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New Debt-Restructuring Program Created for Agriculture, Fishing Industries

by LADB Staff

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In late July, President Ernesto Zedillo announced a new debt restructuring program created specifically for the agricultural and fisheries sectors. The program, which will become effective on Sept. 1, 1996, will remain in place for a 10-year period. The Zedillo administration has allocated 15 billion pesos (US\$1.98 billion) for the program known as Acuerdo para el Financiamiento del Sector Agropecuario y Pesquero (FINAPE) with the expectation that private banks will match the government's pledge. The full cost of the program is estimated at 30 billion pesos (US\$3.96 billion). FINAPE is scheduled to go into effect on Sept. 1 of this year and will remain in place until the year 2006. The government structured the program specifically to help small and medium-sized farmers and members of the fishing sector whose debts do not exceed 500,000 pesos ((US\$66,000), which accounts for almost 90% of all agricultural debtors.

In a press conference announcing the program, Finance Secretary Guillermo Ortiz and President Zedillo said the government's goal is to reach 95% of the small-scale producers who are unable to pay past-due debts. Many producers have been unable to obtain loans for seed, fertilizer, and agricultural inputs because of their overdue debt. "Today we take another step to reverse the depletion of capital that Mexican farmers and fish producers have suffered for a long time," Zedillo said at a ceremony to launch the program in Mexico City. For his part, Ortiz noted that 23% of the Mexican population is involved in the agriculture, livestock, and fisheries industries, but only 7% of the nation's economic output comes from these sectors. The administration hopes the new program will help take some of the pressure off these indebted industries by lowering the payments on existing loans.

In effect, the new FINAPE program allows producers to convert as much as 4 million pesos (US \$528 million) in overdue debt into special investment units (unidades de inversion, UDIs). Under FINAPE, loan principal and interest rates will be denominated in UDIs. The concept of UDIs was created in April 1995 as a part of a comprehensive debt restructuring for Mexican debtors (Acuerdo para Apoyo a Deudores, ADE). The UDIs scheme provides some certainty for debtors by restructuring debt payments at a more stable interest rate, whose index would be tied to a daily inflation index, rather than to volatile markets.

According to estimates compiled by the Agriculture Secretariat (SAGDR) and the Finance Secretariat (SHCP), overdue debt for Mexican agricultural producers surpassed 11 billion pesos (US \$1.45 billion) as of this year, which represents about one-fifth of the agricultural sector's total debt of 55 billion pesos (US\$7.26 billion). In addition to restructuring debt into UDIs, FINAPE extends payment periods for debtors to between five and 10 years, converts debt into dollar-denominated instruments, offers a 7% preferential interest rate, and in some cases reduces a borrowers overall debt by 20% to 40%. The reduction of 40% in debt will apply to farmers with debts of up to 500,000 pesos (US\$66,000) who have not faltered on their previous payments. But FINAPE also creates

an incentive for those producers who have not kept up with their payments. These producers are eligible for the same benefits if they meet all past obligations or come to a restructuring agreement with their banks before the end of the year.

Agricultural organizations praised the administration's decision to implement the program, but urged Zedillo to take further steps to help farmers. Miguel Castro, the newly elected president of the national agricultural council (Consejo Nacional Agropecuario, CNA), called FINAPE "a step in the right direction," but said the program fails to offer enough assistance and incentives to help agricultural producers in Mexico. On the other hand, Luis Martinez Villicana, director of the rural capitalization fund (Fondo de Capitalizacion Rural), defended the government's record in supporting the agricultural sector. According to Martinez, last year the Zedillo administration provided more than 43 billion pesos (US\$5.6 billion) in new credit to agricultural producers, an increase of 10% from 1994. Martinez estimated that loans to the sector should rise 28% this year to 55 billion pesos (US\$7.26 billion). [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on July 30, reported at 7.57 pesos per US\$1.00] (Sources: Novedades, The News, 07/23/96, 07/24/96; El Financiero, 07/24/96; La Jornada, 07/23/96, 07/24/96, 07/25/96)

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