-027, for US \$2,5 million
AID Program 515-T-032, for US \$2,5 million

As mentioned above, it is impossible to determine how much of the credit to the agriculture and livestock sectors goes through the cooperative system. It can be argued, however, that credit to these sectors directly or indirectly involves the cooperative system because of its vast network of associations that provides commodity and marketing services to farmers.

2. INFOCOOP

All cooperatives in Costa Rica have financial and credit functions, and although FEDECOOP, as indicated in Table 1, is apparently the second largest provider of credit to cooperative associations, it is INFOCOOP which is identified in the 1982 Cooperative Law as the national organization responsible, with the banking system, for the provision of cooperative credit.

INFOCOOP began its operations on June 15, 1973 with 84 million colones, transferred from its predecessor organization, the Department for the Development of Cooperatives of the Banco Nacional de Costa Rica, and was given the following financial functions:

- It will participate in the financial organization of the cooperative movement, contributing capital if necessary.
- It will supervise the credits and guarantees given to cooperatives.
- In its financial efforts, the institute will provide the greatest possible coverage of its services, seeking the least possible deterioration of its assets, and trying to obtain the maximum results from its resources.
- It will try to have cooperatives' support in, among other things, the financial and economic development of the institution.
- It will maintain a sound portfolio through an adequate credit policy and policies of extensions and adjustments of loans.

- The investment of funds and the granting of security shall be done after making a study and evaluation of the cooperative and the project in order to ensure that the investment will have a social and economic impact, that it will stimulate the integration process, and will produce benefits for low income sectors that do not have access to traditional sources of credit.
- INFOCOOP will promote a greater mobilization and utilization of financial resources of the cooperative movement and of the institution itself.

2.1 Credit Standards

The credit regulations of INFOCOOP were reviewed and updated in March 1982 and are the main criteria that INFOCOOP applies for granting credit to the cooperative sector:

- All of the cooperative associations operating legally and qualifying as credit subjects are eligible for loans. At present, not less than 40% of these associations have loans with the institution.
- At least 70% of the loans have to be used for production. Of this 70%, one half must be used for financing projects of cooperatives considered weak and the other half for cooperatives that are economically, financially, and administratively consolidated.
- Amortizations of the loans are set up in accordance with the characteristics of the project being financed. Most of the loans are amortized monthly or quarterly.
- All of the loans are granted with the necessary security, the most common being mortgages, chattels and endorsement of negotiable documents (promissory notes, bills of exchange).
- The maximum amount of one or more loans granted to a primary cooperative may not exceed, in total, 15% of the net worth of INFOCOOP and, in the case of secondary level organizations, the total amount to be loaned may not exceed 20% of the net worth of INFOCOOP. Since the net worth as of this date is ø80,000,000, it is estimated that the maximum that may be lent to a cooperative (ø12,000,000) is adequate for most of the primary cooperatives. It does not appear to be adequate for the secondary level

associations, particularly if the idea is for these associations to finance subloans to their members. INFOCOOP can make an exception when financial resources are coming from external sources that have special conditions established as to amount, destination, etc.

- In order to set the amount to be lent, another aspect considered is the debt/net worth ratio of the applicant. This debt, in total, must not exceed 15 times the net worth of the applicant. This is considered quite a broad ratio. It was noted in the analysis made that for some loans this requirement was not considered, as was the case in the loan to URCCOOPAPA.
- INFOCOOP's financing must not exceed 80% of the total value of the related project. The difference must be financed with resources of the beneficiaries. In the analysis of loans granted, exceptions were also noted.
- All of the credits to cooperative associations are granted only if they can prove a sufficient capacity for total payment, including the credit being requested. The credit request must demonstrate the economic viability of the project and be accompanied by a statement of the cash flow of the applicant.
- Short-term loans are up to 12 months, medium-range are up to 5 years, and long-term up to a maximum of 10 years. At present, most of the loans granted by INFOCOOP are long-term.
- Grace periods may be granted, in accordance with the characteristics of the projects to be financed. In practice, the grace periods granted are mostly 12 months.

2.2 Credit Procedures

There is no manual in use with all the procedures that are applied to process, approve, formalize, supervise and collect loans. There is a manual available for credit supervision and the regulation of judicial collections, which is being used in the administration of these two areas.

A flow diagram (Annex No. G) shows the procedures that are being followed to take care of the loan applications up to the recovery of the granted

loans. The following general remarks are made in regard to these procedures:

Remarks

- All loans have to be approved by the board of directors, using as bases the opinion of the credit committee and the technical report prepared by the financing department. This method may have as a consequence that the decisions on loans are more of a political than of a technical nature. The process is also duplicated since each loan application will have to be submitted to the credit committee for its study and then submitted again with the committee's opinion, to the board of directors for its consideration also.
- The function of supervising loans, according to INFOCOOP's administrative organization, does not belong to the financing department but rather to the supervision department (this department is mainly in charge of accounting revisions and controls). This procedure takes away the responsibility from the unit charged with the efficient handling of credits.
- The finance department is also not in charge of collecting loans. This is the responsibility of the administration division. Thus, the administration and responsibility for servicing of loans is spread between two divisions and between two departments of one and the same division.

2.3 Interest Policy

To determine its interest rate, INFOCOOP uses as a reference the rate set up weekly by the Central Bank for the financial sections of the commercial banks. This rate is decreased successively by two points, in the order given in the example below, depending on the category in which the cooperative is classified and the productive or non-productive nature of the loan. For secondary level organizations, the rate is the same as for the primary cooperatives, reduced by two points, provided it is for subloans to affiliated cooperatives and by one point when it is for a project of the secondary level organization. This is illustrated by the following example:

Rate of interest at the B.N.C.R. for one week	24% p.a.
A -- Non-productive credit (consolidated co-ops)	22% p.a.
B -- Non-productive credit (weak co-ops)	20% p.a.
C -- Productive credit (consolidated co-ops)	18% p.a.
D -- Productive credit (weak co-ops)	16% p.a.

Rates of interest for secondary level organizations

A -- Non-productive credit (consolidated organization)	20% p.a.
B -- Non-productive credit (weak organization)	18% p.a.
C -- Productive credit (consolidated organization)	16% p.a.
D -- Productive credit (weak organization)	14% p.a.

2.4 Rates of Interest

TABLE No. 2

RATES OF INTEREST, PER YEAR, THE NUMBER OF LOANS, AND SOURCE OF FINANCING

Annual Rate Agreed Upon	NUMBER OF LOANS BY SOURCE OF FINANCING											
	1979			1980			1981			Up to June, 82		
	025	022	Own	025	022	Own	025	022	Own	025	022	Own
5												1
6									2			
7									2			
7.75		1	1									
8	8	3	2	1	2							
9	8	2	8	4	1	7	1		4			1
10		1	3			5			3			2
11					1					3	1	
12			11		2	5		2	8			1
13						6		1				1
13.5									1			
14						8			2			1
14.5							3		9	1		1
15.5												6
16.5							2		1			
17.5										1		
18.5								1	5			1
19.5									2			3
20.5									3			
21.5									2			
No. LOANS	16	7	25	5	5	33	6	4	44	5	2	18
No. RATES	2	4	5	2	3	7	3	3	13	3	2	10

The rates of interest charged to cooperative associations varied considerably, as may be seen in Table No. 2. The lowest rate per annum is 5% and the highest is 21.5%. Apparently these rates rose as the interest rates in the capital market rose. Thus, in 1979 the maximum rate contracted for by INFOCOOP with its lenders was 12%, in 1980 it was 14% and in 1981, 21.5%. During 1982 there is a small decrease. In any case, the diversity of rates within each year is remarkable. In 1980, 53 loans were formalized, and 19 different rates of interest were applied, ranging from 6% up to 21.5%. The highest rates applied each year were for loans financed with the institute's own funds.

2.5 Analysis of INFOCOOP's Loan Portfolio

The following tables and accompanying analyses provide relevant information on the loan operations of INFOCOOP.

Balance of Loans

TABLE No. 3
BALANCE OF LOANS, BY YEAR AND BY TERM
(in millions of colones)

	78	79	80	81	June 82
Short-term	14.9	9.1	6.6	12.3	2.3
Medium-term	20.6	33.7	29.9	30.7	22.9
Long-term	63.0	74.3	73.6	89.0	80.0
Under legal enforcement	2.3	5.9	2.0	3.6	16.4
TOTAL	100.8	123.0	112.1	135.6	121.6

-- Table No. 3 indicates that INFOCOOP's loan portfolio has been kept almost static during the past four years that have been analyzed. The balance of loans receivable has remained around 120 million colones. The main cause of this stagnation seems to be the lack of financial resources to cover the cooperatives' credit demand.

TABLE No. 4
BALANCE OF LOANS, BY YEAR, PERCENTAGE, AND TERM

	78	79	80	81	June, 1982
Short term	14.7	7.4	5.9	9.1	1.9
Medium term	20.4	27.4	26.7	22.6	18.8
Long term	62.6	60.4	65.6	65.6	65.8
Under legal enforcement	2.3	4.8	1.8	2.7	13.5
TOTALS	100.0	100.0	100.0	100.0	100.0

Table No. 4 indicates that 65.8% of this portfolio is made up of long-term loans that were granted for a period of over five years. Short-term loans have generally been decreasing, resulting in a smaller revolving of capital intended for loans.

NUMBER OF LOANS RECEIVABLE

TABLE No. 5
NUMBER OF LOANS RECEIVABLE, BY YEAR AND BY TERM

	78	79	80	81	June, 1982
Short term	23	22	16	25	14
Medium term	55	68	73	77	73
Long term	63	63	61	64	55
Under legal enforcement	13	14	13	26	43
TOTALS	154	167	163	192	185

The number of loans receivable is shown in Table No. 5. In the years '78, '79, '80 there is hardly any change, while the largest number of loans making up the loan portfolio is in 1981, with 192 loans. Dividing the annual balance of loans receivable shown in the above table by the annual number of loans gives the following average balance receivable per loan at the end of each period:

1978	ø654.545
1979	736.526
1980	687.730
1981	711.458
June 1982	657.297

TABLE No. 6
NUMBER AND AMOUNT OF LOANS APPROVED, AND DISBURSED BY YEAR

Year	No. of Loans	Amount Approved (in million colones)	Amount Disbursed (in million colones)
1979	NA	31.4	41.6
1980	43	14.0	16.4
1981	58	43.7	32.4
1982	26	<u>16.0</u>	<u>17.3</u>
Totals		105.1	107.7

Table No. 6 indicates a fairly constant level in the number of loans approved annually, and shows a good disbursal rate on loans approved. The discrepancies between amounts indicated in Tables 4 and 5 were irreconcilable.

