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ECONOMIC COMMISSION FOR LATIN AMERICA

Third Session. Montevideo, 5 June 1950

Item 7 of the Provisional Agenda

REPORT OF THE ECLA/FAO

I have the honour to present herewith
prepared by the ECLA/FAO Cooperative Unit, on
agreement reached between the Director General
Secretary of ECLA at Quito, Ecuador, in Sept

This report has been prepared in accordance
E/CN.12/143, approved by this Commission in

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AGRICULTURAL CREDIT IN CENTRAL AMERICA

Resolution E/CN.12/143 of the Second Session of ECLA requested the Secretariat in collaboration with FAO to organize a joint study group for the purpose of carrying out investigations into agricultural credit and submitting reports to the Third Session of ECLA. Because of the limited resources available, it was decided to confine the study for the first year to the republics of Central America. The following paragraphs contain a summary and conclusions of the study while detailed evidence is given in Annexes I to IV.

Until 1929 the export of coffee and bananas maintained the prosperity of the Central American republics; when prices and profits were high there was considerable net investment in these countries and, furthermore, foreign capital was attracted. However, little attention at that time was paid to other branches of agriculture or to the development of industry.

The economic crisis which started in 1929 revealed the essential weakness of these economies which depended primarily on the export of one or at the most two products. When the prices of these primary

/commodities

commodities collapsed, there ensued not only a banking crisis but equally a social crisis. The existing banking systems proved inadequate to deal with the economic dislocation which faced these countries. Neither was there governmental machinery for alleviating the material sufferings of the population.

This situation brought about a fundamental change in public opinion and in the policy of the Central American governments. There was a general desire to broaden the basis of the economy of each country and to depend less exclusively on the one or two staple export products. This first led to a reform of the banking system and secondly to the promotion of industry, of hitherto neglected branches of farming and, in this latter connection, to the development of agricultural credit institutions. Mortgage credit as a means of strengthening the land tenure system and farm improvement credit as a means of stimulating agricultural production became matters for discussion and later for action. A soundly administered credit system could accelerate the process of capital formation and increase production in agriculture. However, production of crops for the home market, particularly of foodstuffs, was then and still is in the hands of small scale producers, indeed, to a large extent, in the hands of subsistence farmers having little or no relationship with the market economy. The problem was a twofold one, of developing on the one hand a sound financial administration of farm credit, and on the other hand of making the small farmers economically strong enough to become borrowers of money. The last twenty years, 1930-50, have been a period of experimentation in these fields.

/The general pattern

The general pattern was the creation of a Central Bank under government control and an agency for the administration of farm credit, either as a part of the Bank or separately.

In Costa Rica, when the law of the National Bank of Costa Rica was promulgated in 1936, special provisions were made for the creation of a mortgage department within the bank and for the creation within the commercial department of a Section of Rural Credit Boards (Juntas Rurales de Crédito Agrícola).

In El Salvador, the Mortgage Bank was founded in 1935 and in 1939 started farm credit operations. In 1943 the "Federación de Cajas de Crédito Rural" was founded.

In Guatemala, the National Mortgage Bank (Crédito Hipotecario Nacional) was founded on 4 December 1929. A special department was created within this institution in 1945 called the Department of Cooperative Development (Departamento de Fomento Cooperativo) with the purpose of establishing cooperative organizations to foster agricultural production. Subsequently the "Instituto de Fomento de la Producción" was created and organized a Department of Agricultural and Industrial Credit (Departamento de Crédito Agropecuario e Industrial).

In Nicaragua, the 1940 law of the "Banco de Nicaragua" provided for the establishment of an agricultural credit section. Previously, in 1930 the Mortgage Bank of Nicaragua (Banco de Crédito Hipotecario de Nicaragua) was founded.

In the course of 1949 the Honduras government requested the help of the International Monetary Fund to establish not only a Central Bank but also an Agricultural Development Bank. Both these banks are

/now in the

now in the process of formation.

In each case these banking and farm credit institutions were created on the initiative of governments, not by an extension of existing commercial banks or from the farming community. One of the main objectives of the governments was to help the small farmers and to promote agricultural development. For example, the Farm Credit Act of El Salvador states that "it is in the interest of the country that small farmers should have better purchasing power and that this can be brought about most effectively by measures which will place the benefits of credit within their reach".

Although the laws with respect to farm credit promulgated during this period were technically sound, it is true that the systems established have in nearly all of the countries experienced grave financial crises or have collapsed. Moreover

particularly unfortunate in the absence of adequate effective control from the centre.

2) Most small farmers were and are not creditworthy because there is no adequate marketing organization to take their produce which they produce or because they farm on a subsistence basis and not as yet sufficient surpluses available for sale to enable them in incurring financial obligations. Before a small farmer can operate successfully, steps must be taken to improve marketing facilities, especially by providing stable and remunerative prices for producers, likewise through expanded extension services to increase the marketable surpluses of the small farmers.

3) Sums of money earmarked by the governments for the purpose of farm credit were in many cases exhausted. As a result farmers

series of other business enterprises which had little credit. In many cases, not only have these enterprises lost a great deal of the time of the staff which might have been devoted to work in the field of credit, but also the operations have become more costly instead of an increase of funds.

These shortcomings are less marked in some countries than in others. Some countries, such as Costa Rica, which have been more favourable to the operation of farm credit, have achieved significant success during the last decade. Others have not experienced or are still experiencing a crisis. Many of these factors are inter-related. It is because credit institutions have insufficient funds that they are tempted to undertake unwise business activities. It is because technically trained staff is not available that decentralization will not work. It

countries themselves by establishing special courses in the subject or by devoting more attention to farm credit in schools or universities. However, having regard to the size of the countries, results in most cases would not be commensurate with the costs. Another way of improving the technical competence of the administrators would be for each country to send a select few to other countries in order to learn the methods that have proved successful there. In countries where farm credit has been successfully adapted to the existing agricultural system, students can do a great deal by studying the methods employed, and they can carry what they have learned back to countries that have not yet reached the same stage of development.

2) Governments, through their banking institutions, may wish to consider the desirability of making larger sums available for agricultural credit, especially where the credit system is already soundly based. Central America is at present experiencing a considerable degree of prosperity on account of the favourable prices of certain export products, and it might be advisable to channel a part of the current gains into agricultural credit administrations that can effectively use a larger supply of funds.

3) At the same time steps must be taken to develop the credit-worthiness of small scale producers. It is just as important to strengthen the demand for credit as to augment the supply. Strengthening the demand means, as stated above, giving to the farmer the capacity to increase the quantity of produce for sale and at the same time improving marketing facilities. In the case of countries which have

/a large part