SECOND CREDIT DEMAND SURVEY CONDUCTED AMONG SELECTED COSTA RICAN PRODUCERS/EXPORTERS OF NON-TRADITIONAL PRODUCTS

BY

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INTRODUCTION

During the period of March 2 to March 26, 1982 the Contractor interviewed 23 exporting firms for the purpose of identifying their financial needs, as well as, current constraints (if any) while attempting to obtain credit from financial institutions. USAID/CR requested the contractor to visit as many as possible of the 26 firms interviewed earlier (July, 1981), when a similar survey was carried out by the same consultant. The previous survey had similar objectives, therefore, the contractor's scope of work asks to focus on the following:

(1) What was each firm's earlier expressed credit requirements?

(2) What credit has been contracted since the first survey?

(3) Was there a particular type of credit which been more readily available?

(4) What were the surveyed firms' perspections of the reasons for their particular success or failure in securing credit?

(5) What obstacles to obtaining credit did the firms cited? (e.g. interest rates too high, lack of collateral, the firms' financial situation?).

(6) In addition, the Contractor was requested to include in this report an explanation of how the credit allocation system is currently working from the perspective of the users of credit, and what possible measures might be taken to make the system more agile and responsive, if any such measures were indicated.

Interviews were secured with 12 of the 26 firms that had been surveyed in July, 1981. It was not possible to interview more because of conflicting (overlapping) time slots, and in some cases because relevant individuals were out of town. However, the time gaps were filled by interviewing 11 additional firms that, even though they had not been surveyed previously, they were part of the original (July, 1981) list of target firms (exporters of non-traditional products to non-traditional markets) that could have been contacted.

Annex A at the end of this report, contains a firm by firm summary outline that addresses (when applicable) the first five questions previously listed as being part of the Contractor's scope of work. The main body of this report also addresses the same questions but in an aggregate way, which permits to generalize (to the extent that it is possible) about each of the relevant topics.

Previously Expressed Credit Requirements

Table No. 1 lists the previously stated (July, 1981) credit requirements of the 12 firms that had been originally interviewed. The table also includes the current credit requirements of same firms. Several noticeable features can be observed in Table No. 1. The totals of the BEFORE and NOW columns are different. The investments plans of some firms have been changed or postponed for various reasons. The reasons behind the differances vary from case to case as explained in Annex 1. In two of the cases the lower NOW figures have been reduced by loans granted by the new AID sponsored Export Bank. In two cases the investment plans are still the same. The previously stated credit requirements were all in dollars, because at that time the Central Bank was allowing exporting

TABLE No. 1

STATUS OF CREDIT REQUIREMENTS OF PREVIOUSLY SURVEYED FIRMS

NO.	EXPORT PRODUCT	WORKING CAPITAL		LONG-TERM INVESTMENT	
		Before	Now	Before	Now
1.	Breakfast Cereals & Snacks			$ 500,000	$500,000
2.	Men's shirts	$ 500,000	4 MM ₡	500,000	$100,000
3.	Miscellaneous Plastic Products	500,000	4 MM ₡		
4.	Stoves and Refrigerators	500,000	$300,000		
5.	Sail Boats	350,000	7 MM ₡	150,000	
6.	Polyethelene Bags & Sheets	250,000	$200,000	500,000	
7.	Pineapples		9 MM ₡	520,000	
8.	Canned Sea Food			500,000	$1 MM
9.	Ornamental Plants		6 MM ₡	700,000	
10.	Frozen Yuca & Tropical Fruits		2 MM ₡	100,000	
11.	Rubber Sandals & Shoes		$300,000	400,000	$400,000
12.	Miscellaneous Footware	450,000	12 MM ₡		$200,000
	Dollar Totals	$2,550,000	$800,000	$3,870,000	$2,200,000
	Colon Totals		42 MM ₡		6 MM ₡

SOURCE: Interviewed Firms

firms to service dollar obligations with the export dollars that were being generated by the exports of the same firms. However, the present Central Bank rules have changed, and exporters do not know with certainty if they will have access to part of their export dollars to pay debts related to the purchase of imported raw materials. Therefore, a noticeable change can be observed in the type of currency (colones) in which many exporters are expressing their current credit needs. This is because exporters know what the parallel market price of the dollar is today, but they do not want to assume working capital dollar debts, since many fear that dollar prices may be higher in the future.