TABLE No. 7
DESTINATION OF LOANS FORMALIZED ANNUALLY
(in millions of colones)

	79	80	81	JUNE 82	TOTAL	%
Agricultural	32.3	4.3	8.7	2.9	48.2	35.3
Livestock, fishery	1.4	0.5	0.3	0.9	3.1	2.3
Industry	7.2	0.6	16.9	4.6	29.3	21.4
Services	5.7	3.9	9.7	8.8	28.1	20.5
Consumer goods	4.5	3.0	1.9	0.5	9.9	7.2
Commerce	2.0	2.3	13.2	--	17.5	12.8
Electricity	--	0.3	0.4	--	0.7	0.5

More than one-third of the loans formalized from 1979 to June 30, 1982 were destined for financing agricultural activities; 21% were used for industrial activities and 20% for services. The other loans were for cooperatives of consumer goods and for the marketing of products. These data can be seen in Table No. 7. In analyzing each year individually, it is evident that 61% of the amount of the loans formalized during 1979 was for agricultural activities, while in the other years these loans dropped considerably; in June 1982, they amounted to 16% of

the total formalized. The tendency seems to be to finance more industrial, service and commercial activities, and less of the agricultural.

TABLE No. 8
BALANCE OF LOANS PER YEAR, BY SOURCES OF FINANCING
EXPRESSED IN PERCENTAGES

	78	79	80	81	June 82
1) INFOCOOP's own funds (contribution from the government)	36.7	35.7	37.7	38.8	34.8
2) AID, 3 loans	63.1	64.2	62.3	49.0	51.6
3) IDB, 1 loan	0.2	0.1	0.1	--	--
4) B.C.I.E.	--	--	--	12.2	13.6

Table No. 6 shows the loans classified by sources of financing used by INFOCOOP in order to handle the demand for credit by the cooperative sector. As of June 30, 1982, 34.8% had been financed with the institute's own resources. This was the minimum percentage; the maximum occurs in December 1981, with 38.8%. In 1978, 63% of the portfolio was financed with funds from AID (3 loans). That percentage gradually dropped to 51.6% on June 30, 1982. The difference was gradually taken up by a new loan obtained by INFOCOOP from the Central American Economic Integration Bank in 1981.

TABLE No. 9
RENEGOTIATIONS OR NOVATION OF LOANS, FORMALIZED ANNUALLY
(in thousands of colones)

	79		80		81		JUNE 82	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Renegotiations	3	6.94	2	0.17	9	3.80	3	6.60
Novation	-	--	-	--	1	0.19	1	0.12
TOTALS	3	6.94	2	0.17	10	3.99	4	6.72

INFOCOOP furnished information on the number and amount of the loans formalized each year as a result of renegotiations due to borrowers' difficulties with timely payment. This information is included in Table No. 9. Between 1979 and June 1982, 19 loans for a total of $\text{¢}17,820,000$ have been renegotiated. Without counting other loans renegotiated before 1979, this amount was equivalent to 14.7% of the balance of the portfolio as of June 30, 1982.

TABLE No. 10
PAST DUE AMORTIZATIONS, CLASSIFIED BY AGING
(in millions of colones)

	79	80	81
1 to 90 Days	0.60	0.47	0.09
91 and More Days	2.76	4.29	10.72
Under Legal Enforcement	2.74	1.19	2.19
Total Amortizations in Arrears	6.10	5.95	13.00
Balance of Loans	122.93	112.14	135.55

TABLE No. 11
PAST DUE AMORTIZATIONS, CLASSIFIED BY AGING, EXPRESSED AS
PERCENTAGES OF THE TOTAL BALANCE OF THE COLLECTIBLE PORTFOLIO

	79	80	81
1 to 90 Days	0.49	0.42	0.07
91 and More Days	2.25	3.82	7.91
Under Legal Enforcement	2.23	1.06	1.62
Percentage of Amortizations in Arrears	4.97%	5.30%	9.60%
Balance of Loans	100%	100%	100%

Between 1979 and 1981, the amount of the amortizations past due and not collected doubled. It went from $\text{¢}6.1$ to $\text{¢}13$ million. Table No. 10 shows the absolute value of these arrears, classified in accordance with their age. Also shown are the installments in arrears on loans which were under legal enforcement. In Table No. 11 these arrears are shown percentage-wise. The index of arrears of payments past due as of December '81 was 9.6%.

It was impossible to obtain a satisfactory explanation as to the possible causes of this sudden increase. It must be borne in mind that, according to the information in Table No. 9, in 1981 a total of 10 loans were renegotiated, for almost 4

million colones. If they had not been renegotiated, the amount and percentage of arrears would have increased much more.

TABLE No. 12
ANNUAL COMPARATIVE STATEMENT OF THE PORTFOLIO IN ARREARS
WITH THE TOTAL BALANCE OF LOANS COLLECTIBLE

	79	80	81
Balance of the loans having installments in arrears	31.0	52.4	45.8
Total balance of loans receivable	<u>122.9</u>	<u>112.1</u>	<u>135.6</u>
Percentage of the portfolio in arrears	25%	47%	34%

In order to have a more realistic idea of the risk of losses through uncollectible loans, the portfolio is analyzed in Table No. 12, comparing the balances of the loans having one or more installments in arrears, with the total balance of loans collectible. For 1981, the portfolio had amortizations due for an equivalent of 34% of the total portfolio to be collected. That percentage was somewhat lower than the previous year. However, it is a high contamination index.

TABLE No. 13
PAST DUE AND UNPAID INTEREST, CLASSIFIED BY AGING
(in millions of colones)

	79	80	81
1 to 90 days	0.33	0.31	-
91 days and over	0.69	2.53	3.88
Loans under legal enforcement	<u>1.55</u>	<u>1.13</u>	<u>1.80</u>
TOTALS	2.57	3.97	5.68

Table No. 13 shows the annual amount of interest in arrears and not paid. For 1981, a total of 5.6 million colones failed to be collected for this item. These arrears are increasing each year. Thus, in 1980, the increase was 54% and in 1981 it was 121% compared to 1979. This is definitely affecting the profit and loss statement and the net worth of INFOCOOP.

The regulations indicate that in case of non-payment of the service of the amortizations, arrears interest will be charged on the amount of the installment in arrears. In practice, INFOCOOP does not charge any arrears interest because, according to another provision of its credit regulations, an obligation is sent to legal enforcement if it is not paid within 60 days of its maturity date or the debtor may request and obtain an extension of the term and easing of other conditions. INFOCOOP will then sign a new loan agreement or will sign an addendum, as the case may be. This latter procedure would seem to pave the way or provide an opportunity to eliminate arrears or fictitiously fix the portfolio in arrears.

2.6 Financial Structure

TABLE No. 14
ANNUAL COMPARATIVE STATEMENTS OF THE MAIN BALANCE SHEET
ACCOUNTS OF INFOCOOP DURING THE 1978-1981 PERIOD
(in millions of colones)

	78	79	80	81
<u>ASSETS</u>				
Cash assets	3.0	2.5	4.0	2.8
Liquid assets	19.0	22.8	32.6	45.9
Loan portfolio	98.4	117.0	110.1	132.0
Deferred assets	3.5	6.8	8.3	14.5
Fixed assets	2.0	2.2	2.2	2.9
Investments	1.9	1.9	1.8	0.3
TOTAL	127.8	153.2	159.0	198.4
<u>LIABILITIES AND NET WORTH</u>				
Current liabilities	8.0	5.2	4.7	22.5
Long-term liabilities	71.1	88.8	83.2	89.6
Net worth	48.7	59.2	71.1	86.3
TOTAL	127.8	153.2	159.0	198.4

TABLE No. 15
FINANCIAL STATEMENTS OF INFOCOOP AT THE END OF EACH
ECONOMIC YEAR, EXPRESSED IN PERCENTAGES

	78	79	80	81
<u>ASSETS</u>				
Cash assets	2.3	1.6	2.5	1.4
Liquid assets	14.9	14.9	20.5	23.1
Loan portfolio	77.0	76.4	69.3	66.5
Deferred assets	2.7	4.4	5.2	7.3
Fixed assets	1.6	1.4	1.4	1.5
Investments	1.5	1.3	1.1	0.2
	100.0	100.0	100.0	100.0
<u>LIABILITIES AND NET WORTH</u>				
Current liabilities	6.3	3.4	3.0	11.3
Long-term liabilities	55.6	58.0	52.3	45.2
Net worth	38.1	38.6	44.7	43.5
	100.0	100.0	100.0	100.0

- Remarks

1. The amount of the current assets is considered very high being equivalent to 25% of the total assets. This means that there are less resources available for other purposes related to the institute's objectives, such as credit resources.

The tendency of this type of asset to increase is evident; and it seems that the strategy has been to gradually invest a larger amount of capital in bonds.

2. As of December 1981, 67% of the assets had been used for loans for the cooperative associations. Most of the assets are now being used for this purpose but it can be appreciated that each year they are losing importance. In 1978 they were equivalent to 77% of the total assets.
- The indebtedness:net worth ratio was 1.5:1 in 1978 and 1:1 in 1981. This means that no advantage is being

taken of the net worth as a lever to attract financial resources to expand credit operations.

- In the four years that have been analyzed, INFOCOOP's net worth almost doubled. Its main components through December 1981 were: the contribution by the Government of Costa Rica (5%), the contributions generated by the 10% on the profits of the National Banking System (17%) and the 10% contribution on the sale of soft drinks (12%).
- Table No. 14 details the external loans received by INFOCOOP to reinforce its servicing of loans from 1979 through June 1982.

TABLE No. 16
BALANCE OF EXTERNAL LOANS INDEBTED BY INFOCOOP,
ACCORDING TO FINANCING SOURCE
(in million of colones)

	79	80	81	June 1982
AID-015	19.6	18.9	18.5	18.5
AID	25.2	25.2	24.8	24.8
AID-025	24.6	24.6	24.6	24.6
Offsetting entry BCCR	16.7	13.1	9.7	8.0
Banco Nacional 31	1.6	1.3	1.0	0.9
Banco Nacional 051-1	1.0	-	-	-
CABEI 578	-	-	10.0	10.0
TOTAL	88.7	83.1	88.6	86.8

In these four years there has been almost no variation in the balance of the external debt (national and international). Through June 1982 there were 6 loans from 4 different sources that were financing 65% of INFOCOOP's portfolio; the difference, that is 35%, was financed with its own resources.

