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AGRICULTURAL CREDIT IN EL SALVADOR\*

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## INTRODUCTION

The economy of El Salvador is based on agriculture. In 1946 the gross national income was approximately 435 million colones, of which 200 million colones, or 46 per cent, was produced by agriculture. Within this figure for agriculture, coffee represented 12 per cent, and other products, such as sugar, maize, beans, rice "henquen" (Mexican agave), cotton, etc. amounted to 33 per cent of the National Income.<sup>1/</sup>

During the latter part of the last century until the banking reform of 1933, a period which coincided with the expansion of coffee economy, seventeen private banks were founded in El Salvador. Many of these enjoyed the privilege of issue. Nevertheless, the majority failed for one reason or another, and in 1933 there were only four, three of which had the right to issue currency. These were the Banco Agrícola Comercial (Agricultural Commercial Bank), the Banco Occidental (Western Bank), the Banco Salvadoreño (Salvadorean Bank) and the Bank of London and South America.

Until the banking reform, it can be said that there was no such thing as agricultural credit, properly speaking. The banks and private money-lenders loaned money for agricultural investment almost exclusively to the owners of coffee plantations, these loans being backed by personal and mortgage guarantees.

The coffee producers obtained funds for their agricultural work by means of a system called "de habilitaciones", by which part or the whole of the current crop was sold in advance. Naturally the selling prices were much lower than those paid for the coffee when it was exported. The lender/buyer, in order to protect himself against any drop in prices, or merely for the sake of profit, paid very low prices when drawing up contracts. He was also protected against any non-fulfilment (either through bad harvests or ill will) by means of a system of fines, which at times reached sums equivalent to twice the value of the amounts unpaid.

Mortgages were effected with a year's grace, with the understanding that the debtor would pay only the interest and the creditor would concede successive

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<sup>1/</sup> The gross national income was calculated by staff of the Banco Central de Reserva (Central Reserve Bank) of El Salvador and of the Federal Reserve Bank of New York. The totals and percentages for 1949 have undergone a radical change as a result of the rise in coffee prices. Today agriculture represents a larger portion of the National Income, and coffee in turn has become more important within agriculture.

extensions. During periods of contraction, the creditors demanded payment, and consequently the farmers either changed money lenders under more onerous conditions or had to forfeit their property under the terms of foreclosure. In times of economic crisis, this created difficult situations between debtors and creditors.

Both types of credit, the mortgage and the personal guarantee, were given under rates of interest as high as 24 per cent or more.

As has already been stated, the only agricultural producers who would obtain such credits were the coffee planters. The big grain and livestock farmers could occasionally obtain mortgage credits if they owned land. Agricultural credits for production did not exist.

The banking reform which created the new structure was based on the following laws:

1. The Law of Liquidation of Private Debts. (1932)
2. The Law of Agricultural, Livestock and Industrial Liens. (1932). (Ley de Prenda Agrícola, Ganadera e Industrial).
3. The Law of the Banco Central de Reserva (1934), and
4. The Law of the Banco Hipotecario (Mortgage Bank), El Salvador (1935).

1) The Law of Liquidation of Private Debts compulsorily reduced the rates of interest to 3 per cent per annum, and gave debtors the irrevocable right to pay their debts, by means of amortizations, over a period of fifteen years.

2) The Law of Agricultural, Livestock and Industrial Liens established that all farmers or industrialists might obtain loans in cash for periods of a year, guaranteeing them with liens without danger of seizure of their possessions.

This law helped to facilitate credits for the coffee and cane sugar crops, as well as for the breeding and fattening of livestock, but it has had no positive effects in other kinds of agricultural activity such as cereals and cotton, because, generally, these crops are considered to have a high degree of risk and moreover, the majority of the banks and private money lenders abstain from financing farmers who raise these crops on rented land.

3) The Law of the Banco Central de Reserva (Central Reserve Bank) created an institution whose capital is in the hands of the private banks, of the Coffee Planters' Association of El Salvador and of private shareholders; it is free from all political influence or control on the part of the Government. The Banco Central (Central Bank) regulated the circulation of money and credit and centralised the power of issue which, as has already been stated, was until then in the hands of three private banks.

/In spite

In spite of the fact that it works principally as a Bankers' Bank, the Central Bank is authorised to work with the public also. Its principal agricultural credit operations with the public consist of loans for the financing of coffee crops. This activity was particularly important during the first years of the institution, when there was an attempt to give impetus to the Law of Agricultural, Livestock and Industrial Liens.

(4) In 1935 a bank was opened which was to be dedicated principally to mortgage loans, and which was known as the Banco Hipotecario de El Salvador. This Bank was organised as a limited liability company with a small participation by private shareholders, with the State supplying, from public funds, a little over ten million colones, which were accumulated over a period of ten years by means of quotas. The administration was left entirely in private hands, the Coffee Planters' Association of El Salvador owning or handling approximately 75 per cent of the shares.

This bank introduced urban and rural long-term credits, paid by means of the system of periodic amortizations. The Bank managed to achieve a lowering in the rates of interest by establishing competition with rates of 6 per cent per annum, but it has not been able to satisfy all the demand because its bonds have not yet been distributed sufficiently among the investing public.

In addition to its long-term operations the Banco Hipotecario has since it started, been engaged in the granting of crop loans known as "créditos refaccionarios" and has initiated or maintained a series of activities and business which are not, properly speaking, related to mortgage operations.

The Banco Hipotecario and the Banco Central were the instruments which gave greater impulse to the use of credit as established by the Law of Agricultural, Livestock and Industrial Liens.

A little while before the organisation of the Banco Central and the Banco Hipotecario, the coffee producers, both large and small, united in a guild or society, which the State encouraged, legalised and subsidised. This Society was called the "Asociación Cafetelera de El Salvador". Later on, the livestock producers were organised in a similar manner, in the Asociación de Ganaderos de El Salvador. Both organisations, in addition to looking after the business interests of their associates, are important from the credit viewpoint, as they hold a majority of the shares in the Banco Central, in the Compañía Salvadoreña del Café and in the Banco Hipotecario.

Since the organisation of the Banco Central and the Banco Hipotecario, three other institutions have been created by law and enjoy State support. These are: the Federación de Cajas de Crédito and its system of affiliated Cajas de Crédito Rural which distribute credits among the small agricultural producers; the Cooperative Algodonera, which controls the production and sale of cotton and grants credits to its associates with a lien on the cotton already harvested and deposited in the institution's warehouses; and the Compañía Salvadoreña del Café, whose aim is to buy and sell coffee in order to regulate prices for the benefit of the producers, but which also carries out credit operations on a large scale with exporters and processors, so that the money may be distributed by these to the small producers under special terms and conditions.

## CHAPTER I

Sources of Credit

In appendix A a short study of the principal crops of Salvador will be found. It shows not only the importance of agriculture in the economy of El Salvador, but also touches upon financing, which will be analysed later. It gives an idea moreover of the importance and need for credit. Credit is necessary because cultivation in a densely populated country is inevitably intensive. It is also necessary because of the prevalent system of land tenure, in which the large number of holders are not owners and possess limited means, and because high production costs call for constant economic assistance in the form of working capital, and, occasionally in the form of investment in order to make permanent improvements to increase productivity.

Until recently, there was no prevalent preoccupation to satisfy the credit needs of the farmers. Banking and Credit, as in the majority of countries, developed around trade and for the benefit of trade. Loans made to producers were made with a view to facilitate marketing operations rather than to encourage production or promote rural welfare.

There has recently been an evolution from this state of affairs, but, in spite of this, the structure of the banking system is principally a structure of commercial banking. Agricultural credit is ~~solely an appendix to the system~~, since even the institutions expressly created for the purpose and whose funds have been derived from public sources, have been placed in private hands, which have followed extremely conservative and rigid methods, proper to commercial banking. Nevertheless, all the banks, as they now function, have an influence on agriculture since all, including the Banco Central de Reserva (Central Reserve Bank) extend loans for agricultural purposes and are moreover a determining factor in the marketing of the products of agriculture.

In a general way, the country today has a banking system which is fairly complete, and which has developed partly as a result of the coffee crisis in the decade from 1930 to 1940. Before this crisis there was no institution which specialised in long-term credit. Credit for the small farmer was entirely in the hands of middlemen and businessmen. The maximum term, even for investments with a slow recovery guaranteed by mortgages, was a year, and rates of interest were very high.

/During the

During the period preceding the crisis, credit expanded without the commercial banks being able to limit this dangerous and disorganised expansion. As a result, the sudden drop in the price of coffee brought about a total disorganisation of the credit system.

It then became imperative to take government measures, which gave rise to the organisations which today constitute the banking system of El Salvador, and which are shown in Graph A.

The Banco Central is the centre of the monetary and credit systems.

Some North American Banks extend short-term loans to exporters and processors of coffee.

The commercial banks operate with their capital and deposits. They rediscount in the Banco Central and can obtain credits in foreign banks.

The Banco Hipotecario operates with its capital and deposits; it rediscounts in the Banco Central and may obtain credits from foreign banks.

The Compania Salvadorena de Cafe operates with its capital funds and obtains credits from foreign banks.

Processors and exporters obtain credits from commercial banks within the country, from the Coffee Company and from foreign banks.

The Cooperative Algodonera obtains credits in a local commercial bank.

The Federacion de Cajas de Credito obtained loans from the Banco Hipotecario and from the Mejoramiento Social, but these operations have been suspended, and at the present time it receives only a small subsidy from the State.

The Cajas Rurales obtain loans from the Federacion de Cajas de Credito in very limited quantities.

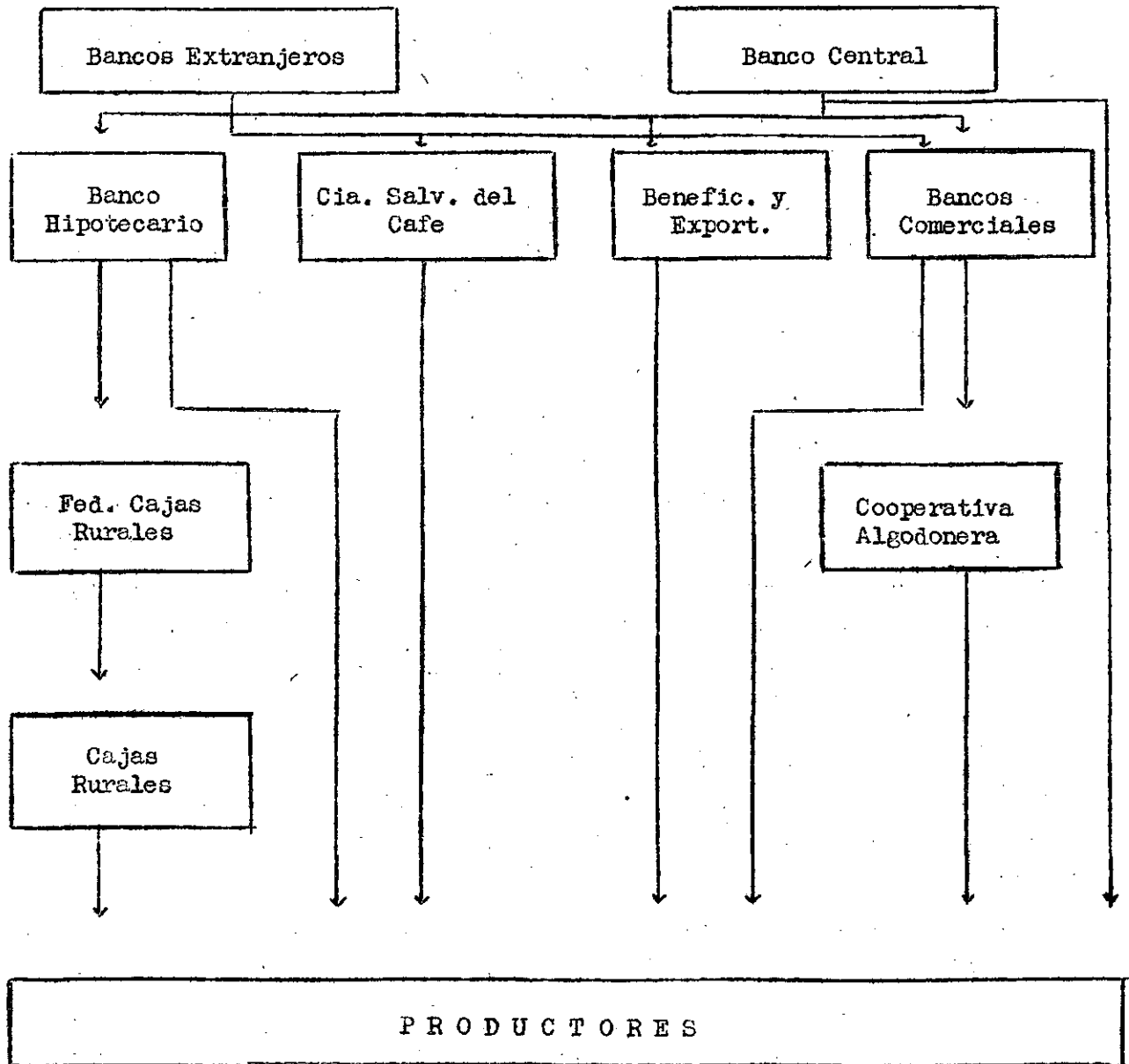
#### A. Central Reserve Bank (Banco Central de Reserva).