Credit Contracted Since Last Survey and Current Demand Among Interviewed Firms

The July, 1981 survey focused on the incremental credit demand that was related to expanding production to non-traditional markets. Most of the firms that were interviewed last year had been exporting to Central American countries for several years. Six of the managers of the twelve firms that had been previously interviewed stated that they had been able to roll-over existing working capital loans. Four firms had obtained new financing (for traditional markets) after waiting several months to receive it, but the credits granted were for shorter periods of time and for smaller amounts than those that were originally requested.

TABLE No. 2

Current Credit Demand Stated by Firms Interviewed in the Second Survey

		Working Capital	Long-Term Investment
1.	Breakfast Cereals & Snacks		$ 500,000
2.	Men's shirts	4 MM ¢	$ 100,000
3.	Miscellaneous Plastic Products	4 MM ¢	
4.	Stoves and Refrigerators	$ 300,000	
5.	Sail Boats	7 MM ¢	
6.	Polyethelene Bags & Sheets	$ 200,000	
7.	Pineapples	9 MM ¢	
8.	Canned Sea Food		$1,000,000
9.	Ornamental Plants	6 MM ¢	
10.	Frozen Yuca & Tropical Fruits	2 MM ¢	
11.	Rubber Sandals & Shoes	$ 300,000	$ 400,000
12.	Miscellaneous Footware	12 MM ¢	$ 200,000
13.	Sweet banana chips	2 MM ¢	$ 300,000
14.	Paints	100 MM ¢	
15.	Rugs	20 MM ¢	
16.	Syntetic Fibers		$ 500,000
17.	Resins	50 MM ¢	
18.	Adhesives	$ 150,000	
19.	Tints & Extenders	$ 300,000	
20.	Leather, gelatins, sausages, fish	300 MM ¢	
21.	Tropical fruits pulp	4 MM ¢	
22.	Syntetic fibers	60 MM ¢	
23.	Non-tradional agricultural products	9 MM ¢	
	Dollar Totals	$1,250,000	3,250,000
	Colon Total	588 MM ¢	

Source: Interviewed firms.

In terms of incremental financing to serve new and/or expanding non-traditional markets, two firms had received loans from the new Export Bank, and two other are presently negotiating loans with the same bank. However, eleven of the twelve firms had requested loans from the SBN to finance incremental exports to non-traditional markets. Of these, only two received some financing, but again, credit was granted for shorter periods and smaller amounts than it had been originally requested. The current credit demand related to export production for non-traditional markets that was stated by the 23 firms interviewed during the second survey (March, 1982), is listed in Table No. 2. The total demand (working capital plus long term investment) is approximately $19.9 million if based on exchange rate of 38 colones per dollar. These 23 firms represent approximately 1/3 of the total number of producer/exporter of non-traditional products in Costa Rica. Five of the firms in Table No. 2 expressed their working capital demand in dollars. However, it is unlikely that their willingness to accept dollar loans will continue much longer. The problem being the erratic Central Bank's policies concering the ability of exporters to cancel dollar debts with part of the dollars they earn through exports.

In addition, it can be conservatively estimated that 50% of the colon demand stated by the other 18 firms, would be converted into dollars (if credit is made available) in the parallel market in order to purchase imported raw materials. Most of the firms interviewed remarked that imported raw materials can only be obtained on the cash basis, because suppliers are aware of the difficult foreign exchange crisis being experienced in Costa Rica.

Type of Credit that Has Been More Readily Available

All the 23 firms interviewed stated that all credit has been severely restricted in Costa Rica since early 1981. The managers of two large firms mentioned that they had noticed a small change in credit availability within the past five months, but that the supply was still not enough. The general manager of the National Manufacturers Association (Cámara de Industrias) stated that the total amount of credit that is to become available during 1982 (18% over the total amount made available in 1981) is considerably below the total amount needed because the inflation rate during 1981 was at least 60%.

To be sure, the most readily available credit has been obtained through the rolling-over of maturing loans. According to some of the firms that were interviewed, friendly relationships with bank's directors is an intangible asset for securing credit. Fourteen of the firms mentioned waiting periods of two to three months before getting an answer from members of the SBN about specific credit applications. Four firms experienced waiting periods of six to eight months. An additional four, mentioned cases where loans that been approved and the first disbursements already made, but were not given subsequent disbursements.