Statement of economic results: Table No. 17 shows the income and disbursements of INFOCOOP, annually, from 1978 through June 1981.

TABLE No. 17
STATEMENT OF ECONOMIC RESULTS
(in millions of colones)

	78	79	80	81
<u>INCOME</u>				
Collected interest	7.57	9.67	6.62	7.15
Interest on bonds	-	-	2.59	5.09
Patrimonial resources	3.77	1.53	3.37	2.97
Resources from previous sources	0.22	0.47	-	-
Current transferable resources	1.51	1.99	-	-
Other income	0.10	0.16	0.16	0.41
TOTAL	13.17	13.82	12.74	15.62
<u>EXPENSES</u>				
Administrative expenses	10.21	11.33	10.82	13.79
Paid interest	1.40	1.95	1.74	1.47
Public debt commitments	0.15	-	0.18	0.36
	11.76	13.28	12.74	15.62

The largest source of economic income to cover expenses has been generated, during the four years that have been analyzed, by the interest collected on loans granted to the cooperative associations. During 1980 and 1981 there was also an important income source from interest earned on bonds. In 1981, 46% and 33% respectively, came from these two sources.

It can be seen that the income hardly increased in the first three years; in the third year it was lower than in the first year. In the fourth year an increment of 18% over the first year occurred.

It has to be pointed out that the income was really lower if it is taken into account that in the statements furnished by INFOCOOP the capital resources, which had to be used to balance the statement of results, were included as income. INFOCOOP is authorized by law to compensate its losses with funds from its

net capital and has been using them each year. The respective amount as percentages of the total annual incomes are as follows: 28.6%, 11%, 26% and 19%. Although percentages tend to decrease, a significant part of the net worth is still being used annually to cover expenses.

The largest expenditure has been administrative costs which in 1981 were equivalent to 88% of total expenses. During the 1978-1980 period, administrative expenses remained constant, but in 1981, these increased 14% over the first year.

2.7 Conclusions and Recommendations

The previous sections, which analyzed the credit operations and financial status of INFOCOOP, contain detailed observations. It is recommended that INFOCOOP prepare a more detailed analysis of its operations and institute policies and strategies to deal with the following areas:

1. Loans in arrears or default and provisions to be made to cover these risks.
2. Terms of loans and the maximizing of the investment potential of its capital.
3. The advisability of INFOCOOP's granting development loans to primary level cooperatives, and not as subloans through secondary level organizations.
4. The diffusion of responsibility for credit between the finance and administration sections of INFOCOOP.
5. Simplification of the loan approval process.
6. Renegotiation with the Central Bank of interest rates on contributed capital.
7. Compensation for the loss of purchasing power of contributions.

3. Costa Rica Bank for Cooperation (BANCOOP)

BANCOOP was established by a resolution of the National Council of Cooperatives (CONACOOOP) in 1981, and was organized at the initiative and with the participation of thirteen cooperatives in February 1982. Although the bank was authorized to begin operations by the Central Bank of Costa Rica on May 5, 1982, it has not as yet begun service operations. In August 1982, President Monge submitted legislation (see Annex F) to

the legislative assembly to convert the Costa Rican Bank for Cooperation into the Costa Rican Limited Liability Cooperative Bank.* This legislation, when approved, will empower the bank with special legal status to operate with all the prerogatives of a state-owned bank, but managed independently and fully by and for the cooperative associations and nonprofit organizations.

3.1 Objectives

The basic objectives of BANCOOP will not be altered by the new legislation and are as follows:

To furnish the cooperative sector with its own and specialized financing body, which will be able to offer it the banking services it may require in a timely and efficient manner.

To mobilize the sector's savings for the sector.

To make available to the cooperative sector a smooth instrument for the channeling of national and foreign financial resources.

To make available to the cooperative sector a dynamic instrument for its strengthening and consolidation.

To furnish the cooperative enterprises technical and administrative assistance to improve their efficiency and profitability, and to thus strengthen their links with the associates and the system itself.

It is intended to establish departments to carry out the functions of advisory services and technical analyses; financial analysis and control; national and foreign banking services; and of working capital and investment credit operations.

3.2 Capital Stock

The bank's present capital stock is represented by 6,890 common and nominative shares, each with a \$1,000 face value, fully subscribed and paid-in in equal proportions by the stockholding cooperatives. The bank is funding its current expenses from returns on the investment of this

*The acronym, BANCOOP, will be retained by the new entity.

capital stock. Once the bank becomes operational it will need additional financial resources, if it is not to deplete its capital stock.

One possible source for additional operating capital is the \$5 million from PL 480, earmarked for the cooperative sector. The president of the Republic lent his political support to this utilization of the funds on July 16, 1982, at the signing of an agreement for a USAID/FEDECREDITO project. He asked the U.S. ambassador that PL 480 funds be channeled through BANCOOP "to assure strength to the new bank."

3.3 Stockholders

The 13 stockholding cooperatives (3 secondary level and 10 primary level) represent jointly 26 percent of the cooperative organizations, and 49 percent of the population who are members of cooperatives. It is anticipated, with the passage of the new legislation, and an increase in capital available for credit, that additional cooperative associations will become stockholders in the new bank.

3.4 Credit Policy

BANCOOP will operate with cooperative enterprises that are already established and with those in the process of being consolidated.

The bank will concentrate its direct operations on medium- and small-size cooperatives, which have difficulties in obtaining financing from traditional sources.

Priority will be granted to cooperative enterprises, whose branches of activity are in accordance with the development policies, and with the national priorities that are established by the central government.

In its indirect operations, it will comply with similar purposes through federations and unions.

The acceptance of a cooperative as credit worthy will depend to a great extent on its willingness to adopt sound administrative procedures, and to improve the production processes.

3.5 Investment Criteria

Financing will be available for projects in the following four areas:

Performance enhancement. These will include activities which aim towards production efficiency and full utilization of available capital resources, e.g., disposition and utilization of wastes and byproducts, and the repair of machinery and equipment.

Economic expansion. These will include activities that promote economic growth and employment generation, e.g. diversification of economic activities and participation in new enterprises.

Institutional strengthening. These will include activities that strengthen the administrative capabilities of cooperatives, e.g., management training of cooperative personnel.

Social sector financing. These will include activities which promote the social welfare of cooperative members, e.g., low cost housing.

3.6 BANCOOP Capitalization

Further analysis will be required to determine the best capital structure for BANCOOP as well as the level of capitalization that will be required. The basic principle should be that the net worth from whatever source, will be at a level that will permit operation at a profit without further subsidy and without an unsupportable burden of debt repayment and interest.

A program needs to be developed that will provide a scheduled inflow of capital from operations. This is needed to provide for future growth as well as to assure an equitable base of ownership by users over time.

This inflow may be accommodated in a plan using a combination of sources as follows:

1. Subscription as a percentage of loan granted (i.e. 5% of the loan amount)
2. Surcharge on interest paid (i.e. 18% interest + 10% surcharge = 19.8%)

3. Allocation and Capitalization of Profits.

Under item 1 above, the usual procedure would be to include the amount of the capital subscription as a part of a loan. There may be a temptation to provide that the capital will be retired with repayment of the loan. A better procedure might be to make this a "permanent" part of a total capitalization program. As the business becomes fully capitalized, management and the board of directors could make a judgment regarding the level of capital needed from all sources to properly operate the bank. A program for capital adjustment could be put into effect at that time.

While item 1 above relates the capital subscription to the initial amount of a loan or loans, item 2 relates the capitalization to the actual amount of interest paid which is a good measure of the actual service received by the borrower. In the example indicated, the total amount collected with the interest payment would be 19.8%.

Of this amount, 18% would be interest income to the bank (interest expense to the borrower) and 1.8% would go to capital and would be credited to the borrower as a part of his investment in the bank.

Item 3, being an allocation of profits, may be capitalized in its entirety or a portion paid to the borrower as a cash patronage dividend and a portion capitalized. This is a good way to adjust interest costs to the borrower if it is determined at year's end that profits are excessive as a result of a favorable interest cost spread. (A sound operating procedure is to charge market rates of interest.)

Another source of capitalization used to some extent by cooperative banks is to set a relatively high level of membership capital, which is subscribed by members, to be paid over a period of time even though the member may not have occasion to use the service for a while.

F. THE COOPERATIVE SECTOR

Although this sector has been developing for almost forty years, and despite the significant role ascribed to it by the central government, there is relatively little solid information available on the operations of the associations. The mission has not been able to establish even some of the most basic facts:

- how many cooperatives are active;
- how many operate on a sound financial basis;
- the service potential of those operating;
- the financial, human, and technical resources required to have them meet their goals;

In this section of the study we have concentrated on two key cooperative organizations, at the national level, several secondary level organizations, and, in some detail, on one primary level organization. While these institutions deserve further study, our intention was to provide information on the germane characteristics of each, with emphasis on their viability as enterprises.

1. Key Organizations

There are two national or third-level organizations in Costa Rica: INFOCOOP and CONACOOB. Both of these organizations were created by the Law of Cooperative Associations of February 1973.

1.1 CONACOOB

The National Council of Cooperatives (CONACOOB) is the institution in Costa Rica which represents the cooperative sector's primary and secondary associations. The Law of Cooperative Associations of May 1982 augmented the role of CONACOOB and identified it as "the highest institution" of the cooperative sector in Costa Rica.

1.1.1 Basic Objectives

- a. To represent the cooperative sector through that sector's membership in CONACOOB's executive board;
- b. To serve in an advisory capacity to INFOCOOP through its majority representation on the board of directors of that institute; and

- c. To organize an annual cooperative congress and be responsible for the execution of its resolutions, which deal with every aspect of cooperative policy and operation.

1.1.2 Membership

The council currently consists of 36 members representing the various types and levels of cooperatives. Ten members each represent the self-management cooperatives, the agricultural and industrial cooperatives, and a last group of ten representing all other types of cooperatives. Federations and unions (secondary level organizations) may appoint one member each, and there are currently six representatives in this category. Delegate elections or nominations are made every two years.

1.1.3 Financial Operation

Primary cooperatives pay two per cent of their net surplus and secondary level cooperatives pay one percent (retaining the other one percent for the creation of new cooperatives) to meet the financial needs of the council. Special funds may be solicited from the cooperatives to meet operating expenses or to invest in specific projects as needed.

