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CONFERENCE REPORT

Executive Workshop on Farmer/Agribusiness Joint Ventures

SAN JOSE, COSTA RICA

April 7–10, 1983

Editor:

GEORGE A. TRUITT

Organized by:

Cámara Nacional de Agricultura

The Fund for Multinational Management Education

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I. AGENDA

EXECUTIVE WORKSHOP ON FARMER/AGRIBUSINESS JOINT VENTURE

Hotel Herradura, San José, Costa Rica

April 7-10, 1983

AGENDA

Thursday,
April 7

4:00 PM Registration (Lobby)

6:00 Cocktails

Friday,
April 8

8:30 AM Plenary Session (Salón Piscina)

Moderator:

Lic. R. García,
Executive Director
Cámara de Agricultura

Panel:

J.R. Lizano S.,
President
Cámara de Agricultura

Robert E. Driscoll,
Executive Vice President
FMME

8:45 Development of Agricultural
Production and Export

Lic. Fernando Berrocal
Minister of the Presidency
of the Republic of Costa Rica

Francisco Morales
Minister of Agriculture

Ing. Mario Carvajal
Minister of Exports

10:00 Coffee Break

10:20 Agribusiness in Costa Rica -
Private Sector View:

Juan Ráfael Lizano Sáenz
President
Cámara de Agricultura

Ing. Edgar Quir6z G.
Director
LIANPA; S.A.

- 10:40 The Financial Environment for
Agricultural Investment and Export:

Olivier Castro
General Director of the Central Bank
- 11:00 Discussion
- 11:40 New Dimensions of Agribusiness Project Analysis:

George A. Truitt,
Director
Agribusiness Project,
FMME
- 12:00: PM Lunch (Comedor del Seminario)

Group Sessions Rooms (D, E, F, G)
- 2:00 Analyses of Case Histories Involving Agribusiness
and Farmers of Limited Resources
- 3:30 Coffee Break
- 4:00 Farmer/Agribusiness Relationship in Costa Rica -
Practical Conclusions
- 5:30 Drafting of Group Conclusions (Committees)
- 6:30 Cash Bar (Swimming Pool)

Saturday,
April 7

Plenary Session (Ponderosa)

Moderator:
Robert E. Driscoll

- 8:30 AM Group Reports on Farmer/Business Relationship
- 9:10 Discussion
- 10:00 Coffee Break
- 10:30 The Problems and Opportunities of Costarican
Agribusiness:

H. Elton Harter
General Director
Gerber Products of Costa Rica, S.A.

Sources of Capital for Agribusiness:

11:10 Dr. Patricio Piñeda A.
Agribusiness Specialist
Interamerican Development Bank

11:30 Discussion

12:00 PM Lunch (Rest. Bonanza)

Group Sessions (Rooms J, K, L, M)

2:00 Analysis of Opportunity Profiles

3:30 Coffee Break

4:00 Guidelines for Project Design by Crop

5:30 Drafting of Group Conclusions

6:30 Cash Bar (Swimming Pool)

Sunday,
April 10

7:00 AM Plenary Session (Ponderosa)

Moderator:
Robert E. Driscoll

8:30 Group Reports on Crop Opportunities

9:30 Discussion

10:00 Agricultural Credit:

Joffre Zambrana
Banco Nacional

10:30 Coffee Break

11:00 Round Table: Key Issues

Moderator:
George A. Truitt

Panelists: Malcolm E.K. Land
Edgar Quiróz G.
Amaro Rodríguez
Bastiaan Schouten
Francisco Morales

1:00 PM Lunch (Ponderosa)

1:30 The Caribbean Basin Initiative

George Jones
Chargé d'Affairs, a.i.
American Embassy in Costa Rica

2:00 Adjournment

Robert E. Driscoll
J.R. Lizano Sáenz

II. SUMMARY OF CONCLUSIONS

The Workshop attracted a total of 72 participants. Of these, 38 represented Costa Rican institutions and 34 foreign institutions. Among the Costa Rican participants were 17 farmers, 11 agribusiness executives (including 3 representatives of the Cámara Nacional de Agricultura), 7 Government observers, and 3 spokesmen of voluntary organizations. The foreign contingent consisted of 21 representatives of agribusiness based in the United States (including 10 residents of Costa Rica), and 13 of public and private international institutions (including 4 members of FMME personnel). (See Appendix 1, List of Participants.)

1. THE PROCESS

The agenda of the Workshop began with the formal presentations of the Government representatives. The Ministers of the Presidency, Export, and Agriculture, as well as the General Director of the Central Bank explained the policies of the Costa Rican Government in the face of the current situation. The President and a member of the Board of the Cámara Nacional de Agricultura voiced the views of the private sector on agribusiness and non-traditional exports.

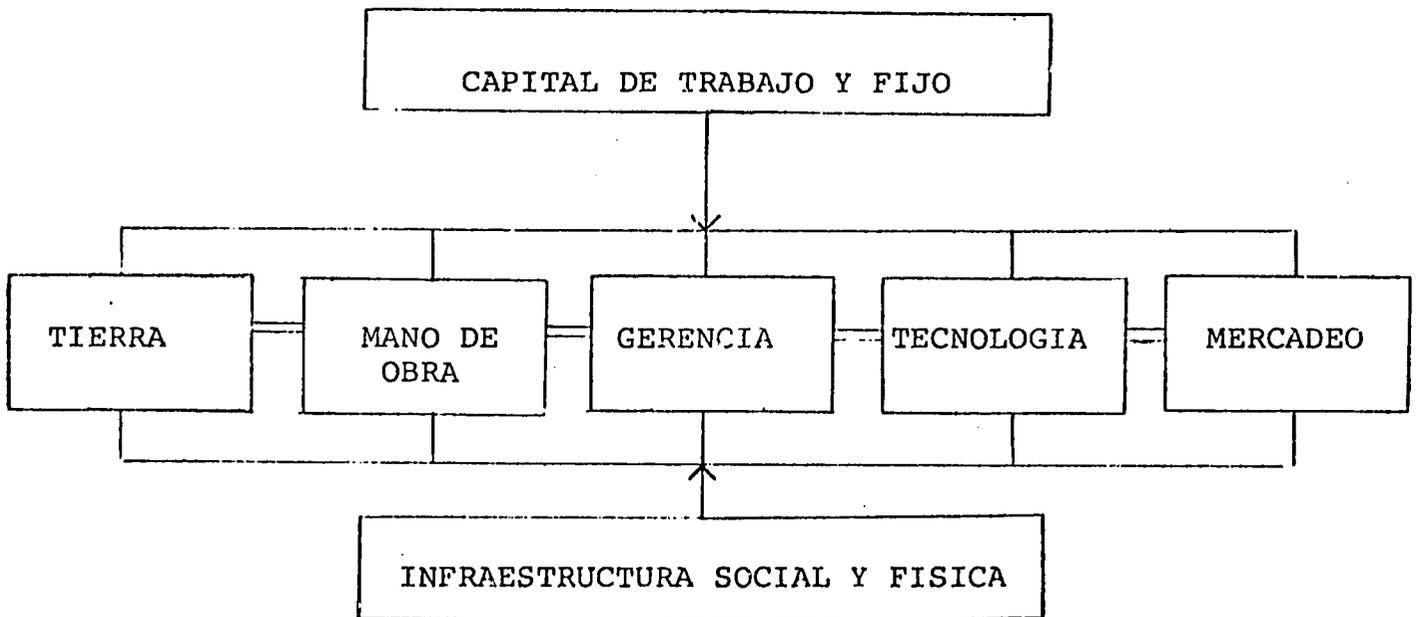
Working groups (4 parallel groups) first dealt with case history analyses of farmer/agribusiness joint ventures. Discussed were the experiences of Hanover Brands Co. which contracted production of cauliflower and broccoli with 2,000 Guatemalan Indian farmers; of Standard Fruit which contracted production of bananas with a Honduran cooperative; of McIlhenny Co. which promoted the production of hot peppers through a religious center in Honduras; and of the case of Mumias Sugar Co. of Kenya that was created by Booker Agriculture International of England in association with 13,000 independent sugar cane planters.

After discussing the conclusions of the groups which analyzed the historical cases of farmer/agribusiness joint ventures the Workshop, once again using the method of working in groups, undertook the evaluation of four Opportunity Profiles. Using the '5 and 2' model (Fig. 1), they examined the prospects of promoting production, processing, and exportation of various products (see Chap. IV).

The final full session heard recommendations of the promotion of crops, presented by the spokesmen of the groups, and began an analysis of priorities - the key topics of the Workshop.

Figura 1

MODELO "5+2" DE AGRINEGOCIO PRIVADO



2. KEY TOPICS

The three Ministers of State who participated in the inaugural session of the Workshop delineated the context of agribusiness in Costa Rica in 1983.

Currently Costa Rica is involved in a very serious process, the goal of which is to maintain the democratic system and a model of development based on free enterprise. Costa Rica is burdened with the high cost of oil imports. The traditional exports of coffee, sugar, bananas and cocoa have seen reductions because of low world prices and, in the case of cocoa, disease. Consequently, the country's external debt rose between 1978 and 1982 from US\$ 860 to 4,000 million. To overcome the economic crisis, it was necessary to put into effect a severe devaluation of the colón by 600% and to impose a series of austere taxes. These Draconian measures have had effect, given the improved ratio of the colón to the dollar from 65:1 to 44:1 and the lowering of inflation from 80% to 7%.

In the agricultural sector, certain internal consumption products such as rice, kidney beans, milk, eggs, corn and oilseeds are being promoted. Above all, priority is being given to non-traditional export products like pineapple, citrus, coconut, tubers, macadamia, palmetto, vegetables and fruits, flowers, and new products like sunflower. Given that 60% of Costa Rican exports depend on traditional products, it will not be possible to effect an abrupt change. However, in the long run the production matrix has to change. It will be necessary to introduce new technology in order to achieve the goal of diversification of agricultural export products. The procurement of advanced technology and the penetration of the external markets will require an integration with foreign business. At the same time, the active participation of the Costa Rican farmer will assure the success of the actions of foreign business. After the unfortunate experiences with the model of import substitution, Costa Rica wants to promote the exportation of products which enjoy a comparative advantage. It will require adjustments in the banking systems in order to achieve this end, if the non-traditional products, especially those which are long-range, are to flourish.