Five firms stated that they had obtained better results by approaching small finance companies and/or private banks. Two firms mentioned that in dealing with the SBN, a faster way to obtain credit is to ask for very small amounts (less than ₡300,000), because this way the Boards of Directors of the banks do not become involved. In summary, the larger and better related firms have a higher probability of receiving credit, as long as, the amounts requested are not large, and the time terms needed are not long.

Most Commonly Mentioned Obstacles to Securing Credit

In order to better understand the statements of the surveyed firms concerning the common obstacles to securing credit, it would be helpful to outline some relevant features that characterize both: the exporting industries, and the financial institutions (SBN) that support them. Most of the products manufactured or processed by exporting firms (other than Agro-industries) have a relatively high content of imported raw materials. Most of the manufacturing firms that export have current dollar liabilities. These, as is the case with most firms in Costa Rica, are seriously decapitalized due the recent devaluations of the colon (less purchasing power), and also because of the high inflation rate of the past 18 month. Fourteen of the firms that were interviewed cited imported raw materials contents ranging between 40 to 60% of every export dollar. Many exporting firms are not considered subject to credit according to traditional (conservative) banking practices, due the dollar liabilities that appear on their balance sheets, and/or the income losses that recently came about as a result of the sequential devaluations of the colon. The deteriorating Central American Markets that began being evident two years ago have forced most firms to seek markets elsewhere. More recently, aided by the colon devaluations, an increasing number of firms are finding new markets which are larger, and in several cases potentially more profitable, than the traditional Central American markets (e.g. U.S.A., Mexico, Venezuela, Puerto Rico and Europe). The economic crisis and the shift in market orientation have compelled many firms to be more efficient and productive in terms of costs and quality. Eleven of the firms surveyed stated that in fact this was true in their case. Paradoxically, these firms can be viewed as presently being part of a growth sector in the midst of a national economic crisis. However, as previously mentioned, most are severely decapitalized and a large number of them are not considered to be subject to credit under presently applied Costa Rican banking standards. In addition, supplier's and foreign bank's financing is being denied as a result of the broader public sector related foreign exchange crisis. Manufacturers that export non-traditional products to non-traditional markets receive about ₡33 per export dollar (after deductions). Since dollars at the inter-bank rate are difficult to obtain, the firms have to buy dollars in the parallel market at a present rate of ₡45 in order to purchase the needed imported raw materials. All manufacturing firms interviewed complained about the effect on income brough about this problem, and three admitted operating at a loss because of it. Firms find it difficult to price their products (specific shipment are often unprofitable) and some, unlike their foreign competitors, can not offer credit terms to their foreign buyers and lose such sales.

It has been difficult for most firms to adjust to the present credit environment. Many firms stated that prior to 1980 the SBN was ather laxed about granting credit at what is now perceived to be relatively low rates of interest. It has been reported that probably as much as 60% of the SBN business related portfolio is "frozen", because firms can not pay, (or have refused to cancelled) their loans. All twenty three firms surveyed affirmed that the slow processing of loan application by the SBN is a major credit obstacle. In addition, fifteen firms mentioned that SBN functionaries overburden the applicants with lengthy inquiries related to production and marketing details. The firms do not view this as being necessary for the type of financing (short term working capital) that is usually being requested. No doubt that the laxed lending policies and erroneous credit decisions made by SBN members prior to 1981 (that resulted in the present "frozen" portfolio) are being overcompensated by present credit policies. Several firms stated that these policies are being carried out by analysts that never had experience at being "conservative" bankers, therefore they are slow and bury themselves in detail.

Four firms stated that present interest market rates (25%) are an impediment to taking advantage of some non-traditional markets because of the low profit margin of certain products. They accompany this argument by remarking that the costs associated with penetrating new markets are high at the beginning, and that present market rates of interest have a detrimental effect on items characterized as being high volume/low profit export products.