The Banco Central de Reserva was founded in 1934. It is a limited liability company, constituted for a period of thirty years. Among its objectives are the following:

- a) To control the volume of credit and the resulting demand for currency, in order to assure the stability of the external value of the colon.
- b) To regulate the expansion or contraction of the volume of credit and strengthen the solvency of the commercial banks by means of the establishment of a central banking reserve fund under its control.

GRAPH A

DIAGRAM OF CREDIT FOR AGRICULTURALISTS IN EL SALVADOR





The capital of the Bank is 1.65 million colones (660,000 U.S. dollars). The Asociacion Cafetalera of El Salvador is the most important shareholder, as it holds 27 per cent of the Bank's capital.

The Board of Directors of the Bank is composed of a President and four Directors. The President is elected by the General Assembly of Shareholders and nominated by the Board. His nomination is subject to the approval of the Executive Power. The President of the Asociacion Cafetalera of El Salvador is automatically a Director of the Bank.

The very composition of the Board is a proof that the Banco Central de Reserva is a non-political institution. This fact has had very great influence on all its operations and on the general policy of the Bank. Another characteristic of the Bank is that it is constituted along classical lines. The Bank has followed the principles laid down in its Statutes and has always been essentially an institute for issuing currency and a bank's bank.

These principles are reflected in the activities of the Bank:

a) Issuing of currency and monetary policy. The colon today is one of the best guaranteed currencies in the world. Gold (valued at  $\text{¢}87.50$  per ounce troy of fine gold) in reserve amounts to 43,251,861.98 colones and foreign exchange to  $\text{¢}43,166,842.13$  or a total of  $\text{¢}86,418,704.12$ . Bills in circulation amount to  $\text{¢}56,105,164.00$  and sight deposits to  $\text{¢}33,253,191.17$ , so that the coverage for bills and sight deposits is 100 per cent. (See table I-1, Balance Sheet of the Banco Central de Reserva of El Salvador, 30th November 1949).

Naturally, there are no restrictions on exchange and the Banco Central de Reserva changes colones to dollars freely at 2.50 colones per dollar.

b) Credit policy. The Banco Central de Reserva is essentially a bank's bank on account of the principles included in its statutory law and the general ideas which predominated at its foundation. Since then it has been expressly forbidden to the Bank (Article 35 of the Statutory Law):

"To dedicate itself to commercial activities or to become directly interested in any commercial, agricultural, industrial or other enterprise".

/"To grant

"To grant mortgage loans."

It will be seen that the legislators desired to avoid any risky operation or any operation which would affect the self-liquidating nature of the Bank's assets.

The Balance of 30th November 1949 shows that the Bank has scrupulously followed these directives.

Among the assets, more than half of those under the heading "Prestamos y Descuentos" (Loans and Discounts) are represented by rediscounts. Finance credits represent only approximately 5 per cent of the total under this heading.

Activity in finance loans for coffee has, at some times, reached considerable figures, especially when the Bank first commenced operations, when there was a desire to give impetus to the use of this class of credit. Now such operations are diminishing. In 1939, agricultural loans reached the sum of 800,000 colones, while in 1948 they reached only the sum of 200,000 colones.

The Banco Central's rate of rediscount is 4.1/2 per cent; the rate on discounts varies between 5 and 6 per cent; and the rate on advances is 5 per cent. The rate of interest on its loans to private individuals is 6 per cent.

On the liability side, it may be seen that the Government deposits, as well as those of official and banking institutions, are more than ten times greater than those made by private individuals or enterprises.

From the foregoing it may be deduced that the Banco Central de Reserva does not have, and does not wish to have, any direct influence on investments in agriculture. In this it differs considerably from other central banks, and in particular, the Banco Nacional of Nicaragua.

On the other hand, the indirect influence of the Banco Central de Reserva on the country's agriculture has been considerable.

By its anti-inflationary monetary policy, the Bank has prevented sudden changes of land ownership which could have occurred. By its conservative credit policy it has favoured short-term credits rather than long-term credits and investments of capital.

#### B. Commercial Banks.

There are four commercial banks in El Salvador, the Bank of London and South America, the Banco Salvadoreno, the Banco Occidental and the Banco de Comercio. The Banco Occidental is in liquidation, while the Banco de Comercio is in its organisational phase.

Table I-1  
EL SALVADOR: Balance Sheet of the Banco Central de Reserva de El Salvador  
on 30th November 1949

ASSETS		LIABILITIES			
1	Gold <sup>a/</sup>	43,251,861.98	10	Paid up capital	1,650,000.00
2	Foreign exchange	43,166,842.13	11	Central reserve	670,974.32
3	In subsidiary currency	778,500.37	12	Notes in circulation	56,105,164.00
4	Advances to the Treasury (Art. 44 of Statutes)	- - - -	13	Sight Deposits	13,655,420.40
5	Contribution of International Monetary Fund	6,250,000.00	a)	Government	5,479,400.90
6	Loans and Discounts		b)	Official institutions	11,638,023.80
	a) Discounts	40,000.00	φ)	Banks	2,480,356.07
	b) Discounts	1,394,430.83	d)	Others	33,253,191.17
	c) Finance Loans	125,000.00	14	Share certificates	4,685,773.69
	d) Advances against guarantee	700,000.00	15	Credited to the International Monetary Fund	1,676,552.77
7	Bonds	2,259,430.83	a)	in foreign currencies	3,600,144.70
a)	Government and State guaranteed	4,601,095.46	b)	in colons	5,276,697.47
b)	Government (Art. 6 Law No. 64 of 1934)	643,107.43			
8	Buildings, etc.	320,738.21			
9	Other accounts	370,224.24			
		<u>4101,641,800.65</u>			<u>4101,641,800.65</u>

a/ Estimated at \$87.50 per fine oz.

/As is shown

As is shown in Graph A the commercial banks operate with their capital and deposits, they rediscount in the Banco Central and may obtain loans abroad.

The consolidated balance sheet of the commercial banks may be found in Table I-2.

They have little influence on agriculture. They have no branches outside the capital and their clientele is essentially urban.

Prior to the creation of the Banco Hipotecario they granted loans with mortgage guarantees, but since 1935 their operations in this field have diminished until today they are insignificant.

Finance credits, which reach a total of \$1,275,800.55, are generally granted to important clients, and the banks are not primarily concerned with the purposes for which these credits are used.

#### C. Institutions Supported by the State

In the period from 1935 to 1944, a legal structure and a mechanism for the functioning of agricultural credits were put into effect. Originally, a certain interdependence between the four public service institutions was provided for. They were: 1) the Banco Hipotecario of El Salvador; 2) Mejoramiento Social, S.A., (Social Improvement); 3) the Instituto Tecnológico (Technological Institute); and 4) the Federación de Cajas de Crédito and the affiliated Cajas Rurales de Crédito.

The Banco Hipotecario created in El Salvador long-term mortgage credits (up to 20 years) payable by periodic amortizations, along the lines of French "Credit Foncier".

Mejoramiento Social, S.A., initiated the sale of arable lands to small holders, on long terms (15 years) or rental on a credit basis for colonisation.

The Instituto Tecnológico was created as a research organisation and for the purpose of carrying out agricultural extension work through other institutions; the Institute was liquidated in 1949 and its assets passed to the Universidad Autónoma (Autonomous University) of El Salvador.

The Federación de Cajas de Crédito and affiliated societies, were organised with the idea of protecting and improving the conditions of the small producers, developing credit by means of cooperative organisation.

In fact, at the present time, the Banco Hipotecario and the Federación de Cajas Rurales with their affiliated Institutions are those which can offer agricultural credits. Moreover, although they were not originally constituted as credit institutions, the Cooperativa Algodonera and the Compañía de Café extend loans to the producers of these articles.

Table I-2

EL SALVADOR: Summary of Balances of Commercial Banks: de Comercio of El Salvador: of London and South America, Salvadoreno and Occidental, at 30th Nov. 1949

ASSETS		LIABILITIES	
1 CASH:		9 PAID UP CAPITAL	¢ 5,500,000.00
a) In bills of the Banco Central de Reserva	¢ 2,065,365.00	10 RESERVES	2,544,292.61
b) In subsidiary currency	258,934.74	11 SIGHT DEPOSITS IN COLONS	28,393,735.13
c) In the Banco Central de Reserva	10,437,677.39	12 OTHER DEPOSITS IN COLONS	
	<u>12,761,977.13</u>	a) Fixed term	- - - -
2 FOREIGN EXCHANGE	3,867,125.74	b) Savings	- - - -
3 LOANS AND DISCOUNTS:			
a) Discounts	5,516,640.15	13 DEPOSITS IN FOREIGN CURRENCIES	<u>10,884,756.47</u>
b) Finance credits	1,275,800.55	14 FOREIGN EXCHANGE	896.98
c) Advances against guarantee	3,351,065.52	15 LOANS FROM THE BANCO CENTRAL DE RESERVA	1,394,430.83
d) Other advances	6,868,785.74	16 OTHER ACCOUNTS	5,134,118.82
e) Mortgages	4,424,602.28		
f) To the Government	- - - -		
g) Overdrafts in current accounts	7,225,839.89		
	<u>28,662,734.13</u>		
4 CLIENTS' RESPONSIBILITIES FOR LOANS IN THE BANCO CENTRAL DE RESERVA	1,394,430.83		
5 BONDS			
a) Government	785,168.48		
b) Banco Central de Reserva	412,500.00		
c) Other stocks and shares	631,363.00		
	<u>1,829,031.48</u>		
6 BANK BUILDINGS	362,000.00		
7 OTHER PROPERTIES	2,794,201.87		
8 OTHER ACCOUNTS	2,180,729.60		
	<u>¢ 53,852,230.78</u>		<u>¢ 53,852,230.78</u>

1. The Banco Hipotecario of El Salvador.

The Banco Hipotecario of El Salvador was founded in 1935,<sup>1/</sup> with the principal object of:

- "a) Granting loans with mortgage guarantees of property goods; and
- b) Issuing its own obligations in the form of bonds, certificates or other shares".