During 1981, CONACCOOP received $\text{¢}379,905$ of which 62 percent went to cover salaries and operating expenses. The remaining funds financed the council's general assembly and the annual cooperative congress.

The 1982 budget of $\text{¢}425,000$ is expected to barely cover operating expenses and events, and the projected budget for 1983 is $\text{¢}900,000$.

1.1.4 Accomplishments

CONACCOOP is responsible for the creation of BANCOOP in 1981. In addition, the council has planned twenty two activities for 1982, twenty of which are seminars on cooperative management and education.

1.1.5 Recommendations

CONACCOOP, if it is to maximize cooperative opportunities offered by the present government, must give more importance to its role in the planning and implementation of a national strategy for cooperative development. The council has met several times this year to evaluate INFOCOOP's leadership of the cooperative sector and a much needed redefinition of its role is the topic most likely to be on the agenda of the next congress, early in 1983.

1.2 INFOCOOP

This institute is a government entity and it is the operational arm of CONACCOOP as defined in the cooperative law of May 1982. Because its predecessor organizations had been part of the National Bank of Costa Rica, its financial role, which is described extensively in Section E.2 of this paper was quite clear. Here emphasis is given to the other functions of INFOCOOP.

1.2.1 Basic Objectives/Functions

1. To promote the organization and development of all kinds of cooperative associations.
2. To further the teaching and dissemination of cooperative information.
3. To render technical assistance to cooperative associations in the undertaking of feasibility studies, and the implementation and evaluation of projects.
4. To promote cooperative integration in secondary level organizations.
5. To cooperate with the planning department of the central government in the preparation of national development plans.
6. To supervise and control the operations of the cooperative associations.

1.2.2 INFOCOOP's Performance

After studying the policies and strategies established by INFOCOOP and approved by its board of directors on July 16, 1981, and after extensive discussions with the institute's personnel and clients, the following observations are offered:

1. The policies and strategies do not deal with the medium- and long-term development and promotion of the cooperative sector.
2. They do not provide for cooperative training for the associations, nor do they consider participation in cooperative education either through institute programs or through the educational center created for this purpose.
3. They do not provide for achieving economic and social goals through technical assistance.
4. They do not provide for the organization of new cooperatives on the basis of their feasibility and viability, nor do they limit to a reasonable length of time the work of extension and advisory services, which would discourage dependency, and
5. they do not provide for the vertical and horizontal integration of cooperative associations.

1.2.3 Recommendations

Because a redefinition of the role of INFOCOOP is expected to be on the agenda of the next cooperative congress of CONACOOP, it is suggested that the institute make a diagnosis of its own operations and of the cooperative sector, taking into account the following areas:

1. Government policies, strategies and programs related to the strengthening of the cooperative sector and the agricultural production sectors.

2. The status of the cooperative associations, their levels of financial operations, and the estimated potential need for financial and human resources.
3. Determination of the ecological, geographical and human zones amenable to the organization of cooperatives.
4. Criteria for the establishment of new cooperatives, based on economic and technical feasibility factors; and
5. Optimal means for cooperative education and training.

After this diagnosis is completed and its results shared with secondary level cooperative leadership, it is recommended that INFOCOOP, with the participation of the secondary level associations, prepare a plan of action that should cover at least a three-year period. This plan should have two sections. The first to be devoted to the cooperative sector and the economic sectors served by cooperatives and the second devoted to INFOCOOP, its policies, strategies, and administrative organization. This plan should then be submitted to CONACOOOP and upon approval it should be published. Subsequent to publication, the plan should be implemented, evaluated, and adjusted periodically as required.

1.3 The Ministry of Labor

This ministry has been responsible for the registration, inscription, and authorization of the legal status of cooperative associations since 1943. With the creation of INFOCOOP in 1973, some areas of responsibility seemed to be shared by the two organizations. The cooperative law of 1982 further confuses the lines of responsibility by stating in Article VI that "the personnel and budget of the office for cooperatives of the Ministry of Labor should be transferred to INFOCOOP," while Chapter III confirms the responsibility for the registration of cooperative associations with the Ministry of

Labor. Clarification of the responsibilities of these organizations vis-a-vis cooperatives is clearly needed.

2. Secondary Level Cooperative Associations

The integration of cooperatives into federations and unions began in the 1970s. There are currently four of these organizations operating at the national level and five at the regional level.*

The national and regional secondary level cooperatives and the number of co-ops affiliated with them are indicated below:

National Organizations	No. of Co-ops
- FEDECOOP, coffee processing and marketing	29
- FEDECREDITO, savings and loan	25
- FEDEAGRO, agricultural production	36
- UNACOOP, insurance, marketing and consumer	<u>40</u>
TOTAL	130

Regional Organizations:	No. of Coops.
- FEDECOOPSUR credit for production	3
- URCOOPA - Atlantic zone	6
- FECOOPA - members of agrarian reform	5
- URCOOPAPA - potato and vegetable marketing	3
- UNCOOP - coffee growers union	<u>3</u>
TOTAL	20

* Seven regional organizations had been organized but two have been liquidated.

Table No. 18 shows information as of July 31, 1982 on the capital, financing and assets, of 10 secondary level cooperative associations. With the exception of FEDECOOP, the social capital of the other organizations is very small with five of them having less than ø100,000.

The combined capital of nine of these organizations (omitting FEDECOOP) amounts to ø5,750,925 and the total external financing obtained by them is ø60,158,826. The debt/equity ratio is 10.5:1, and in the case of URCOOPAPA, this relation is exaggerated (1.490:1). FEDECOOP is the secondary level association operating most efficiently and has attained a remarkable degree of economic, financial, technical and administrative development. Among the regional associations, only two are operating satisfactorily.

TABLE No. 18
INTEGRATION ORGANIZATIONS
July 31, 1982
(Colones)

	CAPITAL (BALANCE)	FINANCING (BALANCE)	ASSETS (BALANCE)
Federacion de Cooperativas de Caficultores, R.L. (FEDECOOP, R.L.)	32,254,020.00	75,000,000.00	351,438,452.00
Federacion Nacional de Cooperativas de Ahorro y Credito (FEDECREDITO, R.L.)	2,547,079.00	36,187,077.00	42,671,101.00
Union Nacional de Cooperativas, R.L. (UNACOOOP, R.L.)	1,936,188.66	7,274,710.00	18,619,408.31
Federacion de Cooperativas Campesinas de Produccion Agropecuarias y Servicios Multiples, R.L. (FECOOPA R.L.)	4,200.00	198,000.00	6,000,000.00
Federacion Nacional de Cooperativas de mercadeo Agropec. R.L. (FEDEAGRO R.L.)	85,637.38	8,835,772.25	8,293,852.73
Union Regional de Cooperativas de la Provincia de Cartago (URCOOPAPA R.L.)	13,500.00	20,124,545.00	44,999,335.28
Union Regional de Cooperativas Agricolas de la Zona Atlantica R.L. (URCOOPA R.L.)	195,148.12	493,961.00	1,500,000.00
Federacion Cooperativas Multiples del Sur, R.L. (FEDECOOPSUR R.L.)	810,956.30	---	6,957,733.95
Union Regional de Cooperativas de la Zona Norte R.L. (URCOZON R.L.)	67,773.15	679.40	2,548,452.15
Union de Cooperativas de Caficultores R.L. (UNCOOP R.L.)	90,443.00	279,000.00	233,400.00
TOTAL	38,004,945.61	148,411,744.65	483,261,735.42

2.1 Federation of Credit Unions (FEDECREDITO)

FEDECREDITO is a secondary level cooperative organization, which was organized in 1963 and began operations in 1964. The federation, in addition to promoting the development of credit unions in Costa Rica, provides technical assistance and financial services to its affiliates.

2.1.1 Membership

At present there are 22 credit union affiliates of the federation, representing over 25,000 members. During 1982 and 1983, the federation plans to integrate an additional 23 new cooperatives, bringing the number of affiliates to 45 and the number of members represented to 55,000.

2.1.2 Services offered

a. Technical Assistance

The federation provides, through a team of professionals, assistance to the cooperatives in the fields of accounting, management, education and cooperative development.

b. Education and Training

The federation organizes and implements education and training programs through seminars and short courses offered to the leaders and staff of member cooperatives.

c. Financing

The federation has channeled funds from different sources to its member cooperatives. Special emphasis has been given to agricultural production credit, followed by loans for industrial and handicraft activities. Staff technicians of the federation give continuous support to the cooperatives for the handling of their credit programs.

d. Liquidity Fund

FEDECREDITO receives the funds member cooperatives must maintain as liquidity reserves when required, operating at sight deposits. An assured 8% annual interest will be paid by the federation to the member cooperatives making use of this service.

e. Printing Press

The federation together with two other cooperatives organized a partnership operation - CILCOOP - which produces all types of printed materials at very competitive prices, and is presently serving both cooperative and non-cooperative organizations.

2.1.3 Financial and Economic Situation

The federation's present situation is difficult, based on its balance sheet of December 1981. The latest devaluation has created a serious problem because COLAC funds were received at ø8.60 per dollar, and today represent a liability that has grown more than five times.

The volume of business of the federation has been low, and it has therefore been unable to generate enough income to cover its operating expenses, something that has been done mainly by using available loan funds. This, in turn, has reduced the funds available for loans, decreasing expected income from interest earnings.

The only two sources of loan funds for FEDECREDITO have been INFOCOOP and COLAC, and the amounts have not been sufficient for institutional growth. Demand savings deposits and deposits at fixed terms, were both important in 1976, disappeared in recent years, and are only now becoming available again as the federation recaptures the confidence of member cooperatives. An active participation in the short-term capitals market will contribute to expand the volume of operations providing a specialized service that cooperatives cannot easily find elsewhere.

2.1.4 Conclusions and Recommendations

The federation has a weak financial position that should be strengthened through a capitalization system that would increase the contribution of members to paid-in capital.

The federation's liquidity problems, which are temporarily solved, which should be carefully analyzed to prevent similar problems in the future. Careful budgeting, and cash flow projections should be prepared, and kept updated, in order to make adequate lending decisions that will allow a smooth operation.

Fixed assets which are not profitable, or not cash generating, should be sold to increase the working capital. This has to be well planned and funds well managed to prevent decapitalization problems due to inflation. Length of loans should also be studied to define a policy that will maintain an adequate liquidity which will promote good services to cooperatives.

