UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

GENERAL
E/CN.12/167
1 May 1950
ENGLISH
ORIGINAL: SPANISH

ECONOMIC COMMISSION FOR LATIN AMERICA
Third Session. Montevideo, 5 June 1950
Item 7 of the Provisional Agenda

AGRICULTURAL CREDIT IN CENTRAL AMERICA

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

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

The economic crisis which started in 1929 revealed the essential weakness of these economies which depended primarily on the export of one or at the most two products. When the prices of these primary commodities collapsed, there ensued not only a banking crisis but equally a social crisis. The existing banking systems proved inadequate to deal with the economic dislocation which faced these countries. Neither was there governmental machinery for alleviating the material sufferings of the population.

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

/The general pattern

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

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

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

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

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

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

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now in the process of formation.

In each case these banking and farm credit institutions were created on the initiative of governments, not by any impulse of the existing commercial banks or from the farming communities. The purpose of the governments was to help the small farmers and to foster agricultural development. For example, the Farm Credit Act of El Salvador states that "it is in the interest of the national economy that small farmers should have better purchasing power" and that "this can be brought about most effectively by measures which bring the benefits of credit within their reach".

Although the laws with respect to farm credit which were promulgated during this period were technically sound, the fact remains that the systems established have in nearly all of the countries faced grave financial crises or have collapsed. Moreover, they have failed not during and because of a period of economic depression, but actually during a period of comparative prosperity. Furthermore, according to the views of the governments themselves reported to the Mission, the fundamental reasons for the failure of agricultural credit are the same in each and all. These reasons are: 1) lack of administrative organization; 2) insufficient financial strength of borrowers; 3) insufficient funds of the credit institutions; 4) inadequate system of appraisal of property; and 5) unwise proliferation of activities.

1) The principal faults of administrative organization have been: a) lack of technically trained personnel, and b) a tendency toward excessive decentralization of loan activities which has proved

/particularly unfortunate

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

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

3) Sums of money earmarked by the governments or the Central Banks for the purpose of farm credit were in many cases so small that they were shortly exhausted. As a result farmers soon lost confidence in the agricultural credit institutions. There were cases when the farmers did not repay their loans simply because they knew that there were no further prospects of borrowing from these institutions.

4) In many cases insufficient attention was given to the appraisal of the properties and other collateral offered by borrowers, and appraisals of property were frequently based upon the commercial value of the land rather than on its income-yielding value. Unnecessarily sharp fluctuations in the prices of products for the internal market have further complicated the problem of evaluation.

5) Finally, certain farm credit agencies, in the hope of making profits and thereby of helping their farmers, launched out into a

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series of other business enterprises which had little to do with farm credit. In many cases, not only have these enterprises occupied much of the time of the staff which might have been devoted to activities in the field of credit, but also the operations have resulted in a loss instead of an increase of funds.

These shortcomings are less marked in some countries than in others. Some countries, such as Costa Rica, which have an environment more favourable to the operation of farm credit, have recorded significant success during the last decade. Others have recently experienced or are still experiencing a crisis. Moreover, the difficulties are inter-related. It is because credit institutions have been given insufficient funds that they are tempted to undertake extraneous business activities. It is because technically trained staff are not available that decentralization will not work. It is because of this lack of staff and of the primitive character of marketing facilities that valuations are likely to be erroneous.

It is further of importance to observe that, although there is so much similarity between the difficulties experienced in each of these countries, there is little knowledge in any one country of the problems faced by the others. Indeed it is quite remarkable how little interchange of experience there has been in this field despite the great similarity of the credit programmes.

The following principal conclusions present themselves for the consideration of the governments:

1) Steps should be taken to train personnel in the field of farm credit administration. To a large extent this can be done within the

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

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

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

a large part of their population virtually outside the market economy, the taking of this step is a pre-requisite to expansion of agricultural credit services.

4) Finally, there remains much to be done in establishing uniform procedures in credit administration. This would include clear definitions of the different types of credit made available to farmers, standard procedures for the filing of applications and standard methods for the collection and publication of statistics. Through such reforms a given country will not only have better means of judging the current financial strength of its own credit system, but will be able to make useful comparisons with the systems of neighbouring countries.

In order that these four points may be examined further by experts, it is suggested that the Executive Secretary of ECLA and the Director General of FAO be authorized forthwith to call, in Central America, a meeting of agricultural credit experts who would consider the suggestions made in this report and make recommendations to the respective governments for practical action in this field.