<u>Alternatives for more Agile and Responsive Systems</u>

It was requested to include in this report an explanation of "how the credit allocation system is currently working from the perspective of the users of credit, and what possible measures might be taken to make the system more agile and responsive, if any such measures were indicated". From the perspective of the firms interviewed the current credit allocation system has no particular pattern. The long time that it is taking to receive an initial response about credit applications, and the several statements about only obtaining smaller amounts and shorter terms than those being requested, is indicative of a liquidity shortage within the SBN. To be sure, some liquidity exists, but no answers can be advanced here about how much?, nor by what system? the SBN follows in selecting among the apparent long list of outstanding applications. These matters will be answered by the contractors that are analyzing the supply of credit. The consensus of all the firms interviewed is that there is a severe liquidity shortage in Costa Rica. However, there are institutional and enterprises related factors that constraint the access to <u>present</u> and <u>future</u> liquidity. In terms of the magnitude of the liquidity gap, the figures stated in table 2 give an opportunity to estimate its latent minimum size. According to the manufacturers association 35% of Costa Rica's industrial enterprises export at least a portion of their production. Most (probably 3/4) of the 65% which are industrial producers for the domestic market are small enterprises. However, the remaining 25% is composed of medium and large size industries which are vital to the domestic economy because of the products they process (e.g. food, clothing, etc.) and the jobs they provide. Likely the industrial enterprises that do not export are also affected by the apparent liquidity shortage. The size the liquidity gap will be know when the credit supply study is finished. (However, it must be remembered that the "bottom-up" approach of this second survey revealed latent demand that has not yet been manifested at the credit windows. The unmanifested demand of the non-traditional export sector (note that only 1/3 of the target enterprises were surveyed), if coupled with the similar demand of the industries that do not export, it could total to a very significant amount.

The following comments assume that given the potentially large size of both unmanifested and manifested credit demand of the total industrial sector, AID will orient its immediate special assistance to a specific high-impact industrial sub-sector. Another assumption is that the initial priority sub-sector (program) will be: to provide working capital credit to producer/exporters of non-traditional products in order to allow them to export to non-traditional markets. The need to allocate funds to specific sectors and/or activities due limited available resources, is unequivocally accompanied by relatively complex and involved design procedures. For example, given the low capitalization levels of many target exporters, they want to borrow <u>colones</u> (to avoid foreign exchange risks) so that they can go to the parallel market and buy dollars which are needed to purchase imported raw materials. However, a significant percentage of these firms are not viewed as being subject to credit by most financial institutions due past dollar liabilities. It is difficult for firms to service foreign debts given the limited access to the export dollars they generate. Presently, the servicing of past dollar liabilities most be accomplished by converting profits (which are needed to raise working capital levels) into dollars that are also bought at the parallel market rate. For reasons associated with the alledged size of the "frozen" SBN portfolio, all 23 firms surveyed stated that the member banks in addition to requesting "real" collateral (meaning unmortgaged real estate or equipment, which many of the firms interviewed do not have), a long time is taken to analyze a credit request because banks do not want to make additional mistakes and add to the "frozen" portfolio.

In the best of worlds, a more agile and responsive credit system (program) could come about if enough design time and negotiating leverage were available to accomplish one, or several of the following:

1. To create a special dual (dollars and <u>colones</u>) revolving fund that would make <u>colon</u> loans to target export enterprises.

2. The part of the colon loans that would be needed to purchase imported raw materials (case of most manufacturing firms that export) would be converted into dollars at the inter-bank rate through the dollar component of the dual revolving fund.

3. A clearing mechanism would reimburse to the dual fund an amount of dollars (which would be generated by the above exporters) equal to, or slightly higher than, the amount of dollars originally provided (sold) through the dollar component of the revolving fund.

4. In order to increase the probabilities for rapid use of the <u>colones</u> available in the fund, the ICI's network should include the SBN and private sector banks and finance companies. If the latter institutions are not eligible as ICI's due present by-laws of the Central Bank, then the answer would probably be a two-step process involving the Central Bank and the Banco Internacional. The Banco Internacional could name private and public financial institutions as trustees of the credit program via a trust fund (<u>Fideicomiso</u>) approach, or run a second level program and discount 100% of ICI's sub-loans to target enterprises. In the first case the Banco Internacional and the ICI would share joint fiduciary responsabilities for the recuperation of the credit funds. In the second case, the responsability for the recuperation of the funds from the target enterprises is assumed

by the ICI, and would require two loan contracts for each transaction: sub-borrowers and ICI; and ICI's and Banco Internacional.

5. All the firms interviewed in the second survey stated that the SBN banks are very slow in granting credit, and most firms complainted about the conservatives credit analyses standards followed by such banks. Four managers that had personal banking backgrounds stated that "cash flow" lending is presently very rare in Costa Rica, with the exception of a couple of small finance companies. Cash flow lending means granting working capital loans based on the short-term cash flow capacity of the firm, and not based on the state of the firm's balance sheet. In order to stimulate the SBN members and private banks to lend the revolving fund colones a guaranty scheme will have to used. In the U.S. ever since the depression guaranty schemes, have been used as efficient tools for turning around conservative banking policies and procedures. The capitalization of a guaranty scheme could come about, by the interest rate differential between the cost of the AID funds, and the interest rate charged to target industries.