The Bank has a capital of 900,000 colons which is divided in the following manner:

Asociacion Cafetalera of El Salvador	74.8 per cent
Asociacion de Ganaderos (Stockbreeders' Association) of El Salvador	20.0 per cent
Private shareholders	<u>5.2 per cent</u>
	100.0 per cent

On the other hand, the Government has set up the guarantee fund for the Bank, principally with funds provided by 33 per cent of the export taxes of coffee.

Thus, although the State has provided the greater part of the available capital, it is not a shareholder and only takes part in the management of the Bank because by law the Executive Power nominates one of the Directors and his substitute. The other members of the Board of Directors are nominated by the "Asociacion Cafetalera of El Salvador", the "Asociacion de Ganaderos of El Salvador" and the other shareholders. The four directors thus nominated elect the President and Vice-President of the Bank.

The law of the Bank sets forth that the Board of Directors shall have among other obligations, **that of** "determining the requirements and form of each operation of the Bank, fixing periods for payment, amortisation quotas and types of interest, discounts, etc". Taking this article of the law as a basis, there has been a marked tendency on the part of the Board to transform itself into a Committee of Credits, centralizing all decisions on credit operations.

The most important operations of the Banco Hipotecario are long-term loans, with first mortgage guarantees on rural or urban properties.

In the fulfilment of its functions, the Bank has given much more importance to long-term credits than to short-term credits. For example, on 30th, June, 1949,

<sup>1/</sup> Law of the Banco Hipotecario of El Salvador, Diario Oficial (Official Bulletin) No. 6 of 8th January 1935.

the long-term credits in force were ten times more important than the short-term credits. (See Table I-3).

The Bank has also given preference to mortgage credits with rural guarantees over credits with urban guarantees. On 30th June 1949 the value of these credits in force were divided thus:

70.40 per cent rural.  
29.60 per cent urban.

This proportion is the result of the Bank's policy since its foundation. However, it should be noted that the proportion of rural credits granted during the fiscal year 1948-49 has diminished. In this fiscal year the total credits granted were increased to  $\$4,908,887.51$ , of which  $\$3,065,211.45$ , or 62.44 per cent were rural, and  $\$1,843,676.06$  or 37.56 per cent were urban. This evolution may be accidental and due to the increase of the urban population, but the continuation of this tendency could be unfavourable for the development of the country's agricultural activities.

The Bank has followed a very conservative policy in granting mortgage credits. Consequently, on the one hand there has been a lack of expansion of credit, and on the other, a very small percentage of delays. For example, at the end of 1949, the delayed payment on  $\$18,606,210.68$  in mortgage credits in force amounted to  $\$246,988.49$ , divided by graduation of time as is shown in Table I-4.

Table I-4 Banco Hipotecario of El Salvador  
Percentages of delay classified by  
antiquity.

Antiquity of the delay	Percentage	
Delays dating from the first semester of 1949	June	25.65%
	May	7.39%
	April	22.46%
	March	16.38%
	February	6.33%
	January	4.19%
Delays dating from the year 1948	16.78%	
Delays from 1944 to 1947	0.82%	

Source: Banco Hipotecario of El Salvador, Balance sheet at 30th June, 1949.

Table I-3 Balance of the Banco Hipotecario (Mortgage Bank of El Salvador) at 30th June 1949.

A S S E T S			
1	CASH		¢ 3,242,715.90
	Central Office and Branches	¢ 1,098,994.34	
	Banco Central de Reserva of El Salvador (Central Reserve Bank)	<u>2,143,721.64</u>	
2	FOREIGN CURRENCIES (reduced to colones)		880,745.12
	Bills of Exchange	862,643.23	
	Correspondents	18,101.89	
3	CREDITS		21,678,936.80
	Short-term	2,228,551.88	
	Advances against guarantee Finance	¢ 1,155,746.65 1,072,805.23	
	Long-term		<u>19,450,384.92</u>
	Mortgage	18,606,210.68	
	Up to 3 years	¢ 418,470.83	
	Up to 10 years	12,808,890.13	
	Up to 20 years	5,378,849.72	
	Others	<u>844,174.24</u>	
4	INVESTMENTS		1,921,256.88
	Stocks and shares	536,510.00	
	Other enterprises	<u>1,384,746.88</u>	
	General Deposit Warehouses	1,119,408.83	
	Federacion de Cajas de Credito and Cajas de Credito Rural	221,904.87	
	Dairy of SANTA CRUZ PORCELLO	<u>43,433.18</u>	
5	BANK BUILDINGS		265,041.92
6	OTHER ACCOUNTS		1,174,457.96
	Goods and Chattels	466,270.65	
	Interest in our favour	444,888.60	
	Saleables	17,182.18	
	Transitory	<u>246,116.53</u>	
			<u>¢29,163,154.66</u>



Table I-3 Balance of the Banco Hipotecario (Mortgage Bank of El Salvador) at 30th June 1949.

L I A B I L I T I E S		
1	OBLIGATIONS	¢16,711,566.12
	Mortgage Bonds	
	Deposits	¢11,221,550.00
	Credits of the Banco Central de Reserva (Central Reserve Bank)	5,360,176.12
		<u>129,840.00</u>
2	CAPITAL	900,000.00
	Intransferable	540,000.00
	Transferable	<u>350,000.00</u>
	Redeemed	¢ 23,400.00
	Not redeemed	<u>336,600.00</u>
3	RESERVES	10,970,771.35
	Legal Guarantee Fund	9,753,084.15
	Other reserves	<u>1,217,687.20</u>
	General	238,511.09
	Chapter XVI, Art. 92 Law of B.H. for Repayment of shares	23,400.00
	Chapter XVII, Art. 93 Law of B.H. Special for administration	178,000.00
	Chapter XI Art. 46 paragraph a) Statutes for new enterprises	535,000.00
	Chapter XI, Art. 46 paragraph b) Statutes for Security of Credits	242,776.11
		580,817.19
4	OTHER ACCOUNTS	
	Interests charged to us	171,637.53
	Others, to Pay, Cheques issued etc.	16,281.89
	Transitories	<u>392,897.77</u>
		<u>¢29,163,154.66</u>

/The figures

The figures in Table I-4 show that not only is the percentage of delays slight, but also that the delays in the majority of cases are short and accidental.

Besides the conservative policy of the Bank, the renewal of delayed credits and the evident influence of the period of prosperity enjoyed by the country since the creation of this Bank have had an effect on the foregoing figures.

Interest on mortgage credits is usually 6 per cent. The law of the Banco Hipotecario forbids interest charged to exceed by more than one point that which the Bank recognizes for its creditors, in the case of long-term obligations. The decision as to the rate of interest rests with the Board, but this has to take into account the origin of the funds loaned.

The rates of 5 per cent and 7 per cent correspond to operations carried out with funds derived from the issuing of 4 per cent and 5 per cent bonds, and from the guarantee fund; the rate of 6 per cent corresponds to credits effected with 5 per cent bonds and its own funds. In the case of credits granted to the Bank, interest may be as high as 10 per cent.

In Table I-5 the loans of the Banco Hipotecario are classified by rate of interest and type of operation. It will be seen that there is a marked preference for credits from 3 to 10 years, and at an annual interest rate of 6 per cent.

The Banco Hipotecario makes two kinds of short term loans: advances against guarantees and finance credits. The advances against guarantees are principally credits carrying a personal guarantee, or a guarantee with lien bonds and mortgage bonds. The credits with lien bond guarantees are feasible because the Banco Hipotecario possesses deposit warehouses in San Salvador and can issue lien bonds. The importance of the issuance and easy negotiation of lien bonds cannot be denied. Nevertheless, it would be desirable that the same institution should not grant the credit and hold the merchandise.

Table I-5 Banco Hipotecario of El Salvador  
Long-term credits at 30th June 1949,  
according to interest and term.

Term	Interest	Credits in force
Up to 3 years	6%	418,470.83
Up to 10 years	6%	12,808,370.07
	10%	520.06
Over 10 years	5%	821,560.06
	6%	82,226.51
	7%	4,475,063.15
Others over long terms	3-1/2% <sup>a/</sup>	828,680.08
	6-1/2%	15,494.16

Source: Banco Hipotecario of El Salvador, Balance at 30th June, 1949.

a/ Loan to the Federacion de Cajas de Credito.

/This dual

This dual function of the Bank has been criticised on various occasions. Perhaps the critics are right from the purely banking point of view, but as there is a lack of warehouse organizations in the country, it seems difficult to reproach the Banco Hipotecario for having developed an activity so essential for the country's economy.

Naturally, there is a desire to separate the deposit warehouses from the Bank and also to increase credits with lien bonds, which represent, we consider, too small a percentage of the total loans of the Bank and even of the advances against guarantees.

Details of the advances with guarantees at 30th June 1949 are shown in Table I-6:

Table I-6 Banco Hipotecario of El Salvador  
Detail of advances against  
guarantees at 30th June 1949

Type of Guarantee	Amount (in colons)
Personal guarantee	67,006.29
Agricultural and Industrial guarantee	438,045.70
Lien bonds	197,313.13
Guarantee on mortgage bonds	354,935.45
Other guarantees	29,446.08

Source: Banco Hipotecario of El Salvador, Balance at 30th June 1949.

Finance credits are, apart from mortgage credits with rural guarantee, the most important from the point of view of the development of agriculture and the processing industries.

Table I-7 shows the demand for finance credits in the Bank during the Fiscal year 1948-49, classified by types of product.

#### D. The Rural Credit System.

In the field of agricultural credits, the most interesting experiment carried out in El Salvador is the creation of the Cajas de Credito Rural (Rural Credit Institutions).

The creation of the Banco Hipotecario had facilitated the solution of many problems which arose from the crisis, and had cleared the long-term credit market. It had permitted estate owners, especially the larger ones, to survive the

/difficult

difficult pre-war years and reorganize their agricultural enterprises. Nevertheless, there was a very important sector of the country's economy which was without resources and which did not receive any assistance through the existing institutions. Neither the commercial banks, nor the Central Bank, nor the Compania Salvadorena de Cafe were organized to assist the small farmers.

The Government preoccupied itself with this situation, and its preoccupations are summed up in the explanatory part of the Law of Rural Credit.

"The National Legislative Assembly of the Republic of El Salvador, considering:

That it is in the interests of the national economy that the small agriculturalists industrialists and tradesmen should have a greater purchasing power;

That this would be brought about more easily by the establishment of measures which would enable the benefits of credit to reach them;

That it is the duty of the State, in accordance with the dispositions of articles 32 and 55 of the Political Constitution, to encourage small trade and small industries for the benefit of the Salvadorean people, and the development of cooperative societies and credit institutions to prevent usury etc...."

This explanatory part of the Law of Rural Credit indicates not only the aims of the legislative but the solution which was found. The fundamental principles on which the creation of the Cajas de Credito were based, were:

- a) The development of a cooperative system
- b) The creation of means by which the benefits of credit could reach the small producers.

The first principle determined the legal form to be taken by the new institutions: a number of joint stock cooperative societies, and their Federation. The second principle determined the administrative structure of the system, whose essential characteristic is decentralization.