Action will have to be taken in due course to solve the exchange differential problem which can even push the federation into bankruptcy. Provisions for this concept have to be established while the situation is being studied and possible solutions discussed with government authorities.

2.2 National Union of Cooperatives (UNACOOB)

UNACOOB is a secondary level cooperative organization founded in 1969. Although involved primarily in providing insurance facilities, it is empowered by its articles of incorporation to provide all services in the interest of cooperatives.

2.2.1 Membership

UNACOOB is the largest secondary level cooperative in Costa Rica, comprising 40 cooperatives, and two federations: FEDECOOP and FEDECREDITO. It also provides services to a total of 175 cooperatives including non-members.

2.2.2 Services Offered

a. Insurance

Covering all hazards, it provides insurance services and collects premiums of over ø20,000,000 annually which are transmitted to the National Insurance Institute.

b. Consumer Goods

An experimental supermarket has been established in Cartago, which is open to the general public and to cooperative members, who receive a discount.

In addition the union is developing a buying center for cooperatives at which members could get better prices by pooling orders and wholesaling goods to other cooperatives.

c. Training and Education

The union helps to promote new cooperatives and to provide training for cooperatives that are not affiliated with a secondary level association. In this activity it tries to coordinate with INFOCOOP to avoid a duplication of services.

d. Printing

UNACOOB recently participated in the purchase of printing equipment to meet its own and other cooperatives' needs.

e. Import/Export Services

In association with an enterprise called CONIMPEX, the union hopes to provide services to members involved in international trade.

2.2.3 Financial and Economic Situation

UNACOOB is being successfully operated on a sound financial basis. Legislation is being proposed to give UNACOOB authority

for direct underwriting of insurance instead of its present operation as a commission agent for the National Insurance Institute. If this authority is granted, it will greatly increase the funds the cooperative will have within its management. The cooperative was not able to give an estimate of how much would be involved, but they would expect to have large deposits with BANCOOP if the bank gets authority to take deposits.

Reserves are being accumulated to support the expected increased insurance service. However, reserves identified on May 31, 1982 were small in relation to what might be required.

2.2.4 Conclusions and Recommendations

1. The cooperative is performing a valuable service for members in collecting and forwarding insurance premiums.
2. Capitalization is adequate for the present level of services but would not seem to provide a satisfactory basis for any substantial expansion into other lines of service.
3. Expansion into the supermarket at Cartago has been found to be very capital intensive with low margins. Further expansion of this service, as well as a proposed wholesale buying service, should be very cautious and only as new capital is generated.
4. It is not clear whether the cooperative has developed adequate plans and capital preparation for entry into a full line of insurance underwriting.

2.3 Federation of Coffee Growers Cooperatives (FEDECOOP)

FEDECOOP, a secondary level cooperative association, founded in 1962, has as its primary objective the improvement of all aspects of coffee production, processing, and marketing. It is by all measures the most successful cooperative venture in Costa Rica.

2.3.1 Membership

FEDECOOP currently has 29 affiliate cooperative associations, with more than 20,000 members benefiting from the services rendered by the federation and its affiliates.

2.3.2 Services offered

- coffee marketing at a remunerative price;
- supply of tools, equipment and other inputs, advantageous prices;
- coffee processing: storage, classification, sampling, selection, peeling, mixing and sacking or bagging;
- preparation of ground coffee for national consumption, of a quality that is competitive with regard to taste, aroma and yield;
- granting of timely and appropriate credit to cooperatives;
- cooperative training and technical assistance.

2.3.3 Financial and economic situation

Some economic data are given below corresponding to the 1970 period which, comparatively, gives evidence of the development reached by FEDECOOP in the past eleven years:

	<u>1970</u>	<u>1981</u>
Capital stock (millions of ¢)	2.8	18.3
Working capital (millions of ¢)	2.0	26.7
Fixed assets (millions of ¢)	1.8	19.8
Yearly amount of loans (millions of ¢)	36.1	324.3
Supplies, sales (millions of ¢)	5.8	109.8
<hr/>		
Coffee sales (quintals)	322.100	684.463
Mill, processing (quintals)	93.365	385.736
Torrefying*, sales (quintals)	8.285	14.836
<hr/>		
Annual surpluses (millions of ¢)	0.5	14.2

* Process coffee

2.3.4 Conclusions and Recommendations

- FEDECOOP incorporates almost all of the coffee growers' cooperatives operating in the country, which in turn have over 20,000 members who are small- and medium-size coffee growers.
- In 1980, the country harvested 2,645,335 fanegas of coffee, the largest crop Costa Rica ever had. Of this quantity, FEDECOOP harvested 775,127 fanegas, representing 30% of the total coffee production.
- It is estimated that 60% of the total production could be marketed by the cooperative system. However, the service capability of the cooperatives would have to be expanded and extensive funds invested in milling installations. In turn, greater financial resources will have to be made available to expand all of the federation's services. If an expansion takes place with sufficient economic resources for its execution, it would take approximately four years to achieve the expansion objective.
- Through the years, FEDECOOP has been gradually consolidating and developing itself economically and financially. During the 1970-81 period, its capital stock increased 6.5 times, the working capital increased 13.4 times, and fixed assets were multiplied 11 times. The loans to cooperatives went from ¢36 million to ¢324 million, that is, the total amount was increased 9 times. Coffee sales doubled. In 1981 the net surpluses were 36 times larger than those obtained in 1970. The total sales volume in the 1980-81 period amounted to ¢1,440,000,000.
- Other economic and social benefits brought about by FEDECOOP and its cooperatives are employment generation of over 2,000 workers,

generation of foreign exchange for the country through coffee exports, and tax contribution of over ₡210 million in 1981.

- The prices obtained by the federation for coffee sales in international markets have been equal to or higher than those obtained by the coffee growers who did not belong to cooperatives. Coffee has gained prestige because of its homogeneous quality and has firmly penetrated the market, having also generated better prices.
- The financing which was previously obtained from the Banco Nacional for working capital, has now been replaced by the federation's and affiliated cooperatives' own resources.
- No problems exist in recovering loans since these are collected as soon as the cooperatives' coffee is sold, by deducting in the respective settlement the amounts received from loans.
- Long-term financial resources are required to renew and expand the federation's and the cooperatives' milling installations and equipment.
- Educational and training programs for cooperative leaders, directors and officials should be expanded as well as assistance programs.
- At present no medium-term plan exists for expansion and diversification of the federation's services and of resources of all kinds that will be required for such expansion.

2.4 Regional Union of Cooperatives of Cartago Province (URCOOPAPA)

URCOOPAPA, a secondary level cooperative organization founded in 1973, unites cooperatives from different sectors of operation. The major objective of the union is, however, to improve all aspects of vegetable production and marketing, with a concentration on potatoes, onions, and carrots.

2.4.1 Membership

- a) COOPECOT is a credit union that has successfully entered other markets to better serve its members. It has 15 years of experience and a membership of 1400 persons, a majority of whom are small- and medium-size farmers. The cooperative has two branch offices in important agricultural areas which it serves by selling agricultural inputs, providing production credit and other services. The cooperative has good management standing and has distributed surplus to its members for several years.
- b) COOPEBAIRES is an agricultural cooperative formed by 150 farmers fully dedicated to vegetable production, especially potatoes. The main service provided to its members is the supply of farm inputs. It has had good management and surpluses have been distributed to its members.
- c. COOPECARMEN, R.L.

This is another credit union with 350 members, mostly farmers, who receive production credit and other services from the cooperative.

2.4.2 Services Offered

The most important activity of the union has been the development of the project to build and operate the plant for handling and storing of potatoes and onions located in "La Chinchilla de Oreamuno" near Cartago.

The packing plant has an initial capacity of 4,000 sacks per eight hour shift and a projected maximum of 10,000 sacks. It is expected that storage facilities, (at cold temperature and adequate humidity) will permit the handling of the following percentages of national vegetable production: 50% of the potato production, 40% of onion production, 80% of carrot production, and 80% of beet production. The plant's storage capacity is 32,400 sacks (46 kgs. each), and is

distributed in 12 silos holding 2,700 sacks each. All of them have excellent equipment for ventilation and cold storage, and the washing and grading installations are also of high quality.

2.4.3 Financial and Economic Situation

Recently the union has had some financial problems due to the immobilization of its working capital, dedicated to the construction of their office building. Its assets are solid and well priced, so it is expected that it will be able to solve its problems through increased operation with its members, especially as the potato project is implemented.

No other financial information was available for this organization.

2.4.4 Conclusions and Recommendations

The main areas which may be commented upon relate to the way in which the union intends to operate the plant. The following points need to be clarified by the union's management and board.

1. The marketing channels which the union will use to distribute its produce.
2. The pricing and payment system which it will use with farmers.
3. How the Union intends to handle its relations with member cooperatives.
4. The capitalization system that will be implemented by the union.
5. Break-even point of the plant's operation and costs for the complete processing of potatoes, onions and carrots.
6. The absorptive capacity of the market for each of the products must determine the purchasing policy of the union.

7. In determining costs, an important factor will be the financial cost of storing products, as well as weight and volume loss that will occur in storage.
8. Technical assistance and on-the-job training for co-op personnel is considered essential in the operation of processing equipment and product handling for the cooperative members of the union to operate successfully and profitably.

3. Primary Level Cooperative Associations

Numbers, Types and Concentrations.

Tables 19, 20 and 21 indicate the growth numbers, economic sectors served, geographical concentrations, and membership of the cooperatives.