The final session of the Workshop summarized the observation of the participants as to how to proceed. The importance of the following key topics was emphasized:

a. Market

A minute analysis of the export markets is fundamental for the planning of the other factors of agribusiness oriented toward export. That is to say, to satisfy the requisites of the export market it is necessary to adjust production factors such as variety, size, color, ripeness and packaging. If the price is not competitive, the systems of production must be revised.

b. Systems

Once the opportunities to export are identified in specific terms, it is necessary to coordinate all the factors of production and marketing in order to satisfy the requisites of the market in a way which will permit an economical scale and the use of available resources. A systems strategy avoids trading commitments which are not honored for lack of production and the loss of investment in production for lack of markets.

c. Collaboration between Agribusiness and Farmers

Historical cases show that farmer/agribusiness joint ventures are feasible. However, it will require a great deal of effort in order to arrive at an efficient interrelation, through the organization of the farmers and the facilitation of the transfer of technology necessary to arrive at competitive levels.

d. Credit

The use of improved technology involves additional investment. The capital necessary to buy inputs or to build irrigation works frequently is not within the reach of the farmer of limited resources. To extend international credit lines to him it is necessary to revise the procedures of the national banks which tend to favor traditional products over innovative ones, and to lower interest rates, especially when dealing with long-cycle crops. Presently the Costa Rican government maintains high interest rates and punishes the exporters through taxes and differential exchange rates, as a part of the austerity measures arranged with the IMF in order to adjust public finances. One has to hope that these burdens on the producer/exporter will be rescinded to the degree as the deficits of the public sector will be diminished. The impact of these restrictions upon exporting is indubitably negative.

e. Division of Responsibilities

After a period of uncertainty regarding the respective roles of the private sector and the government of Costa Rica, the emerging consensus allots production, negotiation, and economic incentives to the private sector, and to the public sector are assigned the supporting services necessary for the proper functioning of private enterprise and control in the defense of social interests. The facultative and regulatory functions of the Government include market information, quality control, financial control of foreign trade, regulation of the market, equitable division of economic benefits, and sharing in the losses that might result from the economic policies necessary for the country's welfare.

3. RECOMMENDATIONS OF POLICIES TO PURSUE IN ORDER TO ACHIEVE A SATISFACTORY LINK BETWEEN AGRIBUSINESS AND FARMERS

Through the analysis of the four case histories illustrating experiences in the relation of agribusiness to independent producers, the participants formulated the following guidelines:

Agribusiness

- Know your market

A very common, serious error is to invest in physical infrastructure and production assuming that the market will present itself. In particular, the export market should be analyzed beforehand, not only in terms of latent demand but also in prices, time, the laws of importing government, transportation and storage.

- Know your producers

The project that is based on the traditional skills of farmers begins with a comparative advantage.

- Know your technology
Many of the farmer's practices are well-suited for the area. Before introducing new technology, it is important to test its adaptability to the microclimate and to take into account traditional practices.
- Know the local economy
The participation of the producers and their stability depend upon the economic climate of the region. The association with an agribusiness will be solid if it is complementary to the customs and economic interests of the area.
- Know the environment at the field level
The production operation ought to be supervised with regard to possible problems in the methods of growing and harvesting, as well as the production volumes and the behavior of the field supervisor.
- Know the cultural ambience
The people of the region are more knowledgeable in dealing with the producers in that area than are outsiders. Training them in agricultural methods is easier than adapting foreigners.

Farmers

- Improvement of earnings
While the relationship with an agribusiness departs from tradition, the economic results will also be better than usual.
- Protection offered by the contract
A fair contract ought to offer protection to the business as well as to the producer in regard to the amounts to be delivered and the determination of quality remunerated by scaled prices.
- Knowledge of standards
The export market is much more stringent regarding quality. It is necessary to understand that "quality" is defined by the norms of the market of destination and not by local standards.
- Organization of the producers
Clustering the producers offers benefits to the farmers and the business alike. An organization facilitates negotiations with the business and at the same time rationalizes technical assistance and quality control. It is important, however, to avoid ideological positions which fuel hostility and conflicts.

The Government

- Its Role
In general, government agencies have not demonstrated efficiency in matters of production, processing and agricultural marketing. They are better adapted for responsibilities related to furnishing infrastructure (legal and physical) and regulation (of commerce, labor relations).

- Promotion of exports

At present, the serious problems that affect Costa Rican public finances have resulted in a series of obstacles which hinder exports (taxes on exporting, scaled exchange rates, control of imported inputs). The desired rise in agricultural exports will not be possible without reforming the current policy in favor of the exporters.

- Services to the exporters

In order to facilitate the acceptance of Costa Rican agricultural products in the United States, it would be opportune if the Government established a fumigation chamber approved by the U.S.D.A.

The port documentation of products being exported ought to be simplified.

4. PLANNED VENTURES

The Seminar served to provide supplemental information and contacts to companies which had been exploring ventures in Costa Rica, and to suggest new ideas to those that had not. After the Seminar, assistance was provided by FMME and the National Chamber of Agriculture to help the principals attain their business objectives.

The efforts benefited both companies already established in Costa Rica and newcomers.

Assistance to Previous Initiatives

- After the Seminar, a U.S. company decided to go ahead with the acquisition of a milk processing plant in Costa Rica.
- To overcome the problems of long-term credit availability and suitable forward contracting formulae which have been impeding the desire of Costa Rican farmers to produce, and a U.S.-based processing company to purchase for export, in processed form, a variety of tropical long-cycle fruits, a series of actions were set in motion. The National Chamber of Agriculture will ask MIDEPLAN, through the Agriculture Ministry, to make an application to RUTA (Regional Unit of Technical Assistance - IBRD/UNDP) to carry out a feasibility study. The objective of the study will be to recommend promotion zones, and how credit available from a \$25 million IBRD loan program could be utilized for this purpose.
- Discussion at the seminar facilitated agreement to fund a feasibility study, begun in July, 1983, by the Commonwealth Development Corporation to determine the economic and financial feasibility of providing credit (\$5 million from the CDC, and \$6.1 million from AID) to independent growers of African palm under contract with a U.S.-based processing company.

New Ventures

- Under the leadership of the National Chamber of Agriculture 35 farmers are negotiating a contract with a U.S.-based processing company to grow tomatoes for export.

- The initial contact which was made at the Seminar between producer of eggplant, peppers, and other vegetables and a U.S. produce-importing company was not sufficient to arrive at a business transaction. In the follow-up stage, however, a formula was devised at the suggestion of FMME for the producer to obtain conditions which would make it financially possible to ship on consignment, and for the importer to grant such conditions (contingent on volume). The producer was also put in contact with a new broker in Miami for purposes of exporting frozen cassava.
- Two U.S. companies which had indicated interest in the Seminar but were unable to attend were put into communication with three cooperatives in Irazú and Baines currently producing cauliflower sought by the companies for export.
- A government corporation which had organized the production of melons was put in touch with a U.S. importer. The same importer also reached a preliminary understanding with a private exporter of lemons, mamey, ginger, and tropical fruits.
- A company assisting cacao growers was put in touch with sources of improved technology in Costa Rica and Belize through the good offices of a U.S. company.
- The feasibility of installing a soya processing plant is being explored by a U.S. company.
- A producer of ginger made a contract with a U.S. consulting firm to improve marketing.
- A U.S. importer of ornamental plants made arrangements with a Costa Rican grower for export.
- Communication was established between a large Jamaican agribusiness firm and the National Chamber of Agriculture with regard to recruitment of agricultural project managers.
- A U.S. firm invited several Costa Rican leaders to visit Florida for the purpose of planning the marketing of Costa Rican agro-technicians to the Caribbean.
- Plans were made for a follow-up visit of Costa Rican farmers to Florida and New York to follow up on export contacts made at the Seminar, and to learn market conditions.

III. BACKGROUND

In April, 1981 the Fund for Multinational Management Education of New York and the Aspen Institute for Humanistic Studies of Colorado held a conference to address the topic of the "The Multinationals: New Concepts in Agricultural Production and Rural Development". Held at the Mohonk Mountain House in New Paltz, New York, the Conference brought together 65 participants with affiliations to governments of developing countries, American and European companies, voluntary agencies, consulting firms, and financial agencies of the United States and of international organizations.

The Conference analyzed twelve cases of joint ventures between farmers of limited resources and agribusiness companies, and concluded that certain intermediating services were indispensable in order to ensure that the association produced benefits for both sides. Intermediation was defined as those services (frequently performed through a separate and autonomous entity) that are not usually needed in a business or a family-run farm, but which are necessary if the association between the two entities is to be economically productive, its cost less onerous, and its result socially positive.

The necessity to plan intermediation in the relationship between farmers of limited resources and businesses arose from the Seminar's other conclusion: it is necessary to have large-scale private enterprise participation in the process of rural development, which has suffered setbacks in precisely the areas which represent the strengths of the private sector: management, technology and marketing.

At the conclusion of the Mohonk Conference, several participants from the developing countries asked that a call to convene seminars at the national level in various parts of the Third World be included among the conclusions of the Workshop, with the aim of disseminating the concept of intermediation as a means of facilitating better relations between businesses and farmers of limited resources.

Responding to this call and with the favorable reaction of several companies in mind, the Fund for Multinational Management Education undertook to organize a series of workshops on the structure of joint ventures between farmers of limited resources and agribusiness. The first workshop was held in Ocho Rios, Jamaica, from the 28th of February to the 3rd of March, 1982. The second workshop took place in Puerto Plata, the Dominican Republic, from the 17th to the 20th of June, 1982.

IV. OPPORTUNITY PROFILES

The information which is presented below has been gathered with the intent of providing agribusiness executives with the necessary data to form a judgement with regard to the desirability of investment and commerce in Costa Rica. The first chapter offers a general perspective of the climatic conditions, demography, politics, economy, and taxation in Costa Rica. The following four chapters illuminate four areas of agriculture and agroindustry which have been identified as opportunities to develop new projects.

The intent of the Opportunity Profiles is not to design investment projects or to certify their profitability. The assumption is that the investor will prefer to carry out his own feasibility studies, and that he will trust only those internal rates of return which have been calculated by his own staff. The Opportunity Profiles simply call to the investor's attention those lines of agricultural production which appear to have profit potential (in relation to the demand of the international market). Towards that end, data are presented concerning current production, production costs, and the prices offered by the domestic market. Also, each Profile is introduced by a resume of the recommendations made by the Workshop participants.

Finally, a chapter on agroindustry comments on problems and opportunities in that sector.

THE ENVIRONMENT

CLIMATE

In political terms, Costa Rica is divided into seven provinces: San José, Alajuela, Cartago, Heredia, Guanacaste, Puntarenas, and Limón. The first four constitute the "Central Tableau" (20,000 km²), and register elevations of 3,300 ft. on the average. The last three are situated on the Pacific and Atlantic coasts (31,000 km²), close to sea level.

With regard to climate, Costa Rica consists of five natural regions: Central Mountain Valley (Central Plateau) with an average annual rainfall of 2,400 mm; Dry Pacific Region (Prov. of Guanacaste and some northern cantons of Puntarenas) with precipitation of 2,100 mm; the Northern Watershed which consists of parts of the Provinces of Alajuela and Heredia (rainfall 3,400 mm); the Atlantic Region which encompasses mainly the Province of Limón; the Humid Pacific Region which includes the better part of the Province of Puntarenas (rainfall 4,100).

The rainy season is April - October. There is little rain during January - March. The minimum and maximum temperatures range between 16° and 28° C in the Central Plateau, and between 20° and 36° C on the coasts.