As is indicated in Article 1 of the Law, the system is formed of a series of semi-autonomous Cajas de Credito Rural, with a central body, whose object is to promote the development of the cooperative movement and coordinate the activities of the different institutions.

The dispositions of the law made the creation of the Cajas de Credito very simple. A Caja Rural can be created at the petition of a minimum of ten persons of the locality, who request the authorization of the Governing Board of the

/Federation.

Federation. The latter has sufficient latitude to refuse the application, for the Law permits the refusal of an application in the event of the Governing Board considering that the economic activities of the locality where it is hoped to found the Caja Rural are too limited to justify its organization.

Once the authorization is obtained, the credit institutions are constituted, either in the form of limited liability cooperative societies, or in the form of supplementary liability cooperative societies (in which the members may constitute a supplementary guarantee to back the Society's obligations).

The Cajas Rurales are governed by an Assembly of Shareholders and by a Board of Directors. The Assembly is made up of members who are duly inscribed. In those Cajas which have more than fifty members, the Assembly is composed of 20 representatives of shareholders which are partially renewed each year, although they may be re-elected.

The administration of Cajas Rurales is in charge of a Board of Directors, composed of not less than three Directors and three substitute Directors, elected from among the members by the General Board.

The Boards of Directors of each Caja Rural of every department <sup>1/</sup> appoint one local delegate and one substitute who elect two "departamental" representatives and two substitutes to represent the Cajas de Crédito at the General Assembly of the Central Cooperative.

The Central Cooperative, or Federación de Cajas de Crédito Rural is an autonomous public utility institution, constituted as a cooperative society of limited liability by shares.

It is governed by a General Assembly, a governing board and a Manager.

The General Assembly is constituted by the following:

- a) Two representatives elected by the Cajas Rurales which exist in each department of the Republic;
- b) one representative of the State nominated by the Executive Power;
- c) one representative of the Banco Hipotecario of El Salvador; and

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<sup>1/</sup> There are 14 counties in the Republic of El Salvador.

- d) one representative for each of the autonomous public utility institutions which may be accepted as members by the Governing Board of the Central Cooperative.

The Governing Body is composed of four Directors and four Substitutes who are elected; the first by the Executive Power; the second by the Board of Directors of the Banco Hipotecario of El Salvador; the third by the General Assembly of the Central Cooperative; and the fourth by the Board of Directors of Mejoramiento Social. The function of the Governing Board is to manage the business of the Central Cooperative. The President is elected by the Directors, and is chosen from among them.

The management of the Central Cooperative is in the hands of a Manager appointed by the Governing Board.

The operations of the Cajas Rurales are determined by the objectives which are defined in Article 2 of the Law of Rural Credit: The Cajas have the following objectives:

- " a) To proportion, distribute and develop credit under good conditions among their members.  
b) To facilitate the production, processing, storage and marketing of agricultural and industrial products, and  
c) Eventually to carry out works of general interest".

This system is very broad, and permits the Cajas to have powers for exercising a series of functions foreign to credit institutions, such as acting as intermediaries in the business of appraising agricultural and industrial products and cooperating in the organization and maintenance of local services of all kinds.

The types of operation carried out by the Cajas are summed up in the Consolidated Balance of Assets and Liabilities of the whole system, at 31st August 1949. (See table I-8).

On the assets side, loans show a total of 907,338.66, divided as follows:

Personal loans.....	144,274.27
Lien loans.....	70,145.66
Finance loans.....	195,550.47
Mortgage loans.....	468,582.52
Others.....	20,785.74

/Although apparently

Although apparently the results obtained by the system of Cajas Rurales have not been good, it would be a grave mistake to condemn a system which at the time of its formation passed through a financial crisis. The case of the Cajas Rurales is not unique. In several other countries, agricultural credit institutions have passed through similar crises, and only achieved prosperity with financial assistance from the State.

On the other hand, the aims set forth in the explanatory part of the Law of Rural Credit, have been fulfilled at least in part. Undoubtedly the system of Cajas Rurales has managed to encourage a cooperativist spirit, has helped the small farmers and has prevented usury. The foundations of the organization are solid. Nevertheless, there are profound reasons for the crisis of the Federación de Cajas de Crédito which must be borne in mind when an attempt is made to develop a system of credit or improve the existing one.

a) The lack of capital paralyzes an organization of this nature. The Federation was organized with a capital of 200,000 colons, which was too little to fulfill such a broad programme as was envisaged by the law. The assistance given by the State (2,000,000 colons which were to be paid in quotas over eleven years) was insufficient to place the Federation on an efficient footing. There was a scarcity of the funds necessary to cover administrative expenses, which are very heavy in this type of public utility enterprise. Lacking means to develop, it continued existing through the system's own inertia, working very little and consuming the few resources it possessed.

b) The cooperative nature of the Cajas Rurales has not given bad results, but, particularly at the beginning, such a system can only develop if the central organization fully exercises its tutelary powers. In our opinion, the Law did not give sufficient authority to the Central Cooperative, and this did not fully exercise the reduced powers which it had; and

c) The Law of Rural Credit established a system which was too broad, which permitted the Federation and the affiliated Cajas to have powers to exercise a series of functions foreign to credit institutions. Without doubt, this reduced the capacity of the system to fulfill its fundamental objectives and led it into risky commercial operations which have caused it considerable losses.

E. Compania Salvadorena de Café

The Compania Salvadorena de Café was founded in 1942<sup>1/</sup>. The essential objectives were:

- a) To buy and sell coffee with the object of regulating prices for the benefit of the producers.
- b) To participate and collaborate in societies and institutions which could improve conditions in the coffee industry in all its aspects, as much in regard to production and elaboration of the bean, as in the domestic and export business of the same.

The society has a capital of 250,000 colones. The Asociación Cafetalera of El Salvador holds 900 shares of the 1,260.

The Compania Salvadorena de Café was founded at a time when, as a result of the war and of United States' policy in regard to the buying of coffee, it was absolutely necessary to regulate coffee prices. It was thought at that time that it would be necessary to constitute a regulating fund to maintain internal price levels.

The Statutory Law set aside for this purpose the profits which might be made and which the handling of coffee had produced from the quotas fixed by the Interamerican Coffee Board. (Junta Interamericana del Café).

Coffee prices in international commerce, in contrast to what was thought when the company was formed, rose continuously. Consequently the Company did not have to fulfill its stabilising function in the coffee market, abstained from participating in it and utilized the coffee regulating fund to grant credits to coffee-growers and traders, with the object of creating an active movement in coffee buying.

Credit operations have become very important, as may be seen from Table I-10, "Balance of the Compania Salvadorena de Café on 30th September 1949".

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1/ Law creating the Salvadorean Coffee Company Ltd., Diario Oficial No. 251 of 17th November, 1942.



The Finance credit for coffee growers granted by the company is the usual one in El Salvador. The Board of Directors fixes each year the amount to be given for each quintal of coffee. As these credits are usually granted from the month of March onwards, the sum fixed by the Board is very conservative, but, from the month of October onwards, when firm quotations have been received from the New York Stock Exchange, it is usual to increase the amount originally granted.

The Company has always carried on operations only with the large-scale producers, preferring that the smaller ones should obtain loans from the buyers and processors of coffee, which the Company itself finances by means of its "commercial credits". Nevertheless, the Board recently approved a programme for granting finance credits to the small coffee growers direct up to a total of five thousand colons. The producers have the facility of being able to present their applications through the Departmental Boards of the Asociación Cafetalera of El Salvador. The Board estimates that in 1950 some thirty operations will be effected with small producers, for an approximate value of a hundred thousand colons.

On the other hand, the Company offers "commercial credits" to buyers and processors of coffee, in order that these may in turn buy or supply coffee to third parties. When a loan of this nature is granted, the debtor signs an attested document for the total amount of the credit. The money is deposited with the Company and may be withdrawn in partial sums by means of promissory notes, these being previously authorized by the manager, and each time funds are withdrawn, the buying or supplying documents in favour of third parties are left as a guarantee. The debtor also extends a sales contract in favour of the Company for the quantities of coffee which he buys or supplies. The price is not fixed before the end of February each year, but if by that date the two parties have been unable to reach agreement, the Company proceeds to sell at the price in the market of San Salvador. The debtor is obliged to pay the best prices to his clients for raw coffee, and to give advances in cash at interest rates not exceeding 6 per cent per annum, that is, one point higher than the interest which he pays to the Company for the money received.

Table I-10 Balance Sheet of the Compañía Salvadoreña de Café, S.A.

ASSETS:

AVAILABILITIES		¢ 2,162,931.17
National Currency	¢ 383,709.64	
Cash and Banks		
FOREIGN CURRENCIES (250%)	529,688.61	1,324,221.53
Verified Balance and Remittances in Transit		
CREDIT OPERATIONS		9,160,184.22
Financial loans	9,160,109.22	
Authorized credits	¢ 12,748,140.32	
Not withdrawn	<u>3,588,031.10</u>	
Commercial Receivable sales	75.00	
COMMERCIAL INVESTMENTS		303,975.81
Coffee		
BUILDINGS		661,761.84
OTHER DEBITS ACCOUNTS		
Receivable	240,947.92	
Provisional and Amortizable	170,423.30	
Building Site	<u>202,117.45</u>	
LIABILITIES :		
DEBTS		0.00
PAYABLE SERVICES		2,033.55
Sales commissions		
OTHER CREDIT ACCOUNTS		27,498.16
Receivable	22,433.77	
Provisional	5,064.39	
Sub-totals		¢ 12,902,251.71 ¢ 29,531.71
CAPITAL AND RESERVES		12,635,000.00
Capital	¢ 252,000.00	
"Fondo Regularizador del Café"	12,060,000.00	
Reserves	<u>323,000.00</u>	
AVAILABILITIES FOR INVESTMENT		237,720.00
Totals		<u>¢ 12,902,251.71 ¢ 12,902,251.71</u>

CONTRACTUAL DEBTS

Coffee Purchasing Contracts	qcs.	231,250.00
Coffee Stocks	qts.	373.41
Assets in Trust	¢	1,337.00
Credit availabilities	¢	61,059.68
Other unspecified accounts	¢	<u>12,599.78</u>

The Company also carries out various types of discounting of sales contracts for coffee to be delivered to the Company in the ports, at prices and terms that have been determined previously. The advances on these contracts may be up to 80 per cent of their total value and funds are withdrawn by means of negotiable drafts.

F. The Cooperativa Algodonera Salvadorena (Salvadorean Cotton Cooperative).

The Cotton Cooperative is an organization with State support, which controls the production and sale of cotton in El Salvador.

In order to produce cotton in El Salvador, it is necessary to be an inscribed member of the Cooperative, which is also the only body authorized to sell all the cotton used for the manufacture of yarn and fabric within the territorial limits of the Republic. In addition, the Cooperative is the main ginner of cotton in the country and possesses a factory of edible oils extracted from cotton seed.

The Cotton Cooperative gives credits to the producers against the guarantee of cotton deposited in the institution's warehouses. These operations are effected with funds obtained from the private banks of the place, so that the Cooperative acts solely as an intermediary. Advances per quintal of cotton deposited in the warehouses are small (generally \$ 15 per quintal of raw cotton), so that the assistance given to the cotton growers is really comparatively small.

At 31st October 1948, the assets of the Company reached ten million colons and the institution had loans in force for five and a half million colons.

Table I-7 Banco Hipotecario of El Salvador

Demand for finance credits by products,

Fiscal Year 1948-1949.