TABLE No. 19					
GROWTH OF COOPERATIVES BY SECTOR AND PERIOD: 1959-1981					
				1981	
	'59	'69	'79	No.	%
Savings and loan	15	150	152	144	41.1
Agricultural	7	39	77	85	24.3
Consumer goods	8	5	10	13	3.7
Housing	4	7	5	5	1.4
Transport	1	1	7	9	2.6
Electrification	-	4	5	5	1.4
Industrial	-	1	17	21	6.0
Multiple	-	6	56	54	15.4
Handicraft	-	1	1	1	0.3
Recreation	-	-	-	4	1.2
Services	-	2	-	0	2.6
	35	216	330	350	100.0%

TABLE No. 20
EXISTING COOPERATIVES, BY PROVINCE AND ECONOMIC SECTOR
AS OF DECEMBER 31, 1981

Province	Savings & Loan	Agri-cult.	Indus-trial	Con-sumer	Multiple	Other	Total	%
San Jose	83	9	8	-	29	19	148	42.3
Alajuela	19	22	5	-	5	6	62	17.7
Cartago	13	12	-	2	3	2	32	9.1
Heredia	9	5	-	1	3	1	19	5.4
Puntarenas	5	13	4	2	6	1	31	8.9
Guanacaste	6	15	3	-	4	2	30	8.6
Limon	9	9	1	3	4	2	28	8.0
TOTALS	144	85	21	13	54	33	350	100.0
PERCENTAGES	41.1	24.3	6.0	3.7	15.4	9.5	100%	

TABLE No. 21
NUMBER OF MEMBERS OF COOPERATIVES CLASSIFIED ACCORDING
TO THE TYPE OF COOPERATIVES
DECEMBER 1981

TYPE OF COOPERATIVE	No. of MEMBERS	%
Savings and Loan	81.545	46.5
Agricultural	23.834	13.6
Industrial	4.746	2.7
Consumer	4.402	2.5
Multiple	31.025	17.7
Services*	29.767	17.0
	<u>175.319</u>	<u>100.0</u>

* Includes electric, transport, housing, recreation cooperatives.

Economic Indexes at Cooperative Level

Information was obtained from INFOCOOP about the corporate capital and, in part, the volume of operations of the cooperatives as of December 1979. This information is shown on Table No. 22.

TABLE No. 22
CORPORATE CAPITAL AND VOLUME OF OPERATION OF THE COOPERATIVES
CLASSIFIED BY ECONOMIC SECTORS TO DECEMBER, 1979
(in thousands of colones)

SECTOR	CORPORATE CAPITAL	VOLUME OF OPERATION
Savings and Loan	222.767	-
Agricultural	104.837	917.162
Industrial	178.072	1.038.320
Multiple	94.807	-
Electric	42.456	22.412
Consumer	3.055	36.822
Services and other	7.231	-
	<hr/> 653.225	

The savings and loan cooperatives are the ones that had the largest amount of corporate capital. They had 34% of the total corporate capital accumulated by the cooperative associations up to December 1979.

Although complete information was not available, it is evident that the agricultural cooperatives are the ones that show the largest volume of operations in that year; it amounted to 8.7 times their own capital at the end of 1979. The volume of operations of the industrial cooperatives amounted to more than five times the amount of their corporate capital at the end of the same year.

For 1980-81, the following data were obtained from INFOCOOP, in regard to coffee growers, dairy, beef, and forestry cooperatives' operations:

	<u>Corporate Capital</u>	<u>Volume of Sales</u>
Agro-industrial cooperatives	335	3,152
Agricultural cooperatives	<u>29</u>	<u>101</u>
TOTAL	364	3,203

The largest volume, or 50%, was generated by coffee-grower cooperatives. These cooperatives, through FEDECOOP, export somewhat more than 30% of production. Among the cooperatives with large operating volumes is COPEMONTENCILLOS, from export of beef.

3.1 National Cooperative of Salt Producers (COONAPROSAL)

COONAPROSAL, a primary level cooperative association founded in 1974, has as its primary objective the improvement of salt production and marketing. At the time of organization in 1974, Costa Rica imported about 70% of its salt. The cooperative is now producing over 95% of national consumption and is rapidly developing export capacity and expects to export a substantial volume in 1983.

3.1.1 Membership

The cooperative membership includes about 92% of the producers in the country. Those not members are in an area remote from the cooperative. The membership has increased from 60 members at the time of organization to about 160, with several new producers joining each year. Producers are small- to medium-size with individual capacities of 100 to 1,000 tons per year.

3.1.2 Financial and Economic Situation

A. Producer financing:

Original financing was provided by ₡80,000 capital from a previous salt producers association and by a loan of ₡200,000 from INFOCOOP. These funds were used primarily to lend to

producers to convert operations from wood fire drying to the more efficient and profitable sundrying. Funds were also used to help new producers get started. At present prices, it costs about \$100,000-135,000 to finance new production facilities. As indicated by the growth in membership and increase in production, this program has been very successful. Based on comments by the manager, there is little or no delinquency problem with producers.

The cooperative no longer finances production facilities for new producers because funds are not available. However, it does assist in financing current production costs by making an advance prior to harvest of up to 20% of the expected return to the producer.

In years prior to 1982, the producer was paid 100% for his salt at harvest. However in 1982, because of high money costs and limitations on availability of funds, the cooperative board of directors, on recommendation of management adopted a policy of limiting advances at harvest to 50% of the expected return to producers. Additional advances are made as the salt is marketed. (A very sound cooperative procedure).

B. Cooperative financing:

In 1978-79 the cooperative committed itself to extensive borrowing to finance two projects. One was to finance a salt refining plant in the production area. The other was for a ferryboat on the Gulf of Nicoya. The salt refining plant was financed by Rabo-Bank in Holland and by the contractor who constructed the plant. A total of about \$2,000,000 was borrowed, all to be repaid in dollars. The manager reported that there had been no problem in cash flow to meet payments until devaluation. They have a one year grace period on payments. The refining

plant planned to provide about one third of the capacity for domestic requirements and two thirds for export. It is now expected that the plant will be at full capacity in 1983 and export business will generate dollars needed to service the loan.

The ferryboat was needed to transport salt and for general public use across the Gulf of Nicoya. The previous ferry operator had abandoned the business when his old boat broke down. The Government of Costa Rica encouraged the cooperative to purchase a boat and take over operation since it required most of the service.

A boat was purchased at a cost of \$1,750,000 with a loan from a bank in Baltimore through a bank in Costa Rica. Repayment must be in dollars. With devaluation of the colon, the service cannot generate the dollars necessary for payment. Proposed legislation has been presented to the National Assembly for the Government of Costa Rica to take over the obligation for payment of the loan and to operate the ferry as a public service.

The cooperative is a member of BANCOOP and hopes to be able to finance about one half of the funding needed for advances to producers from that source. The balance of that financing would be from commercial banks. The cooperative also hopes to eventually provide loans to help finance new producers through loans from BANCOOP.

C. Capital Program

Member capital is generated by a per unit capital retain of $\text{¢}3.00$ per 100 pounds of salt marketed which is retained from members' account settlement. Additional capital is generated by retention of operating profits. No analysis has been made regarding the adequacy of the rate of capital accumulation.

3.1.3 Conclusions and Recommendations

The cooperative appears to have been well founded and provides valuable services for its members and for the country.

Sound cooperative principles have been adopted and it appears they are being followed by the board of directors and management.

Devaluation of the colon has resulted in serious financial problems in debt repayment in an already over-leveraged debt situation. However, the cooperative is developing plans to cope with the problems.

It might be worthwhile to examine this cooperative in more detail, particularly its past relationship with INFOCOOP, and the details of its present financial condition and profitability.

4. Cooperative Capitalization System/Weaknesses and Recommendations

4.1 The Present Situation

Through visits to cooperatives and interviews held with managers, staff and board members, the team realized that there is not a clear policy among cooperatives with respect to capitalization. In general, capital has been subscribed and paid by members in both first and secondary level organizations, but once that requirement is met, there is no mechanism to continue a capitalization process. Some cooperatives will capitalize their surplus, others will capitalize only part and distribute the rest. A third group either distributes all, or having no surplus, has nothing to distribute or to capitalize.

This lack of awareness of the need the cooperative has, as any other enterprise, to build up capital and not work only with credit, is a common situation in many Latin American countries. Cooperatives there have been developed with a heavy emphasis on their condition as non-capitalistic organizations. This orientation, and a very low interest rate paid on capital has prevented a capital build-up in cooperatives.

A clear need exists, if the cooperative system wishes to expand on a solid basis, to determine a capitalization policy, presenting different alternatives to the cooperatives which they can adopt according to their type of operation.

4.2 Capitalization Considerations

As a general principle, capitalization of agricultural cooperatives should involve, to the maximum degree possible, the direct investment in capital (net worth) by the user-members.

The impetus to form a cooperative should come from those expected to benefit from it, the member-users. If there is no "felt need" for the cooperative by that group, it is questionable whether it will survive except through continued stimulation and financial support from external sources.

In developed countries, it is expected that a cooperative will require ownership capital not greatly different from a proprietary business of the same general nature or service. Economics dictates this. This means that the cooperative members will furnish ownership capital equal to that expected to be furnished by creditors for financing long-term assets and about 25% of the capital needed for short-term requirements with creditors expected to furnish 75%.

It is recognized that in developing countries an unusual level of financial assistance will be required in the initial phases of organization and operation. Nevertheless, the same general principal should apply, in that the user-members should have a substantial investment in relation to their financial capabilities at the beginning. In addition, there should be a firm commitment to use the services of the cooperative, and additional capital should be committed in relation to the level of use. This may be accomplished by providing for a per unit capital retain (even at a low level) and by allocation and capitalization of profits.

Under the above described circumstances, it should be expected that the cooperative will have at least 20% of its financial requirements in net worth. At least 10% of the requirement should come from investment by members, the balance if need be, could come from an investment

in the cooperative's net worth by a sponsoring organization. The actual level of net worth in relation to total funding requirements would be determined by the feasibility analysis for the project, profit expectations and cash flow. In any event, the basic capital comprising investment by members and supplemental investment by a sponsoring organization, should not be less than 20%.

Under some circumstances, the member's capital may be subscribed by a pledge of his personal credit evidenced by a note with scheduled payments, backed by adequate collateral. It must be recognized however, that this does not provide immediate cash unless the cooperative has a source of borrowing where the note and collateral may be used as security for a loan.

The significant points are that the net worth investment should be sufficient to:

1. Provide initial risk coverage (a margin of comfort for credit).
2. Provide a sense of ownership and responsibility to members.
3. Provide a base of funds for which there is no commitment for repayment except from future profits or new investors.

G. COOPERATIVE DEVELOPMENT AND PERSPECTIVES

Present government statements on development policies have emphasized the importance of cooperatives as the type of organization that will allow the country to consolidate its democratic political structure through "economic democracy." This government position is offering a whole area of new possibilities for cooperative action for which the Costa Rican cooperative system must be prepared.

The feasibility of organizing as cooperative ventures several government-owned industries is being seriously considered. The government is also considering the possibility of implementing a series of new agroindustrial projects through existing, or newly formed, cooperatives.

This being the case, there is an urgent need to strengthen the cooperative organizations, especially those who can have the greatest impact on overall cooperative development: CONACOOB-INFOCOOP-BANCOOP. Through them, and with their active participation, as well as that of all other secondary level organizations, a cooperative development plan and an operational strategy for its implementation should be prepared.