1- Frozen Yuca & Tropical Fruits

The firm was first interviewed in July 1981. The general manager stated at that time that he needed a $100,000 loan to expand building space and increase cold storage capacity. The expantion was urgently needed because of a large U.S. demand for frozen yuca and several of the tropical fruits that the firm processes. Agricultural products are bought from approximately 500 farmers, and recently it has begin to buy, process, and export frozen fish meat.

During the second half of 1981, the firm attempted twice to get a loan from SBN banks and could not obtain financing because of lack of liquidity within the system. Since the cost of construction and the price of equipment was increasing, the firm began the expantion by using its own funds (earnings and working capital). The expantion could not be compleated, and a 4 million colon loan was requested from the Banco de Costa Rica. The application and a feasibility study was turned in 80 days prior to the second interview, but the bank had not yet given an answer.

The general manager stated that the firm needs at least an additional 2 million colones for working capital purposes, and that there is sufficient collateral to back up a loan of that size. He also stated that some of the new products that are being introduced in the U.S. market can not be profitably exported if the cost of capital is 25% or more (e.g. certain types of fish).

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2. Rubber Sandals and Shoe Soles

When the firm was first interviewed in July, 1981 it was waiting to hear from FODEIN (the World Bank fund at the Central BanK) about the financing of a major construction project (8000 m^2) for a new plant site, and the purchase of a few machines. The loan was finally approved and the first disbursement was made in August, 1981, after a 2 year waiting period. The FODEIN loan was for 17 million colones, at a 22.85 rate of interest.

During the first interview the firm expressed the wish to borrow $400,000 to purchase machinery to produce materials (wide rubber bands) used in the recapping of automobile tires. Now that the firm will be moving to its new site in May, 1982, it is time to undetake the proposed capital investment ($400,000). In addition, the manager stated that the larger plant capacity that will come about due the new site, requires an additional $300,000 for working capital purposes. He also stated that the firm has sufficient collateral to offer for both potential loan ($700,000), but that the money would had to become available to the firm as soon as possible, in order to avoid further price increases that could place the company in a situation of not having enough collateral, or that could make the investment unprofitable.

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3. Miscellaneous Footware

The firm produces leather shoes, tennis, and rubber boots. Its deteriorating Central American markets has forced the company to seek new markets in Mexico and the U.S. The manager was first interviewed in July, 1981 and he expressed the need to borrow $450,000 for working capital purposes. Shortly after the firm was interviewed, a major organizational change took place between it, and its parent company in Guatemala. The result was increased autonomy and growth potential. The present financial requirements are $200,000 to purchase additional production equipment, and 12 million colones for working capital. Within the last five months the only local financing that the firm has been able to obtain is a 1 million colones pre-export credit line from Banco Anglo that took three months to negotiate, and for which the bank has only disbursed 50%. In addition to the long time it took to obtain the credit line, the firm was required to provide a lot of information other than financial statements, such as: details about the production characteristics, list of clients for the past five years. Recently, a second 300,000 colones loan (90 days) was granted (took five days to obtain) through the Banco Nacional de Costa Rica Financiera. The firm had an urgent need of cash to cover a minor gap in its cash flow and requested that amount because it was found out that its magnitude is the maximum limit for which a board of directors approval is not necessary. However, in order to obtain the funds within the shortest possible time, the firm's three top officials had to personally co-sign the loan documents. The manager considers the present 25% interest charge of their two recent loans as being high, because of the heavy costs of introducing the company's products (consumers goods) in new markets.

4. Ornamental Plants

The firms was interviewed in July, 1981 when the need for two different loans ($200,000 and $500,000) was expressed by management. It was known to the firm (from their experience with other companies they own) that there was a liquidity problem within the SBN, and had not seeked new loans by the time the second interview took place. However, the manager expressed a wish to go ahead with the first project if money becomes available, but wants to borrow 6 million colones instead of $200,000. The firm has sufficient collateral to cover a larger loan, but is reluctant to assume a dollar debt because it is felt that erratic Central Bank's rules might make it difficult to retain part of their export dollars to service dollar debts.