DEMOGRAPHY

The population of Costa Rica was 2,245,437 in 1980; population density varied from 15/km² (Limón) to 170 (San José); population growth rate was 2.7%. The workforce of 801,000 was engaged in agriculture (31%), services (28%), commerce (18%), industry (16%), and construction (7%). Of this economically active population, 8% were classified as professionals and technicians, 12% as managers and administrators, 14% as employees and salesmen, 51% as operators and artisans, and 15% as service personnel.

POLITICAL ENVIRONMENT

The political risk which a company incurs in Costa Rica tends to be assessed with regard to Central America which at present is going through a difficult period due to socio-political conflicts in El Salvador, Guatemala, and Nicaragua.

In consequence, the companies which are operating in the country and those companies which are well informed, enjoy an advantage, because the political stability of Costa Rica is much higher than what could be inferred from generalizations about Central America. The stability of the Costarican government derives from the characteristics of the population which differ substantially from those of the rest of the isthmus. The literacy rate is 90%; per capita income is US \$1,820 (1979); the population is exceptionally homogeneous both from the ethnic and social points of view, the majority being of European extraction and belonging or striving to belong to the middle class. Costa Rica employs more teachers than policemen, and it has abolished the military.

ECONOMY

The Gross Domestic Product of Costa Rica reached the level of US\$ 4,830 million in 1980. The commercial sector contributed US\$ 967 million, industry US\$ 945 million, agriculture US\$ 838 million, and central government US\$ 735 million. Exports represent more than 20% of the GPD. The balance of payments is of great importance, inasmuch as the country has to import manufactured and consumer products, as well as oil (for transport, since 98% of generated power comes from hydraulic resources). Exports are mainly agricultural:

TABLE I

Costarican Exports in 1980

	(US\$ Million)
Coffee	245
Banana	191
Meat	64
Sugar	40
Other agricultural products	81
Fertilizer	10
Industrial	386
TOTAL	<u>1,017</u>

Source: Central Bank

A third of the external trade is directed towards the United States, followed by the Central American Common Market, West Germany, and Japan.

The shortfall of the foreign trade leads to a deficit in the current account which amounted to 32% of exports in 1970, and 66% in 1980. This deficit grew by nine times between 1970 and 1980, from US\$ 74 to US\$ 664 million. In 1980, the relationship between the cost of oil derivatives (US\$ 240 million) and the foreign debt service (US\$ 445 million) on one hand, and the value of exports (US\$ 996 million) on the other hand, was almost 70%.

Among the reasons for the current account deficit are: 1) greater growth of the value of imports in comparison with exports, resulting in industries which import raw materials and capital goods, and an industrial production which to a large degree is oriented towards the internal market; and a leveling-off of traditional exports, as well as a worsening of exchange terms; 2) increase in the volume and price of imported oil derivatives; 3) foreign investment service (payment of dividends and debt service); 4) drastic changes in the international capital markets (tenor, rates of interest, and grace periods).

TAXATION

The Costarican constitution guarantees equal economic rights to foreigners and citizens. The Commercial Code recognizes five types of corporations (similar to those of the United States and Europe). New investments enjoy a number of tax incentives, according to category (agribusiness is given first priority rating). The benefits include exemption from the income tax for 8 years, and from the tax on assets and net worth for 10 years; exemption from import duties on machinery and equipment for 10 years, and 80% of the duties on imported raw materials, semi-finished products, and packing materials for 5 years, and 50% for another 5 years. The export tax on non-traditional products is generally 6%. However, qualified exporters get Certificates of Tax Credit (called CAT - Certificados de Abono Tributario) issued by the Central Bank for the value of 15% of non-traditional exports placed outside of the Central American Common Market. CATs are negotiable securities which may be used to make payments owed to the government, sold on the Stock Exchange, or used as loan collateral (they mature in one year). In special cases, the Central Bank also issues readily negotiable certificates called CIEX (Certificados de Incremento de Exportacion) for the value of 10% of the increase in exports over the previous year.

POTENTIAL FOR EXPANDING AGRICULTURE

In Costa Rica, one third of the land which is currently in extensive exploitation for livestock and forestry is considered suitable for agriculture:

TABLE II

LAND USE

<u>ACTIVITY</u>	<u>CURRENT USE</u>		<u>POTENTIAL USE</u>	
	'000 ha	%	'000 ha	%
Agriculture	510.5	10,5	2,129.0	43,7
Livestock	2,399.2	49,2	1,231.9	25,3
Forestry	1,373.5	28,2	680.9	14,0
Conservation	588.3	12,1	829.7	17,0
TOTAL	4,871.5	100,0	4,871.5	100,0

Source: Diagnóstico del Sector Agropecuario, SEPSA, 1982.

The principal measures that have been applied to extend the agricultural frontier are technological and socioeconomic.

The technological means have included the following:

- a) Irrigation: Costa Rica has the potential of some 236,000 hectares of irrigable lands of which only 66,500 ha were under irrigation in 1973. At present, two irrigation projects are being carried out, Itiquis and the lower watershed of the Tempisque river; together they will encompass 101,500 ha.
- b) Drainage: Of the area which has drainage problems, only 8% has been drained, mainly for African palm and banana crops.
- c) Conservation Practices: Conservation takes place on a very minor scale, mainly in the areas of intensive exploitation such as for vegetables, and to a much lesser degree for coffee and pasture.

Among the socioeconomic measures to expand the agricultural frontier, the following may be cited:

- a) Transport Network: The expansion of the transport grid has helped incorporate new lands into the productive process, and improve marketing facilities.
- b) Land Distribution: Since 1973, IDA has passed out title to 223,564 ha which have been incorporated into the productive process in one way or another.

- c) Tenuous Occupation: During the period between 1963 and 1981, 285,553 ha have been identified as such; of these only 36,602 ha have been transferred legally.

The division of the country into agricultural zones which has been carried out on the scale of 1 : 250,000 allows the identification, by region, of the following crop opportunities:

- a) Central Region: The zone offers opportunities for the following:
- Permanent Crops: coffee, sugarcane, avocado, African palm, fruit, timber.
Livestock: beef, dairy, and small animals.
- b) Chorotega Region: Land use in this region involves some conflict, inasmuch as the major part is in pasture, but has a high agricultural potential for both annual and permanent crops.

Development of the following activities is recommended in the region:

- Permanent Crops: sugarcane, avocado, macadamia, pineapple, fruit, timber.
Livestock: beef, dairy, and small animals.
- c) Brunca Region: A large part of the lands needs conservation and protection; the area of the Cordillera de Talamanca is dedicated to forestry. The major opportunities for diversification are to be found in the Valle del General, de Coto, and Diquís.
- Permanent Crops: banana, African palm, cacao, plaintain, and spices.
Livestock: beef, dairy, and small animals.
- d) Huetar Atlántica Region: The climate of the region, and in some areas its topography, lead to the conclusion that a large part should be dedicated to protection, conservation, and reforestation (Talamanca and Tortuguero zones).

The planting of permanent crops is more advisable for this region, such as banana, pejibaye, coconut, cacao, African palm, plaintain, spices, and macadamia.

In special situations rice, cassava, and other annual crops may be planted. The region is also suited for beef cattle, dairying, and small animals.

- e) Huetar Norte Region: The selections which are most recommendable for this region are banana, pejibaye, coconut, sugarcane, cassava, corn, and beans. Also, beef cattle, dairy, and small animals.

In this connection, it should be noted that over the last 10 years, non-traditional crops generally have registered growth rates superior to those of traditional crops:

TABLE III
ANNUAL GROWTH RATES
OF PRINCIPAL AGRICULTURAL PRODUCTS

<u>PRODUCT</u>	<u>1962-73</u>	<u>1973-80</u>	<u>1962-80</u>
	<u>%</u>	<u>%</u>	<u>%</u>
<u>EXPORT</u>	<u>7.3</u>	<u>-0.2</u>	<u>4.3</u>
Coffee	3.8	2.3	3.2
Banana	13.1	-2.7	6.7
Sugarcane	7.1	1.1	4.7
Cacao	-7.1	-0.9	-16.2
<u>INTERNAL MARKET</u>	<u>2.9</u>	<u>5.2</u>	<u>3.8</u>
Basic Grains	2.0	7.5	4.1
Rice	3.3	9.3	5.5
Corn	1.2	2.0	1.6
Beans	-3.9	0.6	1.6
Sorghum	-	10.7	-
Fruits and Vegetables	<u>3.6</u>	<u>3.3</u>	<u>3.5</u>
Stimulants	<u>4.0</u>	<u>-5.4</u>	<u>0.2</u>
Oilseeds	<u>3.9</u>	<u>6.4</u>	<u>4.9</u>
African Palm	10.7	6.5	9.0
Cotton	-9.3	5.5	-3.7
Coconut	0.9	6.5	3.1
<u>TOTAL</u>	<u>6.2</u>	<u>1.0</u>	<u>4.1</u>

Source: SEPSA. Calculation based on the value added of agricultural production in 1966 prices (Central Bank).
 B.C.C.R.

OPPORTUNITY PROFILE No. 1: VEGETABLES, TUBERS,
AND SHORT-CYCLE FRUIT

The geographical location of Costa Rica and the variety of climates allow the production of a number of vegetables, tubers and short-cycle fruits outside of the season during which other production areas supply the large United States market.

Among the temperate-climate Costa Rican vegetables, one that stands out and has a good export market is cauliflower. In the same agricultural zones of the Central Plateau it would be relatively easy to additionally promote the production of broccoli and Brussels sprouts. The primary fruit is the tomato. The dry pacific region (Guanacaste) produces sweet and hot peppers. The marginal land of the Atlantic area produces good economic results with cassava. Some tropical zones have succeeded with the cultivation of melons (cantaloupe and honeydew).

In order to participate in the export market, the Costa Rican farmer will have to change his orientation and will need services which are not presently available. The high cost of imports and of credit has motivated him to orient himself towards the protected internal market. On the other hand, there are bottlenecks in air and maritime transportation of exports. There are taxes on exporting. There is a lack of knowledge about the laws of the importing countries and of the level of pesticides allowed by the U.S.D.A. It is recommended that the Cámara de los Exportadores de Frutas y Hortalizas act in order to obtain information on the export markets, to channel the transfer of technology and to obtain improvements in the infrastructure serving the merchant.

General Information

Traditionally, Costarican agriculture emphasized coffee, banana, and cacao as products to be exported to Great Britain, and more recently the United States. The economy of the country has depended on these crops to earn the foreign exchange necessary to import manufactured goods and accumulate capital to develop domestic industries. Considering the cyclical problems which afflict the three commodities mentioned above, the government has been promoting a diversification of export crops. However, this action has been limited until recently to another two traditional products - beef and sugar. At the same time, the production of cacao has fallen to the point that it is no longer of importance to the balance of payments.

The Costarican climate and soils permit the production of a number of agricultural products of a much more varied nature.