1. Supply and Demand Credit for Cooperatives

According to a study made by BANCOOP based upon a sample, the short-term credit demand for the cooperatives in 1982 is around one billion colones. Not included in this study is the credit demand for medium- and long-term, but it can be estimated at a similar amount.

The financing department of INFOCOOP estimates that the annual demand for credit by the cooperatives is approximately $\text{¢}200$ million. This estimate clearly does not reflect the real demand probably because the cooperatives do not request their total credit needs because they already know that they will not be satisfied by INFOCOOP's limited resources.

As in the past, the demand for credit by the cooperatives may be handled by the government commercial banks, INFOCOOP, FEDECOOP, and private and foreign banks. If the bill for a revised law is approved, BANCOOP expects to gradually cover a major part of the demand.

To begin the activities of BANCOOP, \$5 million will be provided from funds of PL 480, and the bank expects that in the future it will continue to be one of the institutions channeling these resources.

2. Technical Assistance

In order to meet the government's challenge, the cooperative system needs technical assistance support at all levels of operation. Priority should be assigned to the third level institutions (CONACOOP-INFOCOOP-BANCOOP) and through them other levels should be reached through well-defined programs.

CONACOOP, in the preparation of the development plan, needs support to coordinate the cooperative system. It needs to define its stages and the goals for each of them, through a joint activity with INFOCOOP, which will be the implementing agency of the plan.

INFOCOOP needs support to strengthen its promotion and development activities, as well as supervision and control. For the latter, auditing and management upgrading are the most relevant.

BANCOOP needs support to become an investment banking institution with a well defined interest in financing sound projects that will promote economic and social development through cooperatives. A set of clear credit policies needs to be defined and established. A project appraisal capacity, as well as project implementation, supervision, and control systems have to be developed. Operating procedures for a fast and risk free channeling of loans will be important, considering that they need to improve the present level of service provided to cooperatives by the banking system.

In general, and considering that the bank is just initiating its activities, a comprehensive and intense technical assistance program has to be developed and implemented through long-term assistance that will help the bank advance on a stage to stage consolidation.

ANNEX A.

A. **Objective for which the technical services are to be used:** The principal objective of the study will be to determine the level of financial resources and the best institutional mechanisms to channel banking services to the agricultural cooperative sector, in order to consolidate and strengthen the capacity of the cooperatives to compete as private enterprises providing goods and services to the members.

B. **Description:**

Analyze and evaluate the financial markets, their structure and applicable legislation in Costa Rica as they affect agricultural cooperatives farm credit, including:

- a. Financial and economic policies which either constrain or enhance the cooperatives' ability to obtain credit,
- b. Interest rate policies and how these affect the availability of credit,
- c. The roles and operations of the various existing banking and financial institutions in providing credit to the cooperative sector including the recently created cooperative bank in an attempt to identify possible gaps or duplications in the mix of services offered.

Analyze and evaluate the agricultural cooperative sector of Costa Rica with special emphasis on the relationship among:

- Cooperative Development Institute (INFOCOOP);
- The various federations;
- A sample of the primary cooperatives; and
- Other cooperative organizations or institutions involved in the cooperative sector.

Emphasis should be placed on the performance of the cooperative enterprise as a business, the equity structure and capitalization mechanisms as well as the debt carrying capacity, including an appraisal of the credit needs of the enterprises. Additionally, the potential for investment in a cooperative sector financial institution such as the Cooperative Bank should be gauged in terms of possible financial support and use of the services by cooperatives.

3. Make recommendations as per the following:

- a. The changes in existing policies which are needed to increase the efficiency of the agricultural cooperative farm credit system in the country;
- b. The most suitable institutional channel for agricultural and cooperative credit with an outline of the general/specific parameters of the various institutions operating in the system;
- c. The institution-building measures necessary to strengthen the agricultural credit and cooperative sector at all levels; and
- d. The development strategy and directions for support to the agricultural cooperative farm credit system in the future.

ANNEX B.

INSTITUTIONS VISITED

- INFOCOOP
- BANCOOP
- FEDECOOP
- FEDECREDITO
- CONACOOOP
- UNACOOOP
- MINISTERIO DEL TRABAJO
(Depto. de Organizaciones Sociales)
- URCOPAPA
- COOPECOMUN (Turrialba)
- COOPEARAGON (Turrialba)
- CONAPROSAL
- COOPESA
- CILCOOP
- CODESA
- FAO
- BANCO NACIONAL
- BANCO CENTRAL
- MINISTERIO DE AGRICULTURA (SEPSA)
- PRESIDENCIA DE LA REPUBLICA
(Oficina Asesoría Cooperativa)
- AID

ANNEX C.

BACKGROUND INFORMATION ON COSTA RICA

B. DIVISION POLITICA Y ADMINISTRATIVA DEL PAIS

CUADRO 1

COSTA RICA. División territorial y densidad de población a julio de 1980

Provincias	Km ²	N ^o Cantones	N ^o Distritos	Población	Hab./Km ²
1. San José	4.957.1	20	107	832.075	168
2. Alajuela	9.718.1	15	104	387.176	40
3. Cartago	3.031.1	8	46	243.609	80
4. Heredia	2.673.5	10	43	159.761	60
5. Guanacaste	10.199.6	11	47	214.490	21
6. Puntarenas	11.302.2	10	43	266.563	24
7. Limón	9.218.4	6	22	141.773	15
Costa Rica	51.100.0	80	412	2.245.437	44

Fuente: Elaborado por SEPSA, basado en información suministrada por la Dirección General de Estadística y Censos.

Algunos parámetros económico-sociales

CUADRO 9

COSTA RICA. Saldo de intercambio de bienes para
1973 - 1980
(Miles de colones)

Año	Exportaciones CIF	Importaciones CIF	Saldo de Intercambio
1973	2.280.354	3.027.914	(-747.560)
1974	3.760.530	6.109.100	(-2.428.562)
1975	4.212.022	5.963.136	(-1.755.314)
1976	5.063.717	6.625.547	(-1.561.030)
1977	7.072.519	8.784.301	(-1.711.782)
1978	7.386.305	12.012.537	(-4.030.069)
1979	7.982.517	12.012.586	(-4.030.069)
1980	8.539.061	13.138.213	(-4.599.152)

FUENTE: Dirección General de Estadística y Censos.

Aspectos más relevantes del sector agropecuario

CUADRO 22

COSTA RICA.

Composición de la población ocupada por rama de actividad
(Años 1976, 1978 y 1980)^{a/}

Rama de actividad	1976		1978		1980	
	Habitantes (Miles)	%	Habitantes (Miles)	%	Habitantes (Miles)	%
A. Agricultura	214.6	34.8	208.7	30.4	190.9	27.4
B. Industrias ^{1/}	90.3	14.6	104.3	15.2	117.9	16.3
C. Construcción	40.2	6.5	50.9	7.4	56.2	7.7
D. Servicios Básicos ^{2/}	34.4	5.6	41.7	6.1	47.5	6.6
E. Comercio ^{3/}	100.8	16.3	122.1	17.8	131.2	18.1
F. Servicios ^{4/}	133.3	21.6	158.1	23.0	171.0	23.6
G. Actividades no bien especificadas	3.2	0.6	1.2	0.1	2.0	0.3
Total	616.8	100.0	687.0	100.0	724.7	100.0

^{a/} A julio de cada año.

^{1/} Incluye industrias extractivas.

^{2/} Incluye electricidad, gas, agua, transportes, almacenaje y comunicaciones.

^{3/} Incluye comercio al por mayor menor, hoteles, restaurantes y establecimientos financieros.

Fuente: Encuesta de Hogares, Empleo y Desempleo.
Ministerio de Trabajo y Seguridad Social, Dirección General de
Estadística y Censos.

3. LA EMPRESA AGROPECUARIA

CUADRO 36

COSTA RICA. Distribución de la tierra según tamaño de la explotación

Estratos ha	Explotaciones		Superficie		Tamaño Promedio Ha
	Número (miles)	Porcentaje	Ha (miles)	Porcentaje	
A. Sin tierra	4.6	5.6	0.0	0.0	0.0
B. Con tierra	77.0	94.4	3.122.4	100.0	40.6
1. Menos de 1	14.4	17.7	6.2	0.2	0.4
2. 1 a menos de 5	20.8	25.5	52.8	1.7	2.5
3. 5 a menos de 10	9.1	11.2	64.8	2.1	7.1
4. 10 a menos de 20	8.8	10.8	122.8	3.9	14.0
5. 20 a menos de 50	12.4	15.2	387.1	12.4	31.1
6. 50 a menos de 100	5.8	7.1	396.5	12.7	68.4
7. 100 a menos de 200	2.9	3.6	391.7	12.5	134.1
8. 200 a menos de 1.000	2.4	3.0	915.8	29.3	377.8
9. 1.000 y más	0.3	0.3	784.7	25.1	2.615.6
C. Total	81.6	100.0	3.122.4	100.0	38.3

FUENTE: Dirección General de Estadística y Censos. Censo Agropecuario 1973.

6. SECTOR EXTERNO AGROPECUARIO

a) Exportaciones b) Importaciones

CUADRO 66

COSTA RICA. Participación de los productos agropecuarios en el total de las exportaciones. Valor FOB (Millones de colones)

Año	Total	Agropecuario	Porcentaje
1974	3.760.5	2.626.1	69.8
1975	4.212.8	3.007.8	71.4
1976	5.053.7	3.534.7	69.8
1977	7.072.5	5.262.0	74.4
1978	7.386.3	5.405.3	73.2
1979	7.982.5	5.809.0	72.8
1980	8.539.0	5.371.9	62.9

FUENTE: Dirección General de Estadística y Censos.

CUADRO 69

COSTA RICA.

Participación del Sector Agropecuario en el total de las importaciones CIF de 1974 a 1980
(Millones de colones)

Sector externo agropecuario

Producto interno bruto	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980 ^{a/}
A. Producto total	6.524.5	7.137.0	8.215.8	10.162.4	13.215.7	16.804.6	20.675.6	26.330.7	30.193.9	34.584.4	41.534.9
B. Producto agropecuario	1.469.3	1.443.4	1.601.6	1.962.9	2.522.4	3.417.8	4.212.9	5.762.6	6.163.7	6.398.6	7.204.8
C. Porcentaje	22.5	20.2	19.5	19.3	19.1	20.3	20.4	21.9	20.4	18.5	17.4

a/ Cifras preliminares

FUENTE: Banco Central de Costa Rica,
Sección Cuentas Nacionales.