Products	Granted		Denied		Withdrawn		Total	
	No.	Value	No.	Value	No.	Value	No.	Value
<b>AGRICULTURAL:</b>								
Sesame	1	2,000.00	1	3,000.00	0	0.00	2	5,000.00
Cotton	1	60,000.00	1	8,000.00	0	0.00	2	68,000.00
Coffee	39	574,500.00	4	36,500.00	2	21,500.00	45	632,500.00
Sugar Cane	2	102,000.00	0	0.00	0	0.00	2	102,000.00
Mixed (coffee & sugar)	30	1,487,430.00	4	22,900.00	1	4,000.00	35	1,514,330.00
Citronella	1	5,000.00	0	0.00	0	0.00	1	5,000.00
Sub-Total	74	2,230,930.00	10	70,400.00	3	25,500.00	87	2,326,830.00
<b>INDUSTRIAL:</b>								
Alcohol	2	48,000.00	0	0.00	0	0.00	2	48,000.00
Sugar	8	1,996,639.92	0	0.00	1	2,000.00	9	1,998,639.92
Salt	2	30,000.00	0	0.00	0	0.00	2	30,000.00
Crude sugar	1	2,000.00	0	0.00	0	0.00	1	2,000.00
Others	2	6,881.73	0	0.00	1	35,000.00	3	41,881.73
Sub-Total	15	2,083,521.65	0	0.00	2	37,000.00	17	2,120,521.65
<b>LIVESTOCK</b>	10	159,000.00	1	8,000.00	1	2,000.00	12	169,000.00
<b>TOTALS</b>	99	4,473,451.65	11	78,400.00	6	64,500.00	116	4,616,351.65

Source: Banco Hipotecario de El Salvador

## CHAPTER II

### THE TRENDS OF LONG AND SHORT-TERM LOANS

As has been explained before, it is difficult to evaluate statistically the amount of the different types of loans found in El Salvador. As the whole economy is based on agriculture, all credit operations have in part an agricultural basis. Manifest proof of the influence of agriculture, and particularly of coffee-growing on credit is shown in the seasonal fluctuations of short term credits.

In addition there are two forms of credit which are typically agricultural: short-term credits with a lien guarantee, and long-term mortgage credits.

In this section we shall examine the general credit tendencies and particularly, the tendencies of typically agricultural credits.

#### a) Short-term credit

The variations in short-term credits are shown in Graph B. In general it follows an upward trend which corresponds to the rise in the price of coffee and the general prosperity which that rise has brought to the country in the post-war years.

The seasonal variations correspond each year to the period of the coffee harvest. We may take as an example the year from 30th November 1948 to 30th November 1949. The short-term loans in force at the end of the month of the Banco Central de Reserva, the Banco Hipotecario and the Commercial Bank are shown in Table No. II-1.

The seasonal variations show that short term credit is influenced by the coffee market, specially at harvest time. The influence of coffee is in fact even greater, since during the harvest months the processors and exporters obtain, either directly or through the Compañía Salvadoreña de Café, important loans from foreign banks which are not included in the accounts published by the Banco Central de Reserva.

Table II-1 Short term loans granted by banking institutions of  
El Salvador from 30th November 1948 - to 30th November 1949.  
(in thousands of colones)

	Banco Central	Banco Hipotecario	Commercial banks	Total
1948				
November	9,307	2,395	22,031	33,733
December	10,918	2,513	23,032	36,463
1949				
January	9,922	1,909	26,368	38,199
February	7,168	1,989	27,009	36,246
March	5,446	2,108	25,068	32,622
April	5,451	2,158	23,049	30,658
May	5,452	2,306	22,104	29,862
June	5,613	1,997	20,000	27,610
July	5,539	1,982	19,615	27,136
August	5,747	2,404	19,510	27,661
September	6,376	2,370	19,565	28,311
October	7,192	2,156	20,440	29,788
November	7,504	2,080	24,238	33,822

Source: Banco Central de Reserva, El Salvador.

The only short term credits directly connected with agricultural production are production loans.

Table II-2 shows the amount of the finance credits in credit institutions on 30th June of each year, from 1939 until 1949.

Table II-2 Finance Credits in the Banking Institutions of El Salvador  
at 30th June each year 1939 - 1949

(in thousands of colons)

Years	Banco Central	Banco Hipotecario	Commercial banks	Total
1939	472.99	357.38	712.43	2,042.79
1940	457.93	980.47	541.10	1,979.50
1941	487.57	407.52	679.80	1,574.89
1942	240.60	612.96	797.10	1,650.66
1943	244.15	711.41	815.00	1,770.56
1944	547.78	667.77	446.62	1,662.17
1945	790.79	804.38	359.50	1,954.67
1946	891.50	1,237.63	765.30	2,894.43
1947	233.50	1,663.98	983.50	2,880.98
1948	83.44	759.50	1,551.25	2,394.19
1949	69.62	910.51	1,195.00	2,175.13

Source: Banco Central of El Salvador.

The total of these credits has not varied. The assistance given to agriculture by the credit institutions of El Salvador has remained stationary, and if the increased costs of production over the same period are taken into account, it may be said that the assistance of the banks to agriculture has diminished considerably.

b) Long term Credit

Practically the only long-term credit available to agriculture in El Salvador is mortgage credit. The creation of the Banco Hipotecario has considerably favoured the development of this type of credit and has prevented the onerous loans with mortgage guarantees which existed before.

/The credits in force

The credits in force of the Banco Hipotecario have increased considerably from 1936 until the present time. At 30th June 1936 the sum of the mortgage credits amounted to 1,387,905.04 colons. At 30th June 1949 they amounted to 18,606,210.68 colons.

In considering this increase, it should be taken into account that the commercial banks have decreased their mortgage loans during the same period.

In 1938, the total loans in force (yearly average) were divided as follows:

Commercial Banks	¢ 10,704,000
Banco Hipotecario	3,500,000
	<hr/>
	¢ 14,204,000

The average of loans in force in 1948, was

Commercial Banks	¢ 4,274,000
Banco Hipotecario	18,293,000
	<hr/>
	¢ 22,567,000

An increase in the loans in force and a displacement of credit from the commercial banks to the Banco Hipotecario can be noted, particularly when taking into account that the credits granted by the commercial banks are included in the mortgage loans affected by the Law of Extension of 1932. (Ley Moratoria).

The increase of long-term credits, as may be seen from Graph C., has not followed the movement of short-term credits. This is due in part to the country's prosperity, and in part to the Banco Central de Reserva's restrictive policy in regard to long-term credits.

Table II-3 shows the sum of mortgage credits granted by the Banco Hipotecario of El Salvador since its foundation until the present time, by type of guarantee. The credits with rural guarantees have increased much more than those with urban guarantees. Nevertheless, the proportion of credits with urban guarantees to loans with rural guarantees has remained more or less stationary.



Table II-3 Mortgage Loans granted by the Banco Hipotecario of El Salvador at 30th June each year, 1936 - 1949

Years	Rural	Urban	Totals
1936	987,577.06	400,327.98	1,387,905.04
1937	1,517,289.76	908,160.43	2,425,450.19
1938	2,127,197.24	1,319,890.56	3,447,087.80
1939	2,791,149.36	1,522,401.78	4,313,551.14
1940	4,010,191.22	1,990,957.37	6,001,148.59
1941	6,773,882.26	2,398,378.17	9,172,260.43
1942	8,009,417.73	3,308,306.42	11,317,724.15
1943	10,058,330.17	3,408,800.99	13,467,131.16
1944	11,115,569.40	3,547,771.34	14,663,340.74
1945	11,605,612.68	3,288,768.23	14,894,380.91
1946	12,381,918.66	3,946,315.96	16,328,234.62
1947	12,986,470.06	4,303,464.78	17,289,934.84
1948	12,461,872.33	4,785,787.94	17,247,660.27
1949	13,098,009.02	5,508,201.66	18,606,210.68

Source: Balances of the Banco Hipotecario of El Salvador.

c) Origin of the funds used in credit operations for short and long terms

Monetary and sight deposits from 1938 to 1948, in the Banco Hipotecario and commercial banks are shown in Table II-4.

It is interesting to note that the deposits in the Banco Hipotecario are so small, considering that this is such a solvent institution. Deposits have always been of relatively slight importance since the founding of the Bank, and have varied between broad limits. It seems therefore as if the public's interest and confidence have been slight and discontinued. The institution's legal reserves have been used more for its short-term operations.

In the case of the commercial banks, there has been a marked and constant tendency towards the increase of deposits.

Table II-4 Deposits in Colones and Foreign Currency expressed in Colones in the Commercial Banks and in the Banco Hipotecario of El Salvador Yearly Averages, 1938 - 1948

(in thousands of colones)

Year	Commercial Banks	Banco Hipotecario
1938	6,564	1,361
1939	6,782	1,830
1940	6,279	2,156
1941	6,605	2,736
1942	11,013	7,550
1943	17,031	13,733
1944	25,424	10,752
1945	36,330	3,791
1946	35,302	3,016
1947	37,373	5,195
1948	35,045	4,529

Source: Banco Central de Reserva of El Salvador.

The Banco Hipotecario is the only institution which issues long-term obligations. Mortgage bonds in force at 30th June 1949 reached the sum of \$11,221,550. The bonds have increased regularly since 1938, but at certain times it has been very difficult to dispose of them.

Table II-5 shows the nominal value of bonds in circulation from 1938 to 1948.

Table II-5 Banco Hipotecario of El Salvador  
Bonds in circulation 1938-1949  
(in thousands of colones)

Year	Total of the Bonds in Circulation
1938	211
1939	314
1940	532
1941	2,170
1942	3,762
1943	7,149
1944	9,260
1945	9,559
1946	10,008
1947	10,486
1948	10,914

Source: Banco Central de Reserva de El Salvador

Although a considerable increase can be noted in the bonds in circulation, it is considered in financial circles in El Salvador that more could be placed. On the one hand the lack of organization of the bond market is criticised, while on the other the Bank has followed a very conservative policy and has had sufficient funds of its own without needing to issue more bonds.

Savings deposits, which are also useful for credit operations with a slow recovery rate, are not frequent in El Salvador. There are two private institutions, La Capitalizadora de Ahorros S. A. (Savings Capitalization S.A.) and La Centro Americana S. A. (The Central American S. A.), which combine savings plans and life insurance plans with lotteries of capitalisation shares. The funds derived from these operations by these organizations are invested more in mortgage loans with rural guarantees than in credits for agricultural purposes. The commercial banks and the Banco Hipotecario have very few savings accounts, and the funds derived from them play an unimportant role in their long-term credit operations.

CHAPTER III  
SURVEY OF THE MANNER IN WHICH AGRICULTURAL PRODUCTION  
IS FINANCED IN EL SALVADOR

Since 1932 the Government of El Salvador has maintained a more or less defined and continuous policy in relation to agricultural credit and coffee production.

Since coffee reached its preponderant position as an export product, it has been protected or has demanded protection by the Salvadorean State.

Coffee has always enjoyed customs protection; it has also enjoyed customs exemption for the import of machinery; taxes have been paid on exports and not on income, and have always been very small in comparison with the profits made by the coffee growers; and finally, since 1933 the State has supported the Asociación Cafetelera of El Salvador, which is a syndicated society in which all the country's coffee planters are united. This society protects the interests of its members; it has maintained a commercial office (in New York) and Technical Services (in El Salvador) for the sowing, cultivation, production, processing, marketing, etc. of coffee; and it has purchased the majority of shares in the Banco Central, the Banco Hipotecario and the Compañía Salvadoreña de Café, all this being achieved with public funds.