TABLE IV

GROSS VALUE OF AGRICULTURAL PRODUCTION
('000,000 US\$)

	<u>1977</u>	<u>1980</u>
Coffee	279	267
Banana	153	233
Sugarcane	37	53
Rice	30	48
Plaintain	11	19
Corn	12	15
Potato	7	14
Cacao	24	12
Beans	7	8
Sorghum	5	7
Tobacco	4	4
Cotton	7	2
Onions	1	1
Other	36	66
AGRICULTURE:	192	307
Beef Cattle	75	122
Dairy	78	1155
Hogs	14	34
Eggs	21	19
Poultry	5	7
LIVESTOCK:	<u>45</u>	<u>100</u>

Source: Central Bank.

The comparative advantage derives primarily from the climate which allows the production of short cycle crops all year round, including for export during December - March.

Facing the necessity to promote the export of yet more non-traditional products, in July of 1979 the government established the Corporation for Agroindustrial Development (Corporación para el Desarrollo Agroindustrial - DAISA). DAISA is a subsidiary of the Development Corporation (Corporación de Desarrollo - CODESA) which is an autonomous corporation created with government resources.

DAISA has dedicated itself mainly to the promotion and planting of non-traditional crops such as melon (in Paquera), strawberry (Fraijanes de Poas), sweet corn, and other crops for the external market. At present DAISA is experimenting with peanuts, hot peppers, tomato, and chayote. This campaign is carried out in partnership with independent growers who receive from DAISA technical assistance, guaranteed supply of inputs at the best possible price, and the opportunity to sell the entire production. Once the promotional feasibility has been proven, the projects are to be transferred to the private sector or foreign investors.

For the January - April, 1984 campaign, DAISA estimates to have the following quantities of melons available for export in fresh:

- 2,000 TM honeydew melon, packed in corrugated cartons of 12 kg and shipped in sealed, refrigerated containers of 1,450 cartons.
- 500 TM of cantaloupe melons in cases of 20 kg, and containers of 850 cases.

TABLE V

PRODUCTION COSTS PER HECTARE
(in 1982 colones)

	<u>Tomate</u> <u>(ind.)</u>	<u>Melon</u>	<u>Sweet</u> <u>Pepper</u>	<u>Potato</u> <u>(Cartago)</u>
Labor	20,800	14,000	24,688	17,725
Seed	1,600	600	600	31,723
Chemicals	20,000	28,800	28,048	38,914
Other Costs*	5,400	11,600	7,656	1,060
TOTAL PRODUCTION	47,800	55,000	60,992	89,691
Technical Assistance	1,000	600		
Land Rental	1,800	1,600		
Interest on Capital	2,400	2,800		
GENERAL COSTS	5,200	5,000		
Estimated Yield			11,000	24,840

Source: DAISA
Central Bank (additional detail available)

* Transport of inputs and harvest, irrigation, crop insurance, stakes, administration.

TABLE VI
SELECTED VEGETABLES SOLD AT THE CENADA WHOLESALE MARKET
DURING DECEMBER, 1982

<u>PRODUCT</u>	<u>UNIT</u>	<u>VOLUME</u>	<u>MEAN PRICE</u> <u>TO PRODUCER/ASSEMBLER</u> <u>(colones)</u>
Sweet Potato	kg	26,028	12.5
Cauliflower	100	330.87	850
Sweet Pepper	Java	1,753	321
Cucumber	qq	27.7	602
Tomato I	Case	13,101	190
Tomato II	Case	7,668	156
Tomato III	Case	1,470	73
Cassava	qq	2,145	386
Carrot	qq	2,395	275

Source: Statistical Unit, Market Information Service, PIMA.

Some of the vegetable prices paid to the producer have been considered on the high side by some processing plants. The products which are exported fresh during December - March may encounter demand which is somewhat more tolerantly elastic with regard to price, but competition by efficient producers must always be anticipated. On the other hand, it is reasonable to assume that a vegetable export program enjoying the participation of a foreign agribusiness company may easily surpass the productivity per hectare and per unit of labor experienced by small independent producers. The major efficiencies would be derived from the economy of scale due to mono- and oligoculture, advanced technology, reliability of input provision at a cost reduced by scale, good management of technology transfer at the level of field operations, adequate financing, reduction of post-harvest losses by means of close coordination with the market, improved handling and transport. At present, the Costarican farmer of limited resources experiences problems with regard to all of these considerations. The climate, however, allows several harvests each year. The vegetables may be planted so as to sell the harvest in the winter market in the North.

Contracting with independent growers of vegetables offers many advantages in comparison with exploitation of one's own land - such as lower political risk, reduced capital requirement, elimination of labor problems, and of risks owing to natural disasters. However, good planning of the contracts with producers is absolutely necessary if disappointments are to be prevented - noncompliance with contracts on the part of the producers both in terms of quality and quantity (experience of Birdseye Co. in Costa Rica); and to prevent congestion in the process of receiving the production under contract.

In consequence, it will be advisable to consider realistic methods of preventing breach of contract, such as the nucleus estate system (combination of direct operation and contracting for additional production); giving priority consideration to products which do not have a local general market; and the

provision of services which enhance friendly relations. One area which is particularly suitable for applying the nucleus estate system is the irrigation district of the Tiquis river.

The Costarican farmer is very independent and educated. These characteristics endow him with attributes which are undoubtedly very desirable when it comes to doing business with him - as long as he is well integrated into the program. The Chamber of Agriculture is in position to intervene very positively in the structuring of relations; so is the Federation of Small Farmers.

From the viewpoint of operations management, any substantial project of vegetable export will need to pay attention to three other aspects, at least. First, suppliers of chemical inputs have found that the distribution chain is excessively long when small producers are involved. The technologies pertaining to correct application and dosification do not reach the producers of limited resources, since they do not rate the necessary attention on the part of the distributor. Second, there is a shortage of well-trained field managers. Most vegetable export projects will have to train their own supervisors and field managers. Third, given that Costarican credit institutions are accustomed to financing the traditional crops (coffee, banana, cattle) and much less the production of vegetables for export, the management will have to intervene if the producers are to obtain the credit which will be necessary to apply the inputs required by advanced technology packages.

Tubers

In addition to potato and sweet potato which figure prominently in domestic consumption, Costa Rica produces tubers which are sought in external markets. Among these are exotic tropical tubers such as arum, yam, and ñampi, for which there is a demand in the ethnic markets of Europe and the United States. Currently some are exported by Del Monte. The principal export tuber, however, is cassava. It is estimated that in 1983 Costa Rica will export some 60,000 TM of cassava (out of a total production of some 80,000 TM).

The main variety which is grown is Valencia which is tender and white, and is well received in the United States. The production cost under intensive cultivation is ¢ 25,000/ha, with a yield of 27 TM/ha. However, cassava is grown mainly in the Atlantic region in rotation with pasture, without fertilization. The yields are 18-20 TM/ha which amount to a good return on marginal lands (300%) at the 1983 farm gate price of ¢ 1.25/kg.

In the Atlantic Region there are five plants which process and pack cassava (they are not integrated into production). Cassava is exported frozen in plastic bags of 1.75 lb (16 bags per case, 1,400 cases per container), or refrigerated in cases of 40 lbs. (1,000 cases per container). There is daily sea transport service to the United States (four shipping lines) and twice per week to Europe. The major part of cassava exports is currently sold through Cuban brokers in Miami.

OPPORTUNITY PROFILE No. 2: LONG-CYCLE FRUIT

Recommendations

Given the declining tendency of citrus production in Florida as a result of real estate development, the high cost of manual labor and frosts, Costa Rica has the opportunity to promote its citrus production. There are good possibilities of doing so as far as oranges (white and red), grapefruits, tangerines, and sour Persian lemons are concerned. This opportunity also exists for the production of uglifruit for the English market.

Other Costa Rican perennial fruits include mangos and avocados. Important medium-cycle fruits are papayas, pineapples, and strawberries.

Interesting opportunities exist in relation to exotic tropical fruits. These include custard apples, mameys, tamarinds, guavas, Chinese gooseberries, cas, and carao.

The biggest problem faced by the Costa Rican fruitgrowers is credit. In order to promote production, it will be necessary to obtain lines of credit for the fruitgrowers which will offer them grace periods after planting new fruits and a reasonable interest rate. It is also necessary to improve the maritime transportation services - itineraries, better containers, and expanded cargo space.

General Information

Same as many other countries in Central America and the Caribbean, Costa Rica has suffered considerable deforestation. As one of the measures which is intended to halt erosion and improve water retention, priority has been assigned to the establishment of permanent orchards. Naturally, the choice of the crops is pretty much determined by the external market; promotion focuses on those fruits which are the most in demand in the exterior so as to diversify and increase exports.

Costarican agronomists have identified a number of opportunities to establish new fruit plantations, in terms of production zones and crops:

- citrus in Buenos Aires (2,000 ha)
- mango, citrus, and tamarind in Guanacaste (5,000 ha)
- pejibaye palm in the Huetar Atlántica Region (an area of 600 ha, and another of 1,500 ha)
- new pineapple plantations in Buenos Aires (2,000 ha), and an expansion of the pineapple plantations in San Carlos.

There has been activity in pineapple. Del Monte has planted 2,000 ha; and the plantations promoted by DAISA expect to offer for sale in 1983 four containers per month (1,750 cases of 10 kg per container), as well as 72 TM of strawberries annually, fresh in baskets of 454 g or frozen. In the Atlantic Region 417 ha of pejibaye palm have been planted. Additional expansion has

been programmed so as to reach the goal of 2,000 ha which are needed to justify a canning plant for pejibaye hearts.

The banana production companies which are part of large multinational agribusiness companies, such as the Costarican subsidiaries of United Brands (Compañía Bananera) and Castle and Cooke (Standard Fruit de Costa Rica) are in good position to promote the production of citrus fruit. The banana price has been under much pressure in the world markets. At the same time, citrus production in Florida has been falling off due to urbanization, frosts, and the rising cost of land and labor. Brazilian producers have been increasing their share of the United States market, particularly in orange juice concentrate. A great increase in the Costarican production of fresh citrus fruit could be marketed by these companies, given their existing facilities of business organization and technology in Costa Rica, international reirrigerated transport, and marketing networks. The problem with citrus promotion in Costa Rica is the cost of production. One of the suitable zones - Sarapiquí - needs drainage; the other - Buenos Aires - needs irrigation.

In view of the growing world demand for papaya as a health food, and to produce papaine which has many industrial uses, particularly as a meat tenderizer, growing this perennial plant in Costa Rica offers an interesting opportunity. The best yields are obtained at altitudes between zero and 2,400 ft. above sea level. In Costa Rica two cultivation systems are in use: the traditional (single row - 9 x 9 ft.) and the double furrow (7.5 x 7.5 x 9 ft.). The number of plants per hectare is 1,100 and 1,440, respectively; the productive period extends from the 10th to the 20th of the month. The results have been as follows:

TABLE VII

AGE OF PLANTING (months)	PRODUCTION PER PLANT (kg)	MONTHLY PRODUCTION PER HECTARE (kg)	
		TRADITIONAL	DOUBLE FURROW
10-13	5	5,500	7,200
14-19	4	4,400	5,760
20-29	3	3,300	4,320

Source: Central Bank

At an average sale price of ¢ 2.71/kg in 1982, the internal rate of return has been calculated by the Central Bank at 75%.

