

10-4-1995

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Recommended Citation

LADB Staff. "Agriculture Groups Criticize Plan To Restructure Rural Support Agencies." (1995). <https://digitalrepository.unm.edu/sourcemex/3508>

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Agriculture Groups Criticize Plan To Restructure Rural Support Agencies

by LADB Staff

Category/Department: Mexico

Published: 1995-10-04

In late September, President Ernesto Zedillo's administration announced plans to restructure several agencies that provide support for the agriculture sector. The 11-page document was drafted by the Finance Secretariat (SHCP) and includes significant changes in the structure of the national rural bank, the agricultural insurance agency, and other agriculture related entities. The proposals, however, drew immediate criticism from a number of prominent agricultural organizations. The SHCP plan says that the restructuring of the agencies will benefit agricultural producers by increasing the number of branches for the various agricultural financing institutions around the country. A centerpiece of the proposal is the restructuring of the national rural bank (Banco Nacional de Credito Rural, Banrural), which would be divided into several regional financial institutions.

The institutions would be open to participation by the private sector but would remain as government entities. The plan also proposes changes in the agricultural insurance agency Agroasemex to encourage greater private participation from private insurers. Two other agricultural financing agencies, FIRA and Focir, would also undergo significant changes in structure and mission. The SHCP said the two agencies would be used to provide links for residents of collective farms (ejidos) and small-scale producers to share information in order to "improve the flow of capital, make better use of the land and resources, and improve agricultural yields."

However, a number of organizations criticized the administration for not consulting with them before drafting the plan and for not taking into account several suggestions they have offered in the past to help change financing mechanisms to help the country's heavily indebted small-scale farmers. "This is a lukewarm plan that falls short of promises made earlier by President Zedillo to reactivate the agricultural sector," said one agricultural leader. Among those protesting the restructuring of agricultural financial institutions were such groups as the permanent agrarian congress (Congreso Agrario Permanente, CAP), the national agricultural council (Consejo Nacional Agropecuario, CNA), the livestock producers confederation (Confederacion Nacional Ganadera, CNG), and the confederation of small-scale rural property owners (Confederacion Nacional de Propietarios Rurales, CNPR).

The groups complained that the administration's plan did not take into account proposals they have presented in the past, including the creation of government-based financing mechanisms for marketing of crops in the export market. Instead, the groups said the SHCP plan proposes that commercial banks, rather than a government-based agency, provide direct financing of agricultural exports. The groups said the SHCP plan also ignores a proposal to provide subsidies to finance the purchase of inputs for processors of grain and oilseeds, which they contend are needed to help those users increase their purchases from domestic farmers. Two federal legislators who also represent the agricultural organizations Deputies Jose Luis Gonzalez Aguilera and Juan Leyva also publicly

denounced the SHCP plan. Gonzalez is an officer with the Union General de Obreros y Campesinos de Mexico, while Levya holds office with CAP.

Gonzalez especially criticized the plan for failing to boost funding for rural development. He said government expenditures in the agricultural sector have fallen from 152 billion nuevo pesos (US \$23.3 billion) in 1980 to about 45.5 million nuevo pesos (US\$6.9 billion) in 1994. Similarly, he noted that the amount of credit available to rural borrowers has dropped from 85.4 million nuevo pesos (US\$12.8 million) in 1981 to 51.3 million nuevo pesos (US\$7.9 million) in 1994. Additionally, he said Banrural's loans currently cover about 1.6 million hectares, compared with 7.3 million ha. In 1982.

Gonzalez said the loans provided by commercial banks have fallen to 40.4 million nuevo pesos (US\$6.2 million), or roughly half of the 85.2 million nuevo pesos (US\$13 million) provided in 1982. Both legislators also noted that the plan fails to address the problem of overdue debt, which has worsened since the devaluation of the peso in late 1994. They noted that overdue debt was already a problem for agricultural producers before the devaluation, having increased by 34% between December of 1988 and December of 1994. Separately, El Barzon, an organization of middle class farmers, continued to protest the government's "inadequate plan" to address massive problems of overdue debt. During September, El Barzon leaders again demanded that President Zedillo force Mexican banks to take greater steps to help agricultural borrowers than the recently implemented debt restructuring program known as Acuerdo para el Apoyo de Deudores (ADE).

The ADE, announced in late August, set ceilings on interest rates for a wide range of borrowers during a 15-month period beginning on Sept. 1. The new ceilings apply automatically to borrowers who have kept current on their payments. Those borrowers with overdue debt will have to settle on an interest rate as part of their debt restructuring negotiations with their institutions (see SourceMex, 08/30/95).

However, El Barzon has strongly criticized the ADE, claiming that the plan is insufficient to address the problems of agricultural debt, which the organization calls a "time bomb about to explode." Alfonso Ramirez Cuellar, secretary-general of one of the organizations affiliated with El Barzon, urged the government to find long-term solutions to the country's problems of overdue debt, perhaps by creating a national guarantee fund to restructure debts over a longer period than allowed through the ADE. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Oct. 4, reported at 6.53 nuevo pesos per US\$1.00] (Sources: La Jornada, 09/22/95, 09/26/95; Excelsior, 09/26/95)

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