5. Pineaplles and Hearts of Palm

The firm when first interviewed in July, 1981 expressed a need for two long term loans: $300,000 and $200,000. The first loan would have been used to plant 200 hectares of pejibaye palms, and the second loan would have been used to install a pineapple pulp making plant.

The pulp plant was supposed to process the pineapples already grown by the firm, as well as, other pineapples that would be purchased from small farmers. Further research revealed that the pejibaye investment was very risky because there is only one canner in Costa Rica, and that due seasonal price fluctuations and occasional shortage of cans, a large pejibaye plantation would be undertaking a great amount of risk.

The firm has been very successful exporting their own fresh pineapples, and wants to plant pineapples in the 200 hectares instead of pejibaye palms. The Banco Nacional de Costa Rica (Pital Branch) was approached for financing, but the bank would only provide 15,000 colones per hectare, while the firm feels that 40,000 colones per hectare are needed in order to do it adequately. If financing becomes available, the firm would like to borrow 8 million colones for a two year period. Sufficient collateral can be offered, but the firm is unwilling to assume a dollar debt, when it is not known for certain if the Central Bank will allow to use part of the export dollars to service a dollar debt of this type.

6. Canned Seafood

In July, 1981 when the firm was first interviewed it was stated by management that there was a processing bottleneck at the cannery level that could be solved by expanding production capacity. The company's boat can capture four time more fish than the cannery can process. It was also stated during the first interview that a $500,000 loan would be needed. The market potential and fish prices have improved to such levels that the firm presently wants to borrow $1 million for the plant expantion. The Banco Nacional de Costa Rica in Golfito was approched, but the firm was that there were no funds available for that size of financial requirements.

Two months prior to the second interview the firm had approached the Banco de Santander (Spanish Bank) in San José, and applied to obtain funds through a special Spanish export financing credit line that only charges a 10% interest rate (for up to five years terms), but the loans are denominated in dollars. By the time that the second interview took place, the bank had not answered their request.

7. Polyethelene Bags & Sheets

The firm imports 80% of its raw materials. This means that approximately 60% of every export dollar represents imported raw materials content. In the first survey a demand for $250,000 for working capital was stated. In addition, these were plans for the purchase of additional equipment worth $500,000. The firm was able to obtain working capital financing from the new Export Bank. The purchase of the new equipment has been postponed until access to foreign exchange generated by the firm's exports is more available. Export markets in the U.S. and Puerto Rico have expanded and the firm presently needs $200,000 more for working capital. The manager complainted about the SBN in reference to the long time it takes to get a loan (4 to 6 months) and about the unreasonable number of questions the banks ask: list of clients, export selling price per country of destination, cash flow for the next five years. He fears that this confidential information may be made available to others outside the banks.

8. Sail Boats

In the first interview (July, 1981) the firm stated a need for $350,000 for working capital and $150,000 for additional equipment. Management approached (August, 1981) a SBN bank for a ₡6 million loan and after three months it was approvaed and ₡1 million was disbursed. After the first disbursement the bank send the firm a 37 page questionnaire which took four weeks to answer. The bank did not supply the additional ₡5 million, so the firm paid back the ₡1 million and the loan was closed. The firm presently needs ₡7 million for working capital and have postponed the $150,000 long term investment until the Central Bank allow exporters to retain part of their export dollars to cancel foreign currency debt obligations. The manager stated that he will be contacting the new Export Bank about working capital financing.

9. Stoves and Refrigerators

The firm expressed a need of $500,000 for working capital when it was surveyed in July, 1981. Approximately half that amount was borrowed from the new Export Bank. The market expantion plans of exporting commercial refrigeration units to Chile failed due high freight rates. However, a very large market for small refrigerators in the U.S. has been identified. U.S. manufacturer no longer produce small refrigerators but there is still a market for these. The firm expressed a need for $300,000 of additional working capital financing. The manager stated that credit availability had improved somewhat during the past five months, but that in order to import raw materials they had to go to the parallel market to buy dollars.