TABLE IX

SELECTED FRUIT SOLD AT THE CANADA WHOLESALE MARKET
DURING DECEMBER 1982 (Selection)

<u>PRODUCT</u>	<u>UNIT</u>	<u>VOLUME</u>	<u>MEAN PRICE</u> <u>TO PRODUCER/ASSEMBLER (¢)</u>
Starfruit	Kilo	2,330	8
Cas	100	134	12
Strawberry	Kilo	727	48
Guava	Kilo	93	45
Lemon	100	1,561	91
Lime	100	1,353	75
Tangarine Lemon	100	1,403	31
Tangarine	100	1,003	95
Melon	Quintal	123	621
Orange	100	6,822	56
Naranjilla	Kilo	4,343	10
Papaya	Quintal	4,009	368
Pineapple I	100	165	2,425
Pineapple II	100	301	1,450
Pineapple II	100	210	400
Tamarind	Kilo	3,638	42

Source: Dept. of Statistics, Market Information Service, PIMA.

The Chamber of Vegetable and Fruit Exporters could bring together the producers and the foreign corporations interested in these crops. Another good point of contact with regard to the promotion of fruit production is CAFESA. This corporation provides services to 1,000 coffee growers. The coffee growers enjoy a very good reputation as farmers. At present, many of them are seeking ways to diversify their production with the aid of CAFESA.

OPPORTUNITY PROFILE No. 3: SPECIALTY FOODS

Recommendations

Costa Rica has some 1,000 hectares in macadamia (mainly in Turrialba and Arenal). This nut is well-received in the world market. Companies established in international markets like C. Brewer of Hawaii (Mauna Loa) are ready to market the Costa Rican production. German investors have indicated an interest in participation.

Cardamom is quite an income-producing spice, but at present there is a world-wide excess of supply. Along with the countries that have traditionally produced cardamom - India and Guatemala - there have arisen new producers such as New Guinea, Thailand, Ecuador, and others.

Other spices, for which proper climactic conditions exist, such as black pepper, would require training programs and promotion.

General Information

The growing sophistication of the consumer, both foreign and domestic, has been enlarging the demand for spices, nuts, and other specialty foods of agricultural origin. Costarican production of these items could expand to the degree as linkages may be forged with processors and traders who are established in the markets which cater to high income consumers.

Spices

The production of ginger - which at present is exported mainly to Holland - has been established on commercial farms in Siquirres, with ITCO settlers. Beginning in December, 1983 through February, 1984 some 200 TM will be available from DAISA, packed in cases of 15 kg and refrigerated containers of 850 cases. George Hogan's farm has 3.25 acres in ginger.

Conditions suitable for the production of black pepper exist in Quepos and jungle areas.

Cardamom was introduced from Guatemala (Malabar variety). Today a number of types exist due to propagation by rhizome as well as seed over many years.

The yields which are obtained in Costa Rica are 450 kg/ha (as compared with the Guatemalan national average of 197 kg, and intensive plantations', in that country, of 600 kg/ha). The harvest begins in the fourth year, becomes stabilized in the fifth year, begins to drop off in nine years, and ceases to be profitable in twelve years. The principal market is the Arab countries (as coffee seasoning), Scandinavia (for pastry), the Soviet Union and various European countries (to season canned fish).

Due to the growth of production in India (6,000 TM), Guatemala (5,000 TM), Sri Lanka, Thailand, and others, cardamom prices have been under pressure recently, in spite of strong demand. Nevertheless, the best qualities (DEBQ, EBQ, BQ) encounter stable demand. Much of the growth in the supply has taken place in inferior qualities (BABY, TG, ABIERTO, YM). This distinction is

reflected in the prices which have been paid by exporters to producers; e.g., in September, 1981 prices varied between US\$ 225 per 46 kg for YM grade, and US\$ 1,020 for DEBQ. The grade depends primarily on ripeness and drying. The capsules which are harvested while still tender, and dried under conditions of good temperature control, yield a very bright green color which is instantly recognized by traders. This product, called "prime seeds" is sold mainly in the countries of the Middle East. In 1981, at the price of ¢ 442/kg, the internal rate of return has been calculated at 99%. In 1979, C. Brewer and Company, Limited, of Hawaii established a cardamom plantation of 200 ha in Alajuela (Cariblanco).

TABLE X

PRODUCTION COSTS PER HECTARE
(in colones of 1982)*

	GINGER		CARDAMOM		MACADAMIA			
	1	2	3...	year	1	2-4	5-8	9-12
Labor	17,600	13,007	5,181	21,606	8,319	4,935	6,046	13,505
Seed	29,600	16,665	-	-	11,025	-	-	-
Chemicals	36,400	2,346	1,797	450	3,394	4,161	6,559	6,040
Other	11,200	5,530	1,446	4,188	1,497	416	656	604
TOTAL	94,800	37,542	8,424	26,244	24,235	9,512	13,261	20,149
Land Rent	1,000	1,500	1,500	1,500				
Interest	14,400	3,351	848	2,370				
TOTAL	15,400	4,851	2,348	3,870				
Yield (kg)	5,667			450**	-	-	-	2,077

Source: DAISA (ginger)

El Cultivo de Cardamomo, Hilje y Matamores, CAFESA

Cultivo de la Nuez de Macadamia, G. Canet B., San José, 1982.

* Data for cardamom are for 1979.

** Fourth year and following.

Nuts

There has been promotion of cashew in Orotina, San Mateo, and Esparza (3,000 ha). The Institute of Lands and Colonization has planned a processing plant for cashew at the Llanos de Cortés farm in Bagaces.

The macadamia nut has been receiving increasing attention from Costarican farmers since its introduction in 1948 (in Turrialba). In Costa Rica there are zones with optimal conditions for the growing of macadamia - distribution of rain throughout the year, temperatures between 20 and 30°C, protection against the wind, elevation under 2,100 ft., as well as deep soils which are rich in organic material. One such zone is the area around the lake of the Arenal volcano, and the foothills of the Cordillera de Guanacaste. Experience has been acquired with the adaptation, development, production, and quality of macadamia, particularly in the Tilarán zone (Viejo Tronadora). The Exportaciones de Macadamia Company already has established a plantation of 260 ha in Nuevo Arenal.

In 1982, five metric tons of semi-processed macadamia were produced and exported by Costa Rica; the price paid to the producer was ¢ 35/kg for nut in the shell. With a yield which begins in the fourth year and becomes stabilized in the twelfth year at 7 TM/ha, the investment is recouped in the sixth year, and a net profit of ¢ 226,000/ha is obtained beginning with the twelfth year.

OPPORTUNITY PROFILE No. 4: OILSEEDS

Recommendations

At present, the Costa Rican consumption of cooking oils amounts to 48,000 TM/yr. The national production contributes 42,000 TM, requiring the importation of 6,000 TM. There are two oleaginous substances used to produce oil in Costa Rica: African palm and soy beans.

The principal producer and processor of African palm in Costa Rica, United Brands, wants to expand production through contracting with independent producers. Nevertheless, there are two obstacles to the execution of the project: a shortage and the high cost of credit for the producers, and control over the prices of the oil which affect the economic stimulus that the processing factory can offer the producers. With a yield of 4 ½ - 5 TM of oil per hectare, the palm thrice surpasses the yield of the sunflower.

The 1,000 hectares of soybean-sown land in Quepos and Guanacaste have had good yields (1.5 - 1.6 TM/ha), but economic analysis is not yet complete. Agronomically it is feasible, alternated with rice, using the same machinery. Costa Rican livestock offers a market of 30,000 TM/yr in soya cake which is presently imported. In Costa Rica, soy bean yields 82% in cake, but the installed capacity to process the seed doesn't exceed 5,000 TM/yr.

General Information

Costa Rica has been importing annually between US\$ 5 and 9 million worth of edible oils, and between US\$ 9 and 12 million worth of protein cake for animal feed. This has been occurring in spite of the fact that the country is endowed with conditions suitable for the growing of oilbearing plants, and could become an exporter of oil and cake. The deficit was reduced in 1982 due to lower demand which was weakened by erosion of real income and by taxation; for 1983, however, a deficit is again projected at the level of 13,900 TM of oil (at the price of US\$ 650/TM, US\$ 9 million).

Up to 36,000 ha could be planted in African palm. United Brands which markets some US\$ 100 million of edible oils annually, is answering this call. At present, United Brands has 14,000 ha in production (particularly in Quepos), but some 30% of the stands require replanting.

Promotion of coconut growing by DAISA has so far resulted in the production of four containers per month (1,750 cases of 9 kg per container). Private investors such as Richard Illingsworth have coconut plantations which are in their second year of growth.

Three years ago a CARE/USAID project demonstrated the feasibility of growing soya on a commercial scale in Costa Rica. Its cultivation has been introduced especially in the Dry and Central Pacific Regions (Quepos and Parrita). In the Humid Pacific Region soya is considered to be a good alternative for rotation with rice. The varieties which have been tested successfully, with yields of 1.7 TM/ha (equalling Brazil), are Jupiter (U.S.), SIATSA 194A (Honduran), and Alamo (U.S.).

The Costarican Coffee Company (CAFESA) has experimented with sunflower. The root system of the plant goes deep which makes it tolerant of draught. In regions likely to have shortage of water sunflower may give better results than soya. Some 70% of the oil content of the sunflower seed is in the form of unsaturated fats which increases the acceptance of sunflower oil in markets where there is preoccupation with cholesterol. The first plantings took place in September - October, 1982 in Esparza (Puntarenas) and Canas (Guanacaste).

TABLE XI

PRODUCTION COST PER HECTARE
(in colones of 1982)

<u>SOYA</u> (Chorotega Region)	
Labor	5,046
Seed	2,760
Chemicals	7,016
Other	<u>1,066</u>
TOTAL	15,888
Yield (kg)	1,610

Source: Central Bank

AGROINDUSTRY

In 1976 the Gross Product of the Costarrican agroindustry was ¢ 4,655 million, and the value added amounted to ¢ 1,334 million. During the preceding 15 years its annual growth rate was 14%. Its exports reached the value of ¢ 780 million, and the volume of 121,356 TM, having grown by 18% p.a. The value of agroindustrial imports was ¢ 338 million, their growth rate 9% p.a.

Agroindustry not only accounts for some 10% of national exports, but it is also an important source of employment. In 1976 it gave work to 32,000 persons or 35% of the total industrial work force of the country. In 1979 agroindustry contributed 50% of total industrial production. However, the profitability of Costarrican agroindustries has been seriously affected by the utilization rate of installed capacity which in 1983 generally has varied between 10 and 40%. This is due to a number of causes, some internal, some related to deficiencies of agroindustrial production.