NATIONAL BANKING SYSTEM
CREDIT ALLOCATIONS DISBURSED PER ACTIVITY

Balance in Millions of Colones

December

DETAIL	1977	1978	1979	1980	1981
AGRICULTURE	<u>1.590,7</u>	<u>1.997,2</u>	<u>2.193,7</u>	<u>2.581,3</u>	<u>3,303,7</u>
Investment	853,3	981,9	1.127,4	1.278,9	1.345,9
Operation	737,4	1.015,3	1.066,3	1.302,4	1.957,8
LIVESTOCK	<u>1.647,5</u>	<u>1.930,3</u>	<u>2.289,0</u>	<u>2.654,1</u>	<u>2.693,2</u>
Investment	1,302,6	1,556,8	1,824,3	2,015,1	2,108,4
Operation	344,9	373,5	464,7	639,0	584,8
INDUSTRY	<u>1,900,4</u>	<u>2,388,3</u>	<u>2,672,6</u>	<u>2,726,9</u>	<u>2,977,7</u>
Investment	872,3	1,229,0	1,348,4	1,373,9	1,369,4
Operation	1,028,1	1,159,3	1,324,2	1,353,0	1,608,3
ELECTRICITY AND OTHER ENERGY SOURCES	<u>2,1</u>	<u>1,9</u>	<u>1,2</u>	<u>2,7</u>	<u>1,6</u>
Investment	1,7	1,1	,9	2,3	0,7
Operation	,4	,8	,3	,4	0,9
COMERCE	<u>408,0</u>	<u>468,7</u>	<u>746,6</u>	<u>914,0</u>	<u>994,7</u>
Investment	130,4	158,8	277,4	325,2	333,2
Operation	277,6	309,9	469,2	588,8	661,5
SERVICES, TRANSPORT AND STORING	<u>625,4</u>	<u>749,9</u>	<u>902,0</u>	<u>907,9</u>	<u>905,3</u>
Investment	557,4	662,0	788,1	799,7	814,4
Operation	68,0	87,9	113,9	108,2	90,9
HOUSING	<u>784,7</u>	<u>1,048,2</u>	<u>1.417,3</u>	<u>1.648,1</u>	<u>1,819,3</u>
Construction	663,7	870,3	1.181,2	1.365,6	1.516,2
Buying	121,0	177,9	236,1	282,5	303,1
PERSONAL CREDIT	<u>304,5</u>	<u>407,1</u>	<u>556,4</u>	<u>695,4</u>	<u>610,4</u>
NON CLASIFFIED CREDIT	<u>40,5</u>	<u>35,5</u>	<u>31,6</u>	<u>37,0</u>	<u>46,5</u>
EXTERNAL CREDIT	<u>0,0</u>	<u>0,0</u>	<u>0,0</u>	<u>0,0</u>	<u>0,0</u>
TOTAL	<u>7.303,8</u>	<u>9.027,1</u>	<u>10,810.4</u>	<u>12,167,4</u>	<u>13.352,4</u>

Exclude Banco Central de Costa Rica

Source: Central Bank of Costa Rica

ANNEX E.

RURAL CREDIT DEPARTMENT OF THE BANCO NACIONAL AND SMALL PRODUCER
OFFICES OF THE COMERCIAL BANKS
CREDIT ALLOCATIONS DISBURSED PER ACTIVITY
BALANCE IN MILLIONS OF COLONES
DECEMBER

Detail	1977	1978	1979	1980	1981
AGRICULTURE	<u>268,6</u>	<u>306,0</u>	<u>360,3</u>	<u>397,6</u>	<u>473,6</u>
Investment	149,0	196,6	230,4	249,1	250,9
Operation	119,6	109,4	129,9	148,5	222,7
LIVESTOCK, HUNTING AND FISHERY	<u>490,4</u>	<u>542,8</u>	<u>595,5</u>	<u>660,4</u>	<u>662,6</u>
Investment	456,6	501,3	541,2	586,2	592,4
Operation	33,8	41,5	54,3	74,2	70,2
INDUSTRY	<u>1,2</u>	<u>1,4</u>	<u>1,4</u>	<u>1,0</u>	<u>1,5</u>
Investment	1,1	1,3	1,3	1,0	.8
Operation	,1	,1	,1	0,0	,7
TOTAL	760,2	850,2	957,2	1,059,0	1.137,0

Source: Central Bank of Costa Rica.

ANNEX F.

PROJECT OF THE LAW TO CREATE BANCOOP. SUBMITTED TO THE LEGISLATIVE ASSEMBLY IN AUGUST 1982. BY THE PRESIDENT OF THE REPUBLIC OF COSTA RICA.

ARTICLES OF LAW

ARTICLE 1. The organization and operation of a banking entity called "BANCO COOPERATIVO COSTARRICENSE, R.L.", that may be abbreviated as "BANCOOP, R.L.", is hereby authorized.

ARTICLE 2. The organization and operation of BANCOOP, R.L. shall be governed by the Law of Cooperative Associations, Nos. 6755 of May 5, 1982, as a cooperative union; however, as a Union, BANCOOP, R.L. shall not be subject to the benefits granted under the second paragraph of Article 136 of the aforesaid Law. Likewise and in matters reasonably applicable to its organization, it shall comply with the requisites for private banks that are required under the Law of the National Banking System. The Auditor's Office of the National Banking System shall specifically be in charge of supervising BANCOOP, R.L. without precluding the establishment of internal vigilance bodies under its bylaws.

ARTICLE 3. BANCOOP, R.L. may -- in connection with Costa Rica cooperative associations and other non-profit associative forms -- and only with them, carry out operations involving the investment of funds and receiving deposits and all operations that create liabilities, authorized by the laws and regulations to the State-owned Commercial Banks. As regards all other individuals and the State and its institutions, BANCOOP, R.L. may carry out all operations that are permitted under the law and its regulations to private banks.

ARTICLE 4: In case BANCOOP, R.L. should decide to make investments of funds for loans in connection with Costa Rican cooperative association and other non-profit associations, corresponding to the capitalization sections of the State banks, or those defined under Title V of the Organic Law of the National Banking System as mortgage banks, it shall submit to the Auditor's Office of the National Banking System a study on the organization and operation of the respective section and it may not carry out such operations without the express authorization granted by the aforesaid Auditor's Office.

ARTICLE 5: BANCOOP, R.L. may be subject to the same operations that are carried out by the Central Bank of Costa Rica with the State-owned Commercial Banks, pursuant to the powers granted it under Article 62, Chapter III of its Organic Law.

ARTICLE 6: The net worth of BANCOOP, R.L. shall be variable and unlimited and will be made up of its capital stock with the

contributions of the Costa Rican cooperative associations and other non-profit associations joining the union. The quotas or contributions making up the capital stock may only be assigned to Costa Rican cooperative associations or other non-profit associations, or to BANCOOP, R.L. itself, provided the latter pays for them at a price not lower than the face value of such quotas. These may be likewise assigned to BANCOOP, R.L. in payment of its own credits. The legal reserves required from private banks shall also form part of its net worth, it being exempt under the present law from the obligation of making the reserves ordered under the Law of Cooperative Associations. Furthermore, all donations, inheritances, legacies, subscription rights or grants it receives shall form part of its net worth.

ARTICLE 7: All cooperative or non-profit associations receiving loans from BANCOOP, R.L. must subscribe or have subscribed investment certificates or else capital contribution certificates of BANCOOP, R.L., for a sum not less than 5% of the loan or loans received by them, and such paid subscription shall be maintained for the term of such credits. These investment quotas shall earn an interest that is lower than the one equivalent to the distribution of surpluses corresponding to the contribution certificates and shall be subject to the capitalization policies that are established by the Bank. These shall grant the right to speak up but not to vote at the General Assemblies. For banking legislation purposes, subscriptions of investment certificates shall be considered as part of the capital stock and reserves of BANCOOP, R.L.

ARTICLE 8: Costa Rican cooperatives and non-profit associations with an operating period of at least five years may become associated to BANCOOP, R.L., provided they pay the capital contribution quota set by the Administration Council and provided they are economically, financially and administratively solvent in the Council's opinion. Non-cooperative non-profit associations may have representation in the Administration Council, but they may in no case have a majority in this Council.

ARTICLE 9: The Administration Council of BANCOOP, R.L. through a majority vote to be established in the union's bylaws, may accept banks and financial, cooperative or solidary entities from other countries as associates, under the terms and conditions to be determined by said Council and under the union's bylaws.

ARTICLE 10: The bylaws governing this law must be issued within a term not exceeding 90 days.

ARTICLE 11: This law shall become effective as of its publication date and is for public purposes according to law.

TRANSITORY ARTICLE I: Authorization is hereby granted for the definitive transfer and assignment to BANCOOP, R.L., of all the assets and liabilities of the "Banco Costarricense de la Cooperacion, S.A.", which banking corporation is owned by Costa Rican cooperative associations, and registered in the Government Registry of Commercial Concerns, volume number 267, page number 132, entry number 112. Consequently, the cooperative associations presently possessing shares in said bank may transfer their stock in said bank to BANCOOP, R.L., in payment of subscriptions of contribution quotas. All the aforesaid assignments shall be controlled and supervised by the Auditor's Office of the National Banking System, and be approved with the respective signature of the Auditor General. Once all the aforesaid transfers are made, the Public Registry, at the request of the Auditor General of Banks shall register the dissolution and liquidation of the Banco Costarricense de la Cooperacion, S.A. In no case may the dissolution and liquidation process of the Banco Costarricense de la Cooperacion, S.A. exceed the term of three months from the moment all the aforesaid assignments are made. The Auditor's Office of the National Banking System and the Public Registry shall collaborate in whatever is necessary to comply with the provisions set forth hereunder.

TRANSITORY ARTICLE II: Without precluding any opportune or periodic resolutions that may be adopted by the General Assembly of representatives or delegates of BANCOOP, R.L., according to the economic conditions both of the Bank and the country, particularly due to the inflationary process, the minimum capital contribution quota at the moment of organizing the union shall be one hundred thousand colones per associate and the minimum capital stock to be subscribed and paid-in for the operation of BANCOOP, R.L. shall be seven million five hundred thousand colones.

Be the foregoing communicated to the Executive Power. Legislative Assembly -- San Jose, on the _____ day of the month of _____ nineteen hundred and eighty.