On the other hand, we have seen the impulse given to the credit institutions for agricultural purposes since 1932, when the Law of Liquidation of Private Debts was passed. Nevertheless, the direct and dominant intervention of the Coffee Planter's Association in the three principal credit organizations under the auspices of the State, indicates that even in this aspect of agricultural policy, it is the serving of the coffee interests which has been pursued.

Coffee receives more credit assistance than any other product, and this assistance is more favourable where the economic capacity of the estate owner is greatest. This is the case not only because private and semi-fiscal banking are made to serve coffee, but also because coffee is a permanent crop, which is safe and subject to few risks in El Salvador, even on the part of Nature itself, so that it is possible for short-term credit to function on a commercial rather than an agricultural basis. Whoever the lender may be, it is not necessary to exercise rigorous control over his investments. As a result, credit for coffee,

/even though its

even though its object is agricultural, is mercantile in its operational mechanism.

The other products of Salvadorean agriculture receive credit assistance almost solely in those cases where they are exploited on a commercial scale by agriculturalists whose credit is well established and who generally have other sources of income from activities distinct from agriculture.

Apart from the production of coffee, the State has protected the production of centrifuged sugar, cotton and henequen. The producers of these four articles are grouped in societies supported by the State with special legislation, and which are maintained by subsidies derived from public funds. In some cases, particularly those of Mexican agave and sugar, production has been converted into a truly de jure oligopoly.

In the case of sugar cane, credit operates in favour of the proprietors of plantations, but the production of crude sugar and molasses has to resort to credit supplied by private moneylenders under unfavourable conditions.

Large plantations of Mexican agave can count on bank credit, but the production or hand industrialisation of this fibre, which supply the local requirements for cordage and agricultural implements etc. is tied to credits by private moneylenders.

The producers of cotton cannot obtain loans for sowing and harvesting, being able to count only on slight financial assistance through the Cotton Cooperative when they deliver their fibre to the deposit warehouses.

The producers of maize, "maicillo" and beans, products which constitute the basic food of the Salvadorean population, cannot obtain credit and often have to resort to non-monetary loans, in kind or services.

Agricultural credit for increasing production of these articles has had only a very limited development in El Salvador.

Table No. III-1 attempts to give a numerical survey of the way in which the cost of the principal crops of Salvadorean agriculture are financed.

Table III-1 ESTIMATE OF THE QUANTITIES OF CREDIT USED IN THE FINANCING OF SALVADOREAN AGRICULTURAL PRODUCTION

Product	Production		Cost of Production		Financing	
	Manzanas	Quintals	Per Quintal	Total Cost	Credits Without for Pro- Credit duction a/	Without Credit duction a/
Coffee	143,139	1,235,000	35.00	43,000,000	25,800,000	17,200,000
Maize	219,987	3,534,780	5.00	17,000,000	500,000	16,500,000
Sugar	7,836	472,000	9.00	4,250,000	3,250,000	830,000
Cotton	18,000	200,000	17.50	3,500,000	2,000,000	1,500,000
Beans	36,600	566,900	10.00	5,650,000	200,000	5,450,000
Rice	22,775	371,760	10.00	3,700,000	300,000	3,400,000
Maicillo	83,000	1,486,470	3.00	4,500,000	---	4,500,000
Crude Sugar	9,000	592,000	4.30	2,500,000	100,000	2,400,000
Sesame	8,000	100,000	20.00	2,000,000	1,000,000	1,000,000
Henequen	5,700	90,000	12.00	1,080,000	810,000	270,000
Livestock	---	---	---	---	---	---
Lesser crops	---	---	---	---	---	---

Source: Ministry of Agriculture, Department of Economic Studies and Statistics, Banco Hipotecario and Federation of Cajas de Crédito.

a/ Total of credits from banks, commercial firms and private individuals (estimate)

APPENDIX A

Principal Branches of Salvadorean Agriculture

In the following paragraphs we shall attempt to analyze briefly the principal products of Salvadorean agriculture, their yields, costs and prices, with the object of giving some basis of judgment for appreciating, or at least estimating, the credit needs of each.

Coffee

Coffee is the most important product and constitutes almost the only source of foreign exchange. Coffee was introduced into El Salvador in about 1840 by a school teacher of Brazilian origin, and since then its cultivation has increased by degrees until now this small Republic is the second producer of mild coffees in Latin America, and the country which obtains the highest average yields per surface unit.

Table A-1 shows the coffee production of El Salvador during the last five years for which complete statistics are available.

Table A-1 Coffee Production in El Salvador  
1944-1948

Year	Quintals of 46 kg.
1944	1,448,859
1945	1,203,097
1946	950,208
1947	1,275,469
1948	1,296,429
Average	1,234,812

Source: Ministry of Agriculture of El Salvador, Department of Economic Studies and Statistics.

The cultivation of coffee is effected in the shade and a high degree of technical skill has been reached. The coffee plantations are situated on the slopes of the volcanoes and on the plateaux, at heights which vary from 800 to 1,500 metres above sea level.

The system of cultivation is generally the following:

1. The seed is planted in small beds or furrows, which are covered with straw.
2. When the seedlings have appeared, they are transplanted to seed-beds where the soil has been disinfected and properly fertilized. The seed-beds are covered from the direct rays of the sun by means of arbores which permit the passage of a moderate amount of light.
3. A year later, when the rainy season has commenced, the coffee shrubs are transplanted to their permanent site in the field; they are removed with plenty of earth to protect the radicle system.
4. Prior to this, preparatory work is carried out in the field, which generally consists of planting shady trees, principally of the Inga species, and hedges of a plant of the Yucca species known as "izote", and the opening of holes in the soil known as "fertilizer holes", which are used for collecting vegetable humus. When the land is too steeply graded, terraces are also constructed. The coffee plants sown in this way begin producing in two or three years. The work of cultivation in a plantation in full production, consists principally in weeding, which is done twice a year with a locally made instrument called a "cuma", which is similar to a long-handled, curved "Machete" (cane-knife), and in the pruning of the coffee shrubs and the shade trees; this operation is carried out soon after the collection of the beans, in March or April. The "fertilizer holes" are periodically renewed, to collect the leaves and transform them into humus. Only when coffee prices are very high are commercial fertilizers used to any appreciable degree. This system of cultivation has given good results, since the qualities of coffee harvested are quoted amongst the best in the world and the yields per surface unit are extremely high (as much as 50 quintals of produce ready for export per manzana.<sup>1/</sup>)

Nevertheless, these operations are expensive, in particular the establishing of the seed-beds, the replanting of coffee and shade trees, the opening of the "fertilizer holes" and the work against erosion.

All the coffee is cultivated on privately owned land, and although about 83 per cent of the plantations are less than 10 manzanas in extent, the bulk of the crop is produced in plantations of over 50 manzanas.

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<sup>1/</sup> 1 manzana equals 0.698 hectares.



Table A-2 gives the size and number of coffee plantations in El Salvador. As this is a permanent crop, the sown areas vary very little. The Ministry of Agriculture estimates that the cultivated area devoted to coffee has increased by only 25,000 manzanas in the last ten years, in spite of the prosperity and prospects of the industry.

The work is carried out by labourers who receive an average daily salary of ¢ 1.25. The majority of labourers are used for harvesting, which has to be carefully carried out by hand in order not to damage the following year's flowering. Harvesting is paid for according to the weight of coffee picked, and at this time the "peons" (farm-hands) can earn up to ¢ 3.00 per day, according to their skill in collecting the fruit and the greater or lesser abundance of the crop. To these basic wages must be added the cost of the rations of maize, beans and salt, which may be estimated at ¢ 0.30 per day for each worker.

Table A-2 Size and Number of Coffee Plantations in El Salvador, 1948

Size (manzanas)	Number of Plantations	Total extent (manzanas)
Up to 1	4,801	3,841
From 1 to 10	4,967	20,294
From 10 to 50	1,322	36,156
From 50 to 100	263	24,119
Over 100	192	58,729
Totals	11,545	143,139

Source: Ministry of Agriculture of El Salvador, Department of Economic Studies and Statistics.

We have indicated that the greater part of the coffee crop comes from the large plantations. Although no exact statistics are available regarding this, the Asociacion Cafetelera estimates that the average production of the past five years came from the different groups of plantation sizes as indicated in Table A-3. According to these data and those of Table A-2, almost 80 per cent of the total crop (1,235,000 quintals, average for the last five years) comes from 455 plantations of over 50 manzanas in extent, which total 82,848 manzanas.

Table A-3: Distribution of Coffee Production among the Different  
Sizes of Plantations. El Salvador 1944-1948.

Size (manzanas)	Total Production Average of five years
Up to 1	10,000
From 1 to 10	100,000
From 10 to 50	214,000
From 50 to 100	280,000
Over 100	630,000

Source: Asociacion Cafetelera de El Salvador

There is much controversy respecting the costs of production of coffee in El Salvador. Particularly during periods of high prices, such as the present, the producers tend to conceal real costs. According to calculations made in 1949 by the Department of Economic Studies of the Ministry of Agriculture, the cost F.O.B. Salvadorean ports for export coffee, including costs of production, elaboration, transport taxes, interests, etc., is ¢ 40.00 per quintal of 46 kilograms. Nevertheless, another authoritative source, the Ministry of Economy, has calculated the costs per quintal of coffee F.O.B. Salvadorean ports at ¢ 35.00.

According to the foregoing data, it can be estimated that at the present time the cost of production of an average crop of 1,235,000 quintals, is approximately 43 million colones.

Coffee prices have shown a continuous increase during recent years, and during the last few months of 1949 the price underwent sudden rises which almost doubled the previous year's quotations. Table A-4 shows the average F.O.B. quotations for washed coffees of El Salvador from 1939 to 1948. In 1949 the exporters of Salvadorean coffee were able to close deals at prices up to U.S.\$56.00 per quintal F.O.B. Salvadorean ports.

/Table A-4:

Table A-4: Average Quotations for Salvadorean Washed Coffees  
F.O.B. National Ports 1939-1948  
(U.S. \$ per quintal of 46 kgs.)

Year	Price
1939	8.72
1940	6.83
1941	12.62
1942	14.09
1943	14.29
1944	14.65
1945	15.91
1946	20.84
1947	27.24
1948	29.52

Source: Review of the Banco Central de Reserva (Central Reserve Bank) of El Salvador, December 1949.

Maize

Maize is the most important food product of Salvadorean agriculture. Table A-5 shows the harvested areas and production during the last five years, for which complete data are available.

Table A-5: Areas Harvested and Maize Production in El Salvador 1944-1948

Years	Manzanas	Quintals of 46 kgs.
1944	220,153	3,408,345
1945	176,911	2,569,445
1946	207,257	3,026,753
1947	222,325	3,720,022
1948	273,288	4,945,533
Averages	219,987	3,534,780

Source: Ministry of Agriculture and Industry of El Salvador, Department of Economic Studies and Statistics

Four crops of maize are harvested in El Salvador, their periods of sowing and harvesting being determined by three principal factors: a) the rainy season; b) the availability of irrigated land, and c) the particularities of the maize in regard to the amount of light necessary for its development.