The tariff protection which was provided by the Central American Common Market facilitated growth based on sales within the Market, but it also permitted the institutionalization of certain inefficiencies. Thus when the Market lost its dynamism due to political disturbances in Nicaragua, El Salvador, and Guatemala, as well as economic disagreements among the other member nations, Costarrican agroindustry not only lost a large part of its Central American sales, but also found itself in a poor position to compete in the world markets.

Among the internal problems of the Costarrican agroindustry mention is often made of excessive installed capacity, concentration of the plants on the Central Plateau, poor quality control of the final product, lack of integration between agricultural production, research, and processing technology.

With regard to raw materials, the problems have included deficiencies in quality, volume, and regularity; high price; high proportion of imported raw materials; little research concerning varieties intended for industrial use; lack of zonification; dearth of market information and harvest forecasts; problems affecting assembly, sorting, classification, storage, and conservation; lack of structured collaboration between the industrialist and the farmer; absence of serious and secure contractual relations which would facilitate the programming of both agricultural and industrial production.

In early 1982 Costa Rica underwent a financial crisis as a result of the price in oil, fall of the prices of the traditional exports, and high costs and investments in the public sector. It became necessary to impose corrective measures so as to reach agreement with the International Monetary Fund and obtain loans and debt refinancing; the Government imposed a number of tax increases. In December, 1982 the President of the Chamber of Industry declared that Costarrican industry could no longer bear the tax burden, and added that in comparison with 1981, exports declined by 20% during the first nine months of 1982, and by 30% as regards exports to Central America. (There was an improvement in sales to non-traditional markets.) The new taxes include a surcharge on the income tax of up to 30%, increases in the consumption and sales taxes, charges based on currency exchange differentials, increase in the cost of fuels, an increase in social security and port tariff charges.

The depressed state of the Costarican industry offers, on the other hand, an opportunity for the imaginative businessman. To prosper, new initiatives should have certain important characteristics:

- established access to export markets;
- qualification to enjoy the incentives offered by Law, such as exemption from the income tax;
- integration of raw material production with processing;
- integration and modernization of existing plants.

A small example of imaginatively planned new initiatives is ELFRUTA. ELFRUTA (Empresa Laboral de Fruta del Pacífico, S.A.) began its operations toward the end of 1982 as a plant processing fruit for export, located in San Mateo (Alajuela). Its industrial plant valued at ¢ 5 million has been financed by the Central American Bank for Economic Integration. The initiative came from the Foundation of Businessmen for Labor Development. One daily shift in the plant is supplied from 100 ha planted in papaya, a second shift is kept busy with mango, tamarind, guava, and custard apple. The agricultural production is in the hands of some 63 independent producers who get credit (¢ 43,625 per hectare) and technical assistance from the plant. The outgrowers will be given opportunities to own shares of the processing plant.

Land tenure in Costa Rica is not as fragmented as in some other countries; there is even some tendency toward larger farm size. Still, significant improvements will be needed in the relationship between farmers and agroindustries if the former are to participate in the export markets of non-traditional products to a more significant degree.

TABLE XII
NUMBER AND LAND AREA OF FARMS BY CATEGORY

FARM TYPE ^a	1963				1973			
	FARMS '000	%	LAND AREA '000 ha	%	FARMS '000	%	LAND AREA '000 ha	%
Landless	n.d. ^b	-	-	-	5.6	6.8	-	-
Subsistence	11.2 ^b	17.3	13.5	0.5	21.9	26.5	16.4	0.5
Small	22.8	5.3	114.6	4.3	22.4	27.1	107.4	3.4
Family	20.6	31.9	488.7	18.3	21.2	25.7	509.9	16.3
Medium	8.0	12.4	694.8	26.1	8.7	10.5	788.3	25.3
Large	2.0	3.1	1,354.9	50.8	2.7	3.3	1,700.4	54.5
TOTAL	64.6	100.0	2,666.5	100.0	82.5	100.0	3,122.4	100.0

a/ Subsistence: less than 2 ha; small: 2-10 ha; family: 10-50 ha;
 medium: 50-200 ha; large: over 200 ha.

b/ Excludes farms under .43 ha.

Source: Elaborated by SEPSA, based on data supplied by the Ministry of Economy, Industry, and Commerce, General Directorate of Statistics and Cesus (censi of 1963 and 1973).

Various governmental entities are promoting a number of agroindustrial projects. Among these is DAISA which proposes the establishment of a processing plant for spices, and aromatic and medicinal plants; to process sweet corn and other vegetables; strawberries; coffee; papaya; heart of palm. CODESA suggests a plant to extract refined papaine; process ginger; produce furfural; coffee extract and caffeine; industrialization of cassava and manioc; utilization of banana stalks for paper and carton production; extraction of annato quinine. CENPRO has a portfolio of investment projects, from the sale of shares at US \$8,800 to finance two acres of jojoba and its industrialization, to an agroindustrial complex for African palm which would require an investment of US\$ 29 million to plant 10,000 ha and build a 22,000 TM processing plant.

Pre-investment documentation (pre-feasibility and feasibility studies) are available for 30 agroindustrial projects.

However, at present the problem of the Costarican food industry is not a scarcity of plants ready to buy from farmers, but rather it is the low utilization of the installed capacity. It is worth recalling the experience of the Bank of Mexico which promoted 200 new agroindustries so as to expand the market available to agricultural producers, but encountered severe problems in achieving the profitability of those plants due to high raw material costs and poor marketing of the industrialized product. The Costarican agroindustry, existing or planned, lacks assured access to elastic export markets. That is

the root of the problem which farmers encounter when they do not find buyers for incremental production.

In order to penetrate export markets, the Costarican agroindustry needs to acquire capabilities which are lacking at present:

- association with distributors who are established in large-volume markets;
- installation of control systems to attain uniformity of product quality (this is not done by quality inspection at the port of embarkation, but by supervision on the processing line);
- definition of contracting formulae offered to outgrowers which would assure the flow of raw materials to the plant which is necessary for its maximum utilization;
- extension of agricultural production credit to the producers of non-traditional crops, of a tenor suitable even for long-cycle crops;
- installation of a fumigation chamber which would meet USDA requirements (training in an approved Certified Pesticide Applicator course);
- reduction of the costs of packaging (at present packaging accounts for up to 50% of the finished product).

Some of this effort may be undertaken by the Costarican Chamber of Food Industry, or the Chamber of Industry and Commerce.

APPENDIX I

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APPENDIX II
SOURCES OF FINANCING

INTERNATIONAL FINANCE CORPORATION (IFC)

The IFC's principal tasks are to provide financing and bring together technical assistance and management needed to develop productive investment opportunities. The IFC can make both equity and loan investments without government guarantees but will never invest alone. It expects to mobilize and supplement private capital, not to replace it.

Decision Criteria for Loans and Investments:

- Degree of local private sector involvement
- Bankability of the project
- Need for IFC involvement
- Relation to the development needs of the country.

Priorities of the IFC for Costa Rica are not firmly fixed but they appear to favor:

- a. projects having a significant impact on the balance-of-payments
- b. agriculture, particularly food processing
- c. projects using domestic resources
- d. projects making significant contributions to employment

Equity Financing

- IFC can take an equity position of up to a maximum of 25%. (IFC has financed projects in the range of \$4 - \$450 million.)
- IFC will not take an active role in management.
- IFC will want to dispose of their equity in the local market, if possible, once the project is successful.

Loan Financing

- Long term (7-12 years) at fixed rates of interest (currently 13½-14% in U.S. dollars, less in some other hard currencies).
- The funds may be used for fixed assets or for working capital.

There is no standard form of application for IFC financing. However, IFC needs certain preliminary information to enable it to decide whether an investment proposal warrants serious consideration. This should include at least the following items: the enterprise's legal status and financial history, its present and proposed operations, the amount of financing needed and the purpose for which it is required, information on the cost and availability of raw materials and other inputs, together with a review of technical assistance or other agreements and pertinent market information.

Information

- Giovanni Vaccheli, Director of Investments, Latin America and the Caribbean, (202) 676-0701
- Jean-Pierre Schwartz, Investment Officer, (202) 676-0708
- Kirby Jones, Public Information Office, (202) 676-1171

Address: International Finance Corporation
1818 H Street N.W.
Washington, D.C. 20433

OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

OPIC has two major programs, investment insurance and finance. Its insurance program provides protection against losses resulting from political acts that private investors may face in the developing world. OPIC also finances ventures in developing countries by providing direct loans or guaranteed loans to projects abroad sponsored by or involving U.S. investors.

Insurance

The risks which OPIC can insure against are non-convertibility of local currency into dollars; loss of investment due to expropriation, nationalization or confiscation by action of a foreign government; loss due to war, revolution, insurrection, or civil strife.

Eligible for insurance are the investments of citizens of the U.S. or corporations, partnerships, or other associations created under U.S. law which are substantially owned by U.S. citizens, or foreign corporations at least 95% owned by eligible U.S. entities. There is no requirement that the project in which the investment is made must be owned by U.S. investors. Thus, a joint venture project may be majority foreign owned but a U.S. investor may secure insurance for his investment in the joint venture.

Only new investments, (including significant expansions or modernizations of existing enterprises) are insured, and OPIC insurance may be available for anticipated earnings as well as the initial investment of which OPIC will cover 90%. (10% coinsurance is normally required).

Financing

OPIC provides financing through its Direct Investment Fund and through loan guarantees. OPIC staff will assist in designing the financial plan and coordinating financing with other lenders or funders.

The Direct Investment Fund has \$15 million available this year for application worldwide. As of February 1983 there are funds remaining for the support of eligible projects. Any project to be funded must meet one of the following conditions: have substantial involvement by a small U.S. business (not within the Fortune 1,000 companies) or, have direct ownership by a small, U.S. business. Among those projects for which OPIC will not provide financing are runaway plants, housing, and production of particular crops for export to the U.S.

OPIC takes into consideration the developmental contribution of the project. Among the social and economic factors considered are creation of employment opportunities and skills training; transfer of technology; increased availability of goods and services; and foreign exchange earnings or savings.

OPIC must also consider the balance of payments and employment effects on the U.S. economy as well as those of the host country. Thus such factors as the extent of U.S. procurement, net financial flows, and net project exports to the U.S. are also considered.

Conditions: OPIC does not purchase equity in a project but can provide debt or loan guarantees for up to 50% of the project cost. Because its programs are designed to support private sector investment in financially viable projects, OPIC does not offer concessional terms. OPIC loans generally range from \$100,000 to \$4 million for which OPIC absorbs much of the administrative costs involved with interest rates currently at 13-14% with approximately equal semi-annual principal payments following a suitable grace period, with final maturity of five to twelve years.

Financing Applications: initial inquiries to OPIC should contain the following information: name, location and business of the proposed project; identity, background and financial statements of the principal sponsors; planned sources of supply, anticipated output and markets, distribution channels and the basis for projecting market share; summary of costs and sources of procurement of capital goods and services; proposed financing plan, including the amount of OPIC participation anticipated, and financial projections; and a brief statement of the contribution the business is expected to make to local economic and social development.