10. Miscellaneous Plastic Products

A need of $500,000 for working capital purposes was stated in July, 1981. The firm has a debt with a SBN bank which was refinanced (rolled-over), but no new credit has been available to the enterprise. A recent freight rate increase has made the shipping of certain products to the U.S. and Caribbean countries unprofitable. Some of their products (plastic) are low weight-low-density items. The manager complainted about having to go to the parallel market to buy dollars at over ¢40. when they only receive on the average ¢32.48 for their export dollars. The firm has dollar obligations with suppliers, and these debts are being repaid gradually but with dollars purchased in the parallel market. The lack of working capital funds means that the firm can not extent credit to its foreign clients. This translates into lower export sales. In addition, the firm never knows if an export shipment will be profitable because they have to guess about the future price of the dollar in the parallel market when they quote an export price. A present need of ₡4 million for working capital purposes was expressed.

11. Men's Shirts

In July, 1981 the firm expressed a need of $500,000 for additional equipment and $500,000 for working capital. Since that time, the firm has approached several financial institutions to receive some financing. There is a standing credit application to finance the purchase of equipment via FODEIN (World Bank's funds) but after six month there has been no answer. Six months ago the firm requested from the Banco de Costa Rica ₡2 million to buy some equipment. The manager stated that the bank had asked for a lot of information, and that even through it had been provided and the loan approved, there had been no disbursements. Another bank was approach to obtain dollars to buy imported raw materials. The firm wanted to secure the loan with an irrevocable letter of credit that was also confirmed. The bank asked the company to advance a colón deposit of 100% of the total value of the letter of credit, so it was decided not to deal with the bank and had to turn down that particular opportunity to export. The firm is exporting to Israel, France, Italy, Holland and soon hopes to sell to the U.S. despite the American import tariff on textiles. The lack of credit affects sales, the production is related to the way the fashion industry and marketing patterns work. Production has to be ahead of the marketing cycles, so letters of credit are not always available. The firm expressed an immediate need for ₡4 million for working capital purposes.

12. Breakfast Cereals & Snacks

In July 1981, the firm was planning a $500,000 expantion. In February, 1982 the new Export Bank was approached for the financing of the expantion and an answer is expected soon. The working capital requirements has been met with the company's own resources. The manager stated that the company does not like to deal with the SBN because it takes a long time to process loans. A new opportunity to produce and export to the U.S. under the Standard Brands label has been offered.

13. Sweet Banana Chips

The firm has 63 employees and exports to Miami one 20 ft container per week. The Florida buyer has expanded the market and has asked for a 40 ft container to be shipped every week. The firm does not have sufficient working capital. It has refinanced (rolled-over) a previous debt with the Banco Nacional de Costa Rica. The manager stated that the significance of their existance in Costa Rica is, that they are generating dollars by processing a product that otherwise would have no value. They purchase the bananas that export packing houses reject or do not consider export grade. The firm does not have sufficient working capital to expand production and need ₡2 million more. Pan-American Airlines wants to buy grated coconut in bulk. The firm would have to invest $300,000 in additional equipment to satisfy the rather large Pan-Am orders. All the production inputs of this firm are obtained in Costa Rica so their present working capitall requirements are for <u>colones</u> expenditures. The firm does not need any of the dollars it generates, except if it acquires a dollar debt in order to purchase the needed equipment.

14. Leather, Sausages, Gelatin & Fish

The firm is a large cooperative that has 1700 members. Nine hundred of the members are cattlemen, 80% of which are small (less than 100 animals). The cooperative main business is the export of beef to the U.S., approximately $28 million per year. However, the cooperative also owns and operates several other enterprises. Among these, four have a growing export potential: tannary, sausage factory, gelatin factory and fish processing plant. The firm has a ₡25 million line of credit for the meat processing plant, and a $2 million dollar line of credit with a Miami

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bank. However, in order to be able to have sufficient working capital to supply the various export markets that the above mention factories can supply, it would require approximately ¢300 million for the four factories. About ¢80 million of the needed amount would be lent to cattlemen which need it to improve the weight and care of the cattle in the field, so that the hides are not damaged by insects and other animals. In addition part of the needed funds would be used to take advantage of leather chips (presently have no value) that when mixed with a chemical, will turn into a raw material that can be used to make shoe soles.

15. Tropical Fruits Pulp

The firm employs 70 employees and exports all of its production to the U.S. ($1 million last year). The fruits being processesed are: papaya, mangos, guayaba, pineapple, naranjilla. They work closely with 150 small farmers. The firm provides T.A. to the farmers and guarantees the purchase of the crops through futures contracts. Based on this agreement the Banco Nacional lends 027 funds to the farmers. Presently, the firm has an outstanding ¢500,000 loan that it received from a SBN bank. However, ¢4 million more are needed for working capital purposes, and $250,000 to install refrigeration equipment. The firm buys it raw materials locally, but the supplier of cans only sells if paid in dollars. So the firm has to go to the parallel market to buy dollars to pay for the cans made by the Costa Rican producer. The lack of additional working capital means that the firm can not take advantage of certain export opportunities. Export sales are also lost because the firm is unable to offer the 60 to 90 days credit needed by some of its export clients. In addition, in order to gain new clients it is necessary to export on consignment, but it can not be done due the lack of working capital.