The vernacular names of the four crops are:

1. "Maiz de Invierno" (Winter Maize) which is sown from the middle of May until the middle of June and is harvested from the middle of August until the end of December. This crop uses rain water for the sowing, growth and ripening of the plant.
2. "Maiz de Tunalmil" (Tunalmil Maize) which is sown from 15 September to 15 October and is harvested from 1 January until 15 February. This crop takes advantage of the end of the rainy season for the preparation of the soil, the sowing and first period of growth of the maize, and the humidity preserved in the soil through special work, for the complete development and ripening of the plant.
3. "Maiz de Apante" (Apante Maize) which is sown from 1 January to 1 February and is harvested during April. This crop is developed entirely by means of irrigation, during the dry season.
4. "Maiz de Shupan" (Shupan Maize) which is sown from 15 February to 15 March and is harvested from 15 May to 15 June. The sowing and early development of this crop is carried out under irrigation, and it takes advantage of the beginning of the rainy season for the ripening of the ears.

The principal maize crop is the "Maiz de Invierno". Table A-6 shows the relative importance of the crops in regard to cultivated areas and yields.

Table A-6: Cultivated Areas and Yields of the Different Maize Crops  
El Salvador 1948

Name of the Crop	Manzanas	%	Quintals of 46 kgs.	%
1. Winter	185,106	67.73	3,714,078	75.09
2. Tunalmil	84,147	30.79	1,169,683	23.66
3. Apante and Shupan	4,035	1.48	61,772	1.25
Totals	273,288	100.00	4,945,533	100.00

Source: Ministry of Agriculture of El Salvador, Department of Economic Studies and Statistics.  
/It is estimated

It is estimated that 70 per cent of the maize<sup>1/</sup> harvested in El Salvador is cultivated by peasant families, by rudimentary methods and with primitive tools, on rented lands for which they pay a fixed quantity in kind, known as "censò".

This small producer consumes the greater part of his production so that much of the total yearly crop does not pass through commercial channels.

The most usual method of cultivation is the following: 1) the peasant receives from the landowner, for rent, without written contract, a small plot of land the size of which varies according to the number of members of the family and their capacity for work; 2) the land is cleared of underbrush with the use of the "cuma"; 3) the cut underbrush and weeds are heaped up, allowed to dry and then burned; 4) the land is ploughed with oxen and a wooden plough of the Egyptian type. The oxen and plough sometimes belong to the peasant, but more often to the owner of the land, who rents them for an amount in kind, which is collected when the crop is harvested. A common method is for the peasant to receive a pair of unbroken oxen, the plough and the yoke, agreeing to return the implements in good condition and the oxen, properly broken in, a year or eighteen months later; 5) clearing operations are carried out with the "cuma" and cultivation is effected with the plough and the oxen; 6) reaping is done by hand.

Only a relatively small percentage (30 per cent more or less) of the total crop is produced on land owned by the farmer, and an even smaller percentage shows any signs of large-scale production or mechanisation. Where mechanisation does exist, it is not intensive, for tractors are used only for the heavy work of breaking up the ground; cultivation is effected with the Egyptian plough and oxen, and the seed is watered by hand.

The small maize producers are known as tenants, intermediates, allotment holders, lessees, etc., all names which suggest the system of land tenure to which the peasants are subject.

Although there are no reliable statistical data concerning the system of property for the cultivation of maize in El Salvador, the Ministry of Agriculture estimates that about 80 per cent of the lands devoted to the sowing of this crop are composed of small plots of less than five manzanas, cultivated in the manner described above.

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<sup>1/</sup> Data from the Ministry of Agriculture of El Salvador.

The yields of maize vary considerably, according to the abundance and distribution of the rainfall and the incidence of pests. The simple arithmetic average of the yields obtained during the years from 1944 to 1948 is approximately 16 quintals per manzana. Nevertheless, according to data from the Ministry of Agriculture, the weighted average is nearer 18 quintals per manzana, due to the following: a) the greater part of the crop comes from the plots with the highest yield; and b) the majority of the crop is derived from the cultivation of the Winter type, where the yields are greater. Table A-7 shows the weighted production averages by zones of the Republic and for crops for 1948.

Table A-7: Yields of Maize by Zones and by Types in El Salvador, 1948  
(Quintals of 46 kgs. per manzana)

Zones	Winter Maize	Tunalmil	Apante and Shupan
Western	26	15	14
Central	18	14	16
Eastern	17	12	11
Averages	20	14	15

Source: Ministry of Agriculture of El Salvador, Department of Economic Studies and Statistics.

The cost of production of maize varies considerably and is evidently higher in the plots cultivated by peasant families by the system already described. The Ministry of Agriculture considers it almost impossible to determine the exact costs of production in these plots, on account of the number of unpredictable factors which have to be considered, but nevertheless, the Ministry considers that for 1949 the costs may be estimated at a sum varying between ¢ 5.00 and ¢ 5.50 per quintal. In the case of crops on a commercial scale, the Ministry has calculated the production costs per quintal of maize at ¢ 4.25.

As already indicated, 70 per cent of the maize crop is produced in small plots of land worked by peasant families, while the remaining 30 per cent corresponds to cultivation on a commercial scale. Applying the cost of ¢ 5.00 per quintal to the 70 per cent of the average crop obtained during the last five years, and the cost of ¢ 4.25 per quintal to the remaining 30 per cent, it will be seen that at the present time the production of the total maize crop costs approximately 17 million colons.

Table A-8 shows the average annual wholesale prices of maize in the market of San Salvador during the last ten years.

Table A-8: Average Wholesale Prices of Maize in the San Salvador Market: 1939-1948  
(Colons per Quintal of 46 Kgs.)

Year	Prices
1939	1.70
1940	2.60
1941	2.05
1942	2.25
1943	4.95
1944	6.06
1945	6.12
1946	4.00
1947	6.60
1948	6.95

Source: Ministry of Agriculture of El Salvador, Department of Economic Studies and Statistics, and Ministry of Economy, Direction General of Statistics.

### Beans

Beans are a product which, together with maize, form the basic diet of the Salvadorean people, and constitute the principal source of protein.

Table A-9 shows the area sown and the production of beans during the last five years for which complete data are available.

Beans are cultivated in El Salvador solely in the valleys of the Central Plateau, for the varieties grown are very exacting in regard to altitude, soil and climate.

/Table A-9:

Table A-9: Area Harvested and Production of Beans in El Salvador  
1944-1948

Year	Area Harvested (manzanas)	Production in Quintals of 46 kg.
1944	-	493,248
1945	-	484,052
1946	-	536,191
1947	-	573,775
1948	36,600	749,418
Average		566,937

Source: Ministry of Agriculture of El Salvador.

Four different types of beans are grown in El Salvador, as follows:

1. "Frijol de Invierno" (Winter Bean) which is sown during the whole of May and is harvested from 15 October to 15 November. This crop takes advantage of the rainy season for sowing, development and ripening of the plant.
2. "Frijol de Cosecha" (Harvest Bean) which is sown from the 1st to the 15th of September and is reaped from 1 November to 15 December. This crop is sown at the end of the rainy season and develops and ripens with the humidity collected in the soil as a result of cultivation.
3. "Frijol de Apante" (Apante Bean) which is sown from 15 December to 15 January and is reaped during April. This crop is sown and developed entirely by means of irrigation.
4. "Frijol de Shupan" (Shupan Bean) which is sown from 15 February to 15 March and harvested from 15 May to 15 June. This crop is sown and developed by means of irrigation, and is harvested at the beginning of the rainy season.

In contrast to the situation in regard to maize, the Apante and Shupan beans are more important than the other two crops together. Thus, for example, of the 749,418 quintals produced in 1948, 275,851 quintals corresponded to the crops described under Nos. 1 and 2 above, while Nos. 3 and 4 together produced 473,577 quintals.

In El Salvador, the bean is, to a great extent, an "intercalated" crop, which is sown between the maize rows. The methods employed for its cultivation are similar to those described in the case of maize, and the system of land ownership is exactly the same.

/The Ministry of



The Ministry of Agriculture has calculated that the average cost of production per quintal of beans in 1949 was Q10.00. This shows that at the present time the total cost of a normal crop of 565,000 quintals would be approximately 5,650,000 colons.

There are no data available regarding the average wholesale prices of the beans in the market of San Salvador during the last few years, but according to Ministry of Agriculture figures, such prices tend to be stabilised around 15 colons per quintal.

#### Rice and Sorghum

After maize, rice and sorghum or "maicillo" are the cereals produced in the country which contribute most carbo-hydrates to the diet of the Salvadorean people<sup>1/</sup> "Maicillo" is also used a great deal for feeding livestock, and especially for feeding fowls.

No reliable statistics are available concerning the areas devoted to the cultivation of these two products in El Salvador, nor concerning the total crops obtained during the last few years. Table A-10 shows the harvested areas and the production of "maicillo" and rice during the year 1948.

Table A-10: Harvested Areas and Production of Rice and "Maicillo"  
in El Salvador, 1948

Product	Harvested Area (Manzanas)	Production Quintals of 46 Kgs.
Maicillo	83,069	1,486,476
Rice	22,775	371,764

Source: Ministry of Agriculture of El Salvador, Department of Economic Studies and Statistics.

In contrast to the maize and bean crops, only one crop of "maicillo" and rice is produced in El Salvador.

"Maicillo" is generally sown on land which has been prepared for "Winter Maize". "Maicillo" is, therefore, an "intercalated" crop in El Salvador, and only in exceptional cases is it sown on land specially prepared for that purpose.

1/ Wheat, wheat flour, oats, rye, etc. consumed in the country are practically all imported. Actually, the consumption of wheat flour is about 200 thousand quintals annually and only 10,000 are produced locally, the rest being imported.

/The sewing of

The sowing of "maicillo" takes place in July or the beginning of August. Thus the first period of development is effected in the shadow of the maize crop, and when this is harvested, the "maicillo" ripens completely, being reaped from the end of February to the end of March.

In some zones of the country "maicillo" is also cultivated "intercalated" in the rice crop.

All the rice cultivated in El Salvador is unirrigated. The sowing is carried out in June, when the rainy season is well under way, and the harvest takes place in November and December.

"Maicillo" and rice, like maize and beans, are sown in small plots of land, with primitive methods of cultivation and under the systems of land tenure already described in the case of maize.

The Ministry of Agriculture has calculated the average costs of production per quintal for 1949 as follows:

Maicillo                   ¢3.00 per quintal

Rice                       ¢10.00 per quintal

Taking the 1948 harvest as an example, as no other data are available, it can be estimated that the total cost of a crop of "maicillo" and rice in El Salvador may, at the present time, be calculated at 8,200,000 colons, as follows:

Maicillo                   ¢4,500,000

Rice                       ¢3,700,000

There are no statistics of prices for these two products over a sufficiently long period of time. The average wholesale prices in the market of San Salvador are as follows:

Maicillo                   ¢ 4.45 per quintal

Rice                       ¢18.00 per quintal

### Sugar Cane

Sugar cane is cultivated in El Salvador for three purposes:

1. For the production of centrifuged sugar (plantation white).
2. For the production of "panela" or raw sugar, which is sold in the market in slabs.
3. For the production of sugar obtained from residue syrup, in cones, (azúcar de purga en pilón).

/The cultivation

The cultivation of the cane for the production of centrifuged sugar is generally carried out with tractors and modern methods, including the use of fertilizers. Cultivation for the production of raw sugar and cone sugar, on the other hand, is effected with oxen, wooden ploughs, "cumas" and primitive methods in general.

Table A-11 shows the areas sown with cane and the production of centrifuged and raw sugar during the last five years, for which complete data are available.