Feasibility Studies

OPIC will take part in cost-sharing arrangements with U.S. firms to investigate and study the feasibility of an opportunity. Maximum OPIC participation is normally \$50,000, representing up to 50% of total eligible costs. Only small businesses (defined as less than Fortune 1,000 companies) are eligible for such financing for Costa Rica.

Firms interested in exploring funding for feasibility studies should provide OPIC with the following information: scope of the survey, outlining in detail the factors to be studied; a preliminary budget for the survey, indicating the members of the study team; tentative estimate of total project costs should the results be positive, and the applicant's contemplated investment in the project as well as the information outlined above for financing applications.

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BUREAU FOR PRIVATE ENTERPRISE (PRE)

A.I.D.'s Bureau for Private Enterprise was established to develop new approaches to private sector development and to support and supplement, where appropriate, private sector programs undertaken by other parts of the Agency. The Bureau intends to make four types of investment, co-financing of projects with a strong development impact; capitalization of private intermediate financial institutions; direct lending to selected business ventures; the granting or lending of money to an enterprise and taking convertible debentures for the start up period.

Technical Advice and Assistance

The Bureau will take an active role in identifying and developing projects, including taking the lead in making technical studies, finding technical and financial partners and putting together a financial plan. In addition, the Bureau will help organize and finance companies that promote investments in a specific sector or area, or participate in financing companies organized to develop specific projects and help applicants satisfy requirements for preliminary information.

Priorities Initially the focus will be on the following sectoral priorities:

Agribusiness, with a high priority on the transfer of U.S. agricultural expertise;

Intermediate institutions, with a focus on mechanisms for developing and transferring capital;

Leasing of capital equipment and machinery;

Manufacturing keyed to raw materials, labor, and market potential aimed at generating jobs and technical improvements

Management training, through the investment in advanced training programs for the private sector that are self-sustaining.

Project Criteria To be selected, projects and enterprises must be in the priority sectors described above; must have substantial indigenous ownership; must be consistent with the existing A.I.D. programs and strategies within the country; must fall into one of three categories of new types of investment, i.e., co-financing, capitalization of intermediate financial institutions, direct investment in replicable projects; must demonstrate effective management and profit-making potential; must be privately owned or operated, at least in part or be willing to operate within private sector criteria; must have development benefits that rank high on the list of host government priorities - job creation, foreign exchange earnings, and transfer of technical and managerial skills are particularly important; must show that funds are not available elsewhere on reasonable terms.

Application Requirements The following outlines preliminary project information required by PRE to form an initial judgement concerning interest in providing financing:

- Project Description, including background of project, present status, background of firm, legal arrangements;
- Financing Requirements, including total costs, proposed financial structure, source of funds and anticipated terms, critical factors affecting investment opportunity;
- Technical Plan, including technology(ies) to be used, appropriateness, feasibility, source(s), ease of incorporation, advisory assistance and training requirements, source of raw materials, equipment and labor, location;
- Marketing Plan, including market and customer profile, transportation and distribution, pricing, competition;
- Financial Plan, including projected five year statement and balance sheet, cash flow analysis, and rate of return;
- Legal requirements, including potential impediments, import/export duties, tax legislation, foreign exchange restrictions/regulations, ownership/management requirements;
- Management and implementation plan, including structure, skills (existing and needed), training requirements.

AID/PRE has flexibility in negotiating terms and conditions depending upon the nature , risk level, and developmental impact of any project. General guidelines however are that PRE will finance up to \$2.5 million with the emphasis in the range of \$250,000 to \$1.0 million but not more than 25% of the total project cost with a 15 year maximum term and a negotiable grace period for principal, fixed interest rates which emphasize free market competitive profitability, with loans to be used to capitalize a new enterprise and/or expand an existing one.

The Bureau for Private Enterprise will never invest alone. Rather, its role is to mobilize and supplement private capital. The enterprise's capital requirements should be such that A.I.D. can take the longer maturities and commercial banks and others can take the shorter maturities. Interest rates for loans and other forms of debt will, in most cases, be higher than under normal A.I.D. terms.

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TRADE AND DEVELOPMENT PROGRAM

Trade and Development Program, which is a component of the International Development Cooperation Agency, located in Washington, D.C., has feasibility study funds available for projects which meet the following criteria:

They must

- be of high priority in the country's development program;
- lead to exports from the United States (equipment, agricultural inputs, etc.);
- have a well developed financing plan;

The average amount provided per feasibility study to date is in the range of \$100,000 - \$300,000. The funds are provided to U.S. investors on a cost shared basis with agreement by the investor to reimburse TDP for its share of the studies if the investment goes forward.

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EXPORT-IMPORT BANK OF THE UNITED STATES (EXIM)

The Export-Import Bank of the United States is a United States Government Agency whose purpose is to aid in financing and facilitating exports of United States goods and services. EXIM implements its legislative mandate by providing loans, guarantees, and insurance cover for U.S. export transactions.

Direct Loans and Financial Guarantees

By providing direct loans to foreign buyers, EXIM makes available the longer-term, fixed-rate financing required for major U.S. export sales of capital equipment, requiring repayment terms over five years. EXIM, however, only provides a portion of the required financing, commercial banks generally provide the remainder. In some instances, the Private Export Funding Corporation (PEFCO), owned by U.S. commercial banks and major U.S. exporters, will also participate. PEFCO was organized as a supplemental lending source and makes loans only when the necessary funds are not available from traditional private sector sources on normal credit terms at competitive rates of interest. It makes fixed interest rate loans; its minimum loan size is \$1 million.

Commercial Bank Guarantees

EXIM guarantees the repayment of medium-term (181 days to 5 years) export credit extended by U.S. banks to foreign buyers, without recourse to the U.S. exporters. The commercial bank retains a share of the commercial risk for its own account and is protected by the EXIM guarantee against the remaining commercial and political risks.

Discount Loans

EXIM provides stand-by assurance to U.S. commercial banks which purchase fixed-rate export obligations. This program is intended to overcome limitations in the private market's willingness to provide medium-term (366 days to 5 years) fixed rate for export sales.

FCIA Export Credit Insurance

The Foreign Credit Insurance Association, in conjunction with EXIM, insures short-term (up to 180 days) and medium-term (181 days to 5 years) export credit provided by the private sector. FCIA provides insurance coverage against defined commercial risks, while EXIM provides political risk coverage and reinsures FCIA against excessive commercial losses.

Small Business Support

EXIM has established a small business advisory service to assist companies in various aspects of export financing including guidance on the use of EXIM programs as well as the use of commercial bank facilities. For Small Business Advisory Service the toll-free hotline is (800) 424-5201.

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

AID funded lines of credit to finance non-traditional agricultural exports:

- A) Banco Agro-industrial & de Exportacion (BANEX)
Mr. Guillermo Von Breyman, General Manager
US\$ 10 million
- B) Corporacion Costaricense de Financiamiento Industrial S.A. (COFISA)
Mr. Ernesto Rohmoser, General Manager
US\$ 10 million anticipated available around July, 1983
- C) The colon equivalent of US\$ 20 million anticipated to become available in May, 1983, through local private banks (US\$ 10 million) and local government owned banks (US\$ 10 million) for working capital purposes, debt restructuring, and financing of new stock issues.

U.S. Agency for International Development
Agriculture, Rural Development and Nutrition Programs in Costa Rica

The Commodity Systems' Loan (1978/\$5.5 million) helps raise small farmers' income through a systematic approach to production, encompassing an entire range of agricultural activities: credit, production technology, research, crop handling, quality control, marketing, market analysis and consumption. Specific production systems are analyzed to identify bottlenecks and production systems plans prepared and carried out. The program is concentrated in five geographic areas and is benefitting some 4,000 small farm families. Training and technical assistance to the Ministry of Agriculture and the National Agricultural Sector Planning Office are also being provided.

Project Status: Progress toward the achievement of project objectives has improved considerably during the last 18 months, with approximately 88% of project funds disbursed to date. The credit component (\$2,600,000) has been fully disbursed and a revolving fund to provide farmers with financing for specific crop production projects has been established.

The Natural Resources Conservation Loan (1979/\$9.8 million) will strengthen the GOCCR's ability to manage the country's renewable natural resources. The project will finance (a) legal and policy analysis and research; (b) a pilot micro-watershed management project to test various soil conservation practices; (c) a reforestation and cattle management pilot project to test a reforestation incentive scheme combined with supervised credit for pasture and cattle management improvement; (d) a forestry production pilot project designed as the prototype for production forestry and forestry-based colonization activities; (e) preparation of three resource management plans for priority geographic areas to optimize land use; (f) protection of a national park, which contains an important and endangered ecosystem, combined with environmental education activities; and (g) technical assistance and training to help carry out the project and prepare for future, larger-scale efforts.

Project Status: The Loan was signed on September 13, 1979, but due to delays in the Legislative Assembly, ratification did not occur until March,

1981. The Project Coordination Office has completed the hiring top personnel responsible for the coordination and administration of project activities as well as the required technical staff to implement field activities in all components. Under a recently signed GOCR/UNDP agreement, loan funded technical assistance in production forestry will be provided by the FAO. The credit component has been disbursing loans for reforestation and pasture management and with commencement of the agricultural cycle in May 1983, the rate of subblending under this component is expected to increase.

The Agrarian Settlement and Productivity Project (1980/Loan: \$9.5 million; Grant: \$500,000) is aimed at improving and expanding the national program of agricultural asset re-distribution and increasing land tenure security, with emphasis on the lagging and troubled Atlantic Region. The project will finance the acquisition of land for new reform development areas and provide the support necessary to establish new settlers in these areas.

Project Status: The site development plan has been completed and field work has begun for the second settlement planned for the project, Finca el Indio. This property has approximately 4,200 hectares of good land adequate for more than 400 settlers. The selection of beneficiaries and adjudication of parcels is taking place in El Indio and Finca Neguev, the first project settlement. Road construction activities in both areas are progressing well and expected to be completed this year.

The Campesino Union Strengthening and Credit OPG (1982/\$600,000) is assisting the American Institute for Free Labor Development (AIFLD) to strengthen the democratic agrarian union movement in Costa Rica. The purpose of the project is to build an administrative, operational, and institutional capacity within the Confederación Costarricense de Trabajadores Democráticos (CCTD), Agrarian Democratic Confederations, and independent small farmers affiliated with the democratic labor movement in Costa Rica, which will enable the CCTD to provide a package of essential agricultural services, including training, credit and marketing to the affiliated small farmers.

Projected Status: Implementation began one year ago. Commodity procurement activities have been completed and both local and regional training courses started under the training program.

The Credit Union Strengthening OPG (1982/\$600,000) is assisting the Credit Union Federation (FEDECREDITO) in strengthening its administrative, operational and institutional capacity and expanding its services to the affiliated cooperatives operating in the rural areas. Among the activities financed by the Project will be a credit program for affiliated cooperatives consisting of medium term loans for hiring qualified managers, accountants and field technicians; financial resources to upgrade their institutional capacity; and technical assistance.