16. Synthetic Fibers

The firm was established four years ago to serve the Central American market, but it was not given the Common Market external tariff protection. Due the political problems and economic crisis of the Central American region, it did not materialized into a significant market outlet. Hence the firm had to find new non-traditional markets. In a period of 18 month the expert production of $250,000 per month was increased to $1.5 million per month. Approximately 95% of the production is exported to several countries: Bolivia, Peru, Argentina, Mexico, India, and U.S. Fifthy percent of every export dollar represents imported raw materials. The products are high volume/low profit items, therefore the liquidation of export dollar at ¢33 and having to go to the parallel market and buy dollars at ¢45 to purchase raw materials creates a loss for the firm, even though they employ 380 people and bring $18 million to Costa Rica. The firm, like most of those that were interviewed are still holding the <u>presa</u> C.D.'s ($3.5 million this firm alone), because suppliers will not accept them until an IMF agreement takes place. The manager expressed a need for a ₡60 million colones, 180 days working capital loan. The Banco Nacional de Costa Rica was approached for a similar size loan and after waiting 8 months the loan request was turn down.

17. Non-traditional Agricultural Products

The firm owns a 250 hectare farm (Limón Province) that has served as an experimental station to grow non-traditional products that are exported to the U.S. Europe, and the Caribbean. In addition, the firm provides T.A. and futures contracts to 194 farmers that grow similar products: tiquisque, Ñanpí, Yuca, Ginger, Ñame. Last year the firm exported $350,000. A credit application was made to FODEIN through the Banco Nacional de Costa Rica to purchase equipment to make fruits pulp and freeze fresh agricultural products. However, one year has gone by and no answer has been given by FODEIN. Since the number of farmers working with the firm has increased, there is need this year for a ₡9 million working capital loan. Last year the working capital requirements came from other companies that belong to the same firm. They prefer not to work with the SBN because they consider it too bureaucratic, so the firm deals with a private bank in order to buy dollars when needed (Bank of America).

18. Paints

The firm exports 40% of its production to non-traditional markets ($2 million last year). It employs 210 people and it operating at 35% of

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installed plant capacity. Approximately 40% of every export dollar represents imported raw materials content. The present working capital needs are ₡100 million. If obtained it would mean about $4 million in additional exports and at least 55 more jobs would be created.

19. Rugs

The firm employs 55 people and exported $750,000 last year. Sixty percent of every export dollar represents imported raw materials content. The export opportunities to South American countries have expanded but ₡20 million for working capital is needed to satisfy new demand. If funds become available the firm would operate 2 shifts and employ 50 more people.

20. Synthetic Cloth

Last year the firm exported $1.6 million and employed 180 people. The South American and Caribbean markets have increased and $500,000 are needed to purchase additional equipment. If funds are obtained, exports would be incremented by $2 million, and at least 60 more people would be employed.

21. Resins

The resins are used as raw materials for the processing of oil and enamel paints, as well as, for the processing of reinforced plastics. The firm employs 43 people, and last year it exported $2.4 million. Approximately 70% of every export dollar represents imported raw materials. The firm is operating at 50% of installed plant capacity, and needs ₡50 millionf for working capital to increase exports and the use of installed capacity by an additional 35%.

22. Industrial and Commercial Adhesives

The firm employs 32 people, and last year exported $300,000. In November, 1981 it requested a $50,000 loan from FODEIN but after 6 months there has been no answer. It presently needs $150,000 of additional working capital in order to increment exports. The plant is operating at 70% capacity (one shift).

23. Tints & Extenders

The products are raw materials for industrial printing operations. The firm employs 40 people, and last year it exported $1.3 million dollars to Central American markets. The plant is operating at 60% capacity, but new export opportunities exist in Jamaica, Ecuador, Chile and the U.S. Approximately 55% of every export dollar represents imported raw materials. The firm needs $300,000 in additional working capital in order to serve the new markets.

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