The production of cone sugar is small, and in 1948 amounted to 34,000 quintals

Table A-11: Areas Sown with Cane and Production of Centrifuged and Raw Sugar in El Salvador, 1944-1948

Year	Centrifuged Sugar		Raw Sugar	
	Manzanas	Quintals	Manzanas	Quintals
1944		427,000	8,000	570,000
1945		377,000	8,250	589,000
1946		399,600	7,500	472,000
1947	7,836	594,000	9,500	693,000
1948		562,000	9,000	650,000

Source: Ministry of Agriculture of El Salvador, Department of Economic Studies and Statistics.

The production of centrifuged sugar is concentrated in 24 Centres or sugar mills, each situated in an estate, which generally cultivates other crops as well as sugar, or else produces livestock.

The estates dedicated to sugar production are usually large, and may be termed "latifundios".

Table A-12 gives the number and size of cane sewing for the production of centrifuged sugar.

Table A-12: Number and Size of Cane Sewings for the Production of Centrifuged Sugar, El Salvador, 1949

Size (Manzanas)	Number of Plantations
Less than 100	3
From 100 to 200	7
From 200 to 300	2
From 300 to 400	6
From 400 to 500	2
From 500 to 600	3
Over 1,500	1
Total	24

Source: Comisión de Defensa Azucarera

The production of crude sugar and molasses, on the other hand, is carried out on a large number of very small plantations, which generally have no other source of income than sugar cane. Table A-13 gives the size and number of plantations dedicated to the cultivation of cane for the production of crude sugar.

In contrast to the situation with regard to maize, beans, maicillo and rice, all the production of sugar cane, even that for the manufacture of crude sugar in very small plots of land, is carried out on land owned by the farmers.

Table A-13: Number and Size of Cane Plantations for the Production of Raw Sugar, El Salvador, 1949

Size (Manzanas)	Number of Plantations
Less than 1	2,523
From 1 to 5	1,913
From 5 to 10	214
From 10 to 20	78
From 20 to 50	62
Over 50	5
Total	4,795

Source: Banco Hipotecario de El Salvador.

Generally each of the sugar plantations has the necessary machinery to transform its produce into goods suitable for the market. There are very few

/which produce cane

which produce cane for sale to the sugar or raw sugar industries. Actually, of the 400,000 short tons of cane ground by the twenty-four sugar mills in 1948, only 60,000 short tons were purchased; the rest was produced on the plantations of the Centres themselves. Moreover, of the 4,795 cane plantations for the production of raw sugar which existed in 1949, 4,003 had cane-mills and ovens for the elaboration of this type of sugar.

The costs of production of centrifuged sugar show a wide variation in El Salvador, according to the capacity of the Centre, the efficiency of machinery and management, the quality of the land, the varieties of cane sown, etc. Nevertheless, the costs may generally be described as high. According to the Ministry of Agriculture, the average production costs per quintal of sugar, in 1948, were as follows:

- a) In Centres producing more than 100,000 quintals,  $\$6.78$
- b) In Centres producing from 30,000 to 50,000 quintals,  $\$8.85$
- c) In Centres producing from 20,000 to 30,000 quintals,  $\$9.78$
- d) In Centres producing up to 20,000 quintals,  $\$10.83$ .

In the last five years, 25 per cent of the centrifuged sugar crop has been produced in Centres with a capacity exceeding 100,000 quintals; 25 per cent in Centres with from 30 to 50 thousand quintals; 30 per cent in Centres with from 20 to 30 thousand quintals; and 20 per cent in Centres with a capacity of less than 20 thousand quintals.

Using those figures as a base, and considering the average for the last five years as a normal crop, it can be calculated that at the present time the production of the total crop of centrifuged sugar costs approximately four and a quarter million colons.

The cost of production of raw sugar is difficult to estimate, owing to many unpredictable factors which intervene in the case of these family type industries. The Ministry of Agriculture has effected calculations of the production costs of raw sugar, estimating these at between  $\$4.30$  and  $\$5.00$  per quintal in 1948. Under these conditions, the total cost of production of the raw sugar crop may be estimated, at present, at around 2,500,000 colons.

There has been no price fluctuation during the last few years for the domestic consumption of centrifuged sugar. The price has been fixed at  $\$25.00$  per quintal. On the other hand, the prices of the sugar which has been exported have varied

/considerably

considerably. The Department of Economic Studies of the Ministry of Agriculture, has calculated the general average of the prices of the total crop (for domestic consumption as well as export) at  $\text{¢}24.30$  per quintal during the last five years.

The medium prices per quintal of raw sugar during the last five years have been as follows:

1944	$\text{¢} 9.50$
1945	15.00
1946	16.50
1947	10.50
1948	6.50

The medium price per quintal of corn sugar during 1948, was  $\text{¢}16.00$ .

Sesame

Sesame is a crop of recent expansion in El Salvador. Table A-14 gives the harvested areas and the production in quintals from 1944 to 1948, the last year for which complete statistics are available.

Table A-14: Harvested Areas and production of Sesame  
El Salvador, 1944-1948

Years	Harvested Area (Manzanas)	Production Quintals of 46 kgs.
1944	208	1,312
1945	651	5,727
1946	2,124	21,660
1947	4,358	76,784
1948	14,707	180,800

Source: Ministry of Agriculture of El Salvador, Department of Economic Studies and Statistics.

The expansion of the cultivation of sesame is due to the development of the industry of vegetable fats and oils in the country, and the high prices which this oilseed crop has recently commanded in the international market.

Sesame is generally cultivated on relatively large plots of land, with machinery and modern methods. As in the case of cotton, the commercial exploitation of this plant is carried out on rented lands.

The Ministry of Agriculture believes that the production of this oilseed crop in El Salvador will possibly be stabilised around 100,000 quintals annually, and has calculated the average costs of production per quintal at  $\text{¢}20.00$ . On this basis, the financing of the total normal crop would cost at present about two

/million colons.

million colons. The Ministry also indicates that in 1947 and 1948 prices varied from 35 to 40 colons per quintal.

Vegetable Fibres

Cotton: The production of cotton in El Salvador is carried out to satisfy the needs of the country's spinning and weaving mills, and for export purposes, especially to Guatemala.

Table A-15 shows the harvested areas and the production during the last five years, for which complete statistics are available.

Table A-15: Harvested Areas and Production of Raw Cotton and Cotton Seed, El Salvador, 1944-1948.

Year	Manzanas	Cotton Quintals of 46 Kg.	Seed Quintals of 46 Kg.
1944	-,-	-,-	-,-
1945	-,-	182,117	124,565
1946	15,744	135,000	81,876
1947	22,853	250,389	156,208
1948	17,576	265,598	158,365

Source: Ministry of Agriculture of El Salvador, Department of Economic Studies and Statistics.

All the cotton cultivated in El Salvador is produced on unirrigated lands, with tractors and modern methods. The sowings are carried out on large plots; in 1948, for example, the 17,500 manzanas which were cultivated were grouped in only 400 plantations.

Although there are no complete data available concerning the system of property ownership in cotton cultivation, it may be remarked that in spite of the size of the plantations and the commercial nature of their exploitation a great part of the area cultivated corresponds to rented land. In contrast to the situation in regard to cereals and beans, the people who cultivate cotton on rented lands usually have written rental contracts and pay their rent in money, very often in advance.

The work is carried out by labourers who earn wages similar to those paid for coffee.

The costs of production calculated by the Ministry of Agriculture for 1949 are \$17.50 per quintal of raw cotton for an average production of 12 quintals per manzana. From this it may be deduced that the production of an average crop of

/200,000 quintals

200,000 quintals of raw cotton, costs at present about three and a half million colons.

Table A-16: Average Prices per Quintal of Ginned Cotton and per Quintal of Cotton Seed, El Salvador, 1944-1948

Year	Cotton	Seed
1944		
1945	51.00	3.00
1946	60.27	3.00
1947	72.80	4.00
1948	73.90	4.21

Source: Ministry of Agriculture, Department of Economic Studies and Statistics.

The average prices per quintal of ginned cotton and cotton seed, during the last five years, are shown in Figure A-16.

#### Mexican Agave

The cultivation of Mexican agave in El Salvador is carried out on an industrial scale for the manufacture of sacks, and on an artisan scale for the making of lassos, hammocks, nets, etc.

In 1948 there were 5,704 manzanas sown with Mexican agave in 2,093 properties, twenty-seven of which comprised 81.3 per cent of the cultivated area.

There are no statistical series available to give the history of the cultivated area, the production of fibres and the prices of Mexican agave during the last few years. Neither are there any estimates of the cost of production of a quintal of fibre which permit even an approximate appreciation of the cost of the total financing of the crop.

#### Livestock Industry

Cattle and hogs are the only two branches of the livestock industry of any commercial importance in El Salvador. Sheep, goats and horses are not really raised for commercial purposes. Table A-17 shows the numbers of cattle and hogs during the last five years, for which it was possible to obtain figures.



Table A-17: Number of Cattle and Hogs in El Salvador, 1944-1948

Year	Cattle	Hogs
1944	779,367	503,167
1945	659,822	382,324
1946	650,261	341,606
1947	686,000	283,573
1948	764,778	348,393

Source: Ministry of Agriculture of El Salvador, Department of Economic Studies and Statistics.

The commercial exploitation of beef and dairy cattle is generally carried out with the native breeds derived from the cattle brought by the Spaniards during the Conquest. The methods are most rudimentary, the cattle being bred in the fields, fed principally with grasses, on pastures which receive very little attention. The lack of adequate sources of protein-bearing feed is, in El Salvador, as in all the tropical countries, one of the principal obstacles met with in programmes for improving cattle.

The Ministry of Agriculture estimates that there are about 225,000 manzanas of pasture lands in El Salvador, of which some 20,000 are irrigated. There are also some 400,000 manzanas of natural pastures or woods where cattle are bred.

Very few herds of dairy cattle are skillfully tended insofar as the selection of breeds and individual animals is concerned, or in regard to the feeding of the cattle or the industrialisation of dairy products.

The breeding of hogs is a home industry; only in a few cases does the breeding of hogs constitute a systematic industry. The animals are usually left alone to find their own food and only in a few cases do they receive supplementary food for fattening purposes.

Table A-18 shows the derivative products of the cattle industry of El Salvador.

Table A-18: Production of Meat, Lard, Milk and its Derivatives

El Salvador

(average for the years 1944 to 1948)

<u>Product</u>	<u>Annual Production (Pounds)</u>
Beef	29,000,000
Milk	70,000,000
Butter	1,298,000
Cheese	21,000,000
Curds	1,141,000
Pork	9,676,000
Lard	6,000,000

Source: Ministry of Agriculture of El Salvador, Department of Economic Studies and Statistics.

For the time being, it is not possible to obtain figures on the costs and prices of the products of the livestock industry of El Salvador, which would permit an estimate of the annual cost of financing this branch of Salvadorean agriculture.

Lesser Crops

Apart from the principal crops already described, El Salvador produces on a lesser scale the crops shown in Table A-19.

It is not possible to obtain statistical series of sown areas, production, prices and costs for the last few years, and consequently it has not been possible to give an appreciation of the total cost of production of an average crop of these products.

Table A-19: Lesser Crops of Salvadorean Agriculture, Area  
Sown and Production, 1948

Product	Area Manzanas	Production Quintals
Groundnuts	2,500	14,500
Manioc	1,292	30,000
Tobacco	1,192	9,582
Potatoes	1,233	60,166
Tomatoes	951	43,304
Wheat	650	9,944
Onions	310	13,957
Castor-Oil	-	10,000
Garlic	104	1,851
Indigo	-	750

Source: Ministry of Agriculture of El Salvador, Department of Economic Studies and Statistics.

Almost the whole production of these crops comes from small plots of land cultivated under very primitive conditions.

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