Project Status: The grant was authorized and the agreement signed on July 16, 1982. All Conditions Precedent were met on time. Technical assistance being provided by the Latin American Credit Unions Confederation (COLAC) has guided FEDECREDITO, in its reorganization program and in incorporating a new professionally competent staff to occupy key positions. The planning mechanism has also been introduced to the FEDECREDITO operation.

Under the guidance of the resident technician, the technical staff of FEDECREDITO started a program to identify and analyze those cooperatives with high development potential that could be low-risk credit clients. A total of 10 affiliated cooperatives, with a registration of 173,600 members, was initially identified.

The Northern Zone Infrastructure Development Project (Loan, \$10 million/Grant, \$500,000) will support the first phase of a two phase GOCR strategy for the development of Costa Rica's Northern Zone Area. It will finance the establishment of basic infrastructure and support systems, and will include the necessary analytical activity required to provide an information basis upon which medium and long-term development (the second phase) will occur.

The phasing concept and the selection of the Project components result from realistic appraisals by the Mission of: 1) the agronomic potential and limitations of the Northern Zone which have highlighted a specific geographic area with the best development possibilities; 2) the major constraints which hinder the short and medium-term development prospects of the area; 3) the institutional limitations of the GOCR to effectively implement a project involving too many activities or requiring excessive interinstitutional coordination for their successful implementation; and, 4) planned or existing efforts by other donors which the GOCR can utilize to develop the area.

The Special Development Fund (Continuing Project since FY 1977; \$100,000 for FY 1983) finances small community self-help projects throughout the country. This grant fund allows A.I.D. to respond quickly to the needs of community groups who are unable to obtain financial support through the banking system or normal government programs. USAID, Peace Corps, and the Embassy actively collaborate in project implementation.

Project Status: Nearly fifty projects, of which fourteen are direct income-producing activities, are currently in progress. These range from sheltered work-shops to industrial sewing centers, potable water systems and tree nurseries. Because of rising inflation, the maximum grant amount for SDF projects was recently raised from 90,000 to 200,000 colones or from about \$2,250 to \$5,000 at the current exchange rate. Increasing demand for SDF resources has resulted in the Mission requesting an additional budgetary allotment from AID/W.

The Private Sector Productivity Loan (1981/\$10.0 million) has financed the development of the private Agro-Industrial Export Bank (BANEX), which has established an integrated program of credit, export management assistance and export-oriented banking services for the producers, manufacturers, brokers and other expeditors of non-traditional exports to world (non-Central American) markets. Specifically, the loan supports: (a) a credit system which lends at market interest rates and with terms and conditional tailored to the needs of the eligible recipients; (b) a privately owned and operated trading company through which private sector firms can efficiently carry out the activities associated with exporting; (c) efficiently provided basic export-oriented banking services; and (d) the establishment of BANEX as a viable, private banking institution which offers an additional private sector alternative for resolution of Costa Rica's banking and foreign trade problems.

Project Status: Disbursements for subblending and Trading Company Operation currently total \$2.2 million. Including reflows, BANEX has sublent a total of \$35 million. In addition, the BANEX local currency subloan portfolio totals over 30 million colones (approximately \$680,000 at the current exchange rate). Trading company activity has produced eight trial orders of Costa Rican products which have the potential to produce commercial sales of approximately \$53 million annually.

BANEX dollar subblending activity is on schedule, and local currency subblending exceeds expectations. Commitments for project commercial co-financing are promising. Disbursement beyond the first phase is expected to occur without significant difficulty. Trading Company development, however, has been tedious. Significant organizational development progress has been realized, but sales are slower than anticipated. The first major evaluation of the project has recently been conducted by Arthur D. Little, Inc. and modifications of the original Trading Company approach are anticipated. The loan is expected, however, to be fully disbursed by the project assistance completion date of September 25, 1985.

Economic Support Funds

Economic Stabilization and Recovery I (1982/\$20 million) is designed to help Costa Rica recover from its economic crisis, achieve economic stability and reestablish economic growth. The Costa Rican Central Bank sells these FSF dollars to the Costa Rican private sector, especially export producers, so they can buy U.S. raw materials and goods. Thus, the assistance increases availability of foreign exchange to the private sector; it also was designed to increase private sector access to local currency credit, and the role of private banks in credit operations in Costa Rica.

As with the prior non-projectized assistance, Economic Stabilization and Recovery II (FY 1983/\$125 million) is designed to assist the GOCR to adhere to the IMF Agreement, increase availability to the private sector of both foreign exchange and local currency credit, and to get private banks more involved in current and future domestic credit operations. These funds represent Costa Rica's share (\$75 million) of the \$350 million CBI package, plus an FY 1983 apportionment of \$50 million. Again, the dollars go to the Costa Rican private sector for purchases of U.S. goods and materials.

Project Status: Assistance is being disbursed in increments to maintain exchange rate stability, and to insure AID policy objectives are met. Terms of assistance require adherence to the IMF agreement; submission of proposal to the Costa Rican Legislature to reform the banking law so that private sector banks can participate in the Central Bank's re-discount program. First disbursement in the amount of \$14.5 million was completed in January, 1983, a second in February for \$10 million, and a third in May for \$13.25 million.

P.L. 480

The FY 1982 and FY 1983 P.L. 480 Title I program totals \$45.3 million. This activity provides financing for the importation of wheat, yellow corn, rice, vegetable oil and beans. These food resources permit Costa Rica to supplement local production, meet unsatisfied demand, improve the country's food reserves and contribute towards easing the GOCR's balance of payment

problems. The local currency being generated from the sale of Title I commodities finances self-help measures and economic development projects in the fields of food, nutrition and rural development which address problems related to domestic food production and marketing, GOOCR counterpart funding for AID and other donor development projects, constraints in the private sector, unemployment and GOOCR agricultural policy.

Project Status: Approximately \$35.0 million in commodities have been imported. The remaining \$10.0 million include an \$8.90 million amendment to the FY 1983 Title I Agreement which is currently in the Costa Rican Legislative Assembly for ratification. Twelve activities to be financed by the local currency reflows have been agreed upon between AID and the GOOCR's Ministry of Planning. Activities for which agreements have been signed include: (a) a post-harvest loss assessment study (5.8 million colones), (b) macademia production (7.7 million colones), (c) national agricultural surveys (9.5 million colones), (d) a national food for work program (167.8 million colones), (e) soy fortified processed foods (47.0 million colones) and, (f) machinery and rural roads reactivation (56.2 million colones). Activity agreement to be signed by September, 1983 will provide funding for (a) agricultural credit through the cooperative and national banking systems (391.3 million colones) (b) machinery and rural roads reactivation (second phase, 60 million colones), (c) construction of grain storage and handling facilities, (146.8 million colones), (d) contribution for the development of the Northern Zone (76.0 million colones), (e) agricultural training (7.0 million colones) and, (f) an irrigation project (22.0 million colones).

The GOOCR is effectively complying with the program's self-help measures as follows: (a) prices for basic grain and vegetable oils destined for internal consumption were increased and are being maintained above world market prices to stimulate increased agricultural production, (b) the National Production Council, (CNP) has reduced its operational deficit by 26%, (c) a team from Kansas State University's Food and Feed Grain Institute has assisted the GOOCR in preparing a work plan to assess post-harvest grain losses and to determine additional grain storage requirements and (d) the Directorate General of Statistics and Census will carry out two agricultural surveys during the second semester of 1983.

The Productive Credit Guaranty Program (PCGP) (1979/\$3 million) became effective in 1980 with a \$3 million A.I.D. guaranty authority, the objective of which is to encourage commercial bank loans to poor farmers and small businessmen by reducing bank risk via a guarantee program.

Project Status: Project activity was suspended almost one year ago; its loan delinquency rates exceed maximum permissible levels. Based on a review of audit findings and recommendations, plus other studies conducted, the Mission has determined that the program should be closed out due to both design problems and the manner of implementation of the program. The need for a guarantee fund nonetheless exists, and the PCGP's assets and liabilities will be absorbed into a new program which will be set up with local currency generated by Economic Stabilization and Recovery II program and with a new guarantee authority.

INTER-AMERICAN DEVELOPMENT BANK (IDB)

IDB has announced a US \$ 26.6 million loan to help finance a program for the expansion of agricultural productivity to benefit small and medium size farmers in Costa Rica. The purpose of the program is to increase the production of coffee, cacao, sugarcane, rice, beans, corn, sorghum, soya, potatoes, fruit and vegetables, and to a lesser degree, livestock.

The project has four components:

- 1) Research on the generation of new technology needed to increase productivity through test plots, irrigation research, soil analysis, biological pest control, plant breeder and basic seed, preparation and distribution of publications and extension services.
- 2) Technology transfer to farmers through 12 new technical assistance agencies and 17 small technical assistance units.
- 3) Production and distribution of seeds to ensure a regular supply of quality seeds to farmers on an area of over 250,000 hectares.
- 4) Basic inputs of good quality fertilizer and pesticides at an adequate supply and reasonable prices.

The program will be carried out by the Ministry of Agriculture and Livestock with special roles in execution assigned to various national and international agencies domiciled in Costa Rica engaged in agricultural research and extension activities.

Up to US\$ 24.7 million will be disbursed in dollars or other non-Cost Rican currencies and up to the equivalent of US\$ 1.9 million in colons. The term of the loan is for 30 years at an interest rate of 2% per annum and will be repaid in semiannual installements with a grace period of 9 years.

REGIONAL UNIT FOR TECHNICAL ASSISTANCE (RUTA)

RUTA has as its principal objective collaboration with Central American countries and Panama in the preparation of selected investment projects for agricultural and rural development. RUTA's executing agency is the World Bank and it is financed by the United Nations Development Program (UNDP), the World Bank, the International Fund for Agricultural Development (IFAD) and the Interamerican Institute of Cooperation for Agriculture (IICA). RUTA works with counterpart agencies in each country.

RUTA's specific objectives are to:

- assist the Governments in preparing investment projects in the agricultural sector that would meet the requisites for financing by internal or external agencies; and
- strengthen the capability of national agencies responsible for project preparation.

The above objectives are to be accomplished through the provision of technical assistance and through short term training courses and in-service training.

Project Preparation

In order to receive assistance it is necessary that an interested government present to RUTA through its official channels a technical assistance request, including a list of projects for which RUTA assistance is needed. RUTA will then review the projects in-country looking at priority status assigned by the government; the status of existing preparation; operational capability of the project preparation group; institutional capability; and financing sources. Based on this review a work plan is formulated for the final preparation of projects with the highest priority.

RUTA's services, including the consultants hired by RUTA, are financed with resources from the international agencies indicated above, while local expenditures related to the work of the national group must be fully financed by the country concerned.

Training Activities

Training of national personnel is done through courses and in-service training. The short-term courses (five to eight weeks) are offered with the participation of the Economic Development Institute of the World Bank and of IICA with participants chosen by the corresponding governments. The in-service training takes place both in RUTA's office for specific projects of up to six months and/or in other countries through project evaluation trips.

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