

SECTION TWO
CASE STUDIES: PROMISING RURAL FINANCE
ORGANIZATIONS AND PRODUCTS

INNOVATIVE RURAL FINANCIAL PRODUCTS

FINANCIERA TRISÁN, COSTA RICA: INNOVATIVE AGRICULTURAL CREDIT CARDS¹

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INTRODUCTION

The purpose of this chapter is to analyze a program that provides credit cards to agricultural input suppliers and rural producers in Costa Rica, and to determine whether this program is financially viable and potentially replicable in other rural areas of Latin America.

A credit card program is very innovative and unusual in a rural setting. Normally, credit cards have been promoted in urban areas with businesses and wage-earning employees who have steady cash flows. Credit cards in rural areas are not as common because potential clients, especially agricultural producers, have more seasonal and uncertain monthly cash flows. This chapter seeks specifically: (1) to recount the genesis of an agricultural credit card program; (2) to describe the product, its typical client and service delivery methodology; (3) to analyze the financial performance of the product; and (4) to conclude with the challenges facing the expansion and replication of the product.

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In August 2003, the Trisan Group announced that it will close its finance company in July 2004 for strategic reasons but continue with its credit and smart card programs separately. Factors that contributed to the decision were uncomfotableness in meeting supervisory requirements and ratios designed for large scale, urban based financial entitites as well as coping with the aftermath of a government sponsored rural debt forgiveness program. The institution is well capitalized and has a normal risk rating. Close out operations are reported to going forward smoothly

THE GENESIS OF THE AGRICULTURAL CREDIT CARD

The agricultural credit card offered by Financiera Trisán S.A. grew out of a confluence of factors: a company tradition of product innovation, changes in capital control laws in the country, the desire to lower administrative costs, and compliance with a ruling of the Superintendencia General de Entidades Financieras, SUGEF (General Superintendency of Financial Institutions).

Tradition of Innovation

Financiera Trisán S.A. is a registered and regulated finance company that operates in Costa Rica and is part of a conglomerate that has a long-established record of innovation. It is a member of the Trisán Group, a family-owned holding company, consisting of three related agricultural business undertakings (Trisán S.A., TransAgro S.A. and Agro Ágil S.A.). Trisán S.A., the parent company and core business, specializes in imports and wholesale distribution of agricultural and industrial chemicals. TransAgro S.A. specializes in providing farm management consulting services to commercial farmers. Agro Ágil S.A. specializes in the retail sale of agricultural and industrial chemicals.

The creation of the parent company dates back to 1961 when Fritz Trinler van der Water, a Swiss immigrant, arrived in the country and started selling veterinary medicines and agricultural chemicals on a small scale. His company, Trisán S.A., grew over time to become one of the three largest agricultural input wholesalers in Costa Rica with approximately US\$ 10 million in sales, as of December 1998.

Since its beginnings, the Trisán Group has developed a reputation for pioneering and innovating. It was the first agricultural input wholesaler in Costa Rica to use radio phones to place and receive orders, cold rooms to store veterinary products, a fleet of trucks to deliver products to retailers, and elaborate showrooms to promote particular product lines. Trisán, S.A. was also the first to hold demonstration seminars on retailers' premises. At present, it leads the promotion of the use of bioengineered agricultural inputs and environmentally friendly technologies for textile dyeing and food preparation. The idea to set up a financial subsidiary and to introduce a credit card therefore fits its pattern of visionary leadership and corporate development.

Changes in Capital Account Controls

Up until 1992, Costa Rica had capital account controls in place. Foreign exchange, was rationed, and applications were required to access hard currencies. Financiera Trisán was formed in 1985 to handle foreign exchange transactions, accounts receivable and factoring for all companies within the Group. At the time, it made administrative and economic sense for the company to consolidate all financial aspects of import transactions into one company. As financial markets were gradually liberalized and capital account controls finally eliminated in February 1992, the chief activity of the Financiera became factoring or the discounting of accounts receivable.

Administrative Convenience and Superintendency Ruling

In the early nineties, the push to introduce a credit card came from two sources. First, the management of Trisán Group started to think of ways to improve the financial management of accounts receivable. The administrative costs of making personal visits to collect on overdue accounts were rising rapidly. Second, the Auditoría General de Entidades Financieras, AGEF, now known as the SUGEF, believed that Financiera Trisán was engaging in excessive related-party financial dealings, since one hundred percent of its factoring was with the Trisán Group.

Financiera Trisán disagreed and argued that it was purchasing accounts receivable from the various retail distributors affiliated to the Trisán Group and, thus, had more than one client. The consensus solution that emerged out of a series of discussions was to introduce a credit card for retailers affiliated to Trisán S.A. The credit card would serve as a substitute for a traditional 30-day line of supplier credit. As a consequence, this innovation would lower transaction costs, increase credit sale volumes and resolve the conflict with the Superintendency, because there would clearly be distinct individual accounts in the portfolio.

DESCRIPTION OF THE CREDIT CARD PRODUCT AND SERVICE DELIVERY

Products

Financiera Trisán, S.A. has developed two credit card products aimed at agricultural input suppliers and rural producers in Costa Rica: (1) a credit card Agrimax; and (2) a value-added enhancement to Agrimax called *Maxicuenta*.²

Agrimax

There are two types of Agrimax cards: the green card, which is aimed at retail distributors of agricultural chemical products, and the silver card, which is intended for individuals who wish to purchase agricultural inputs and services from merchants accepting the card. The same terms apply to affiliated retailers as to individual users. The only differences are that the typical maximum limits are much higher for businesses than for individuals and the guarantees required from businesses are, accordingly, more substantial. The absolute maximum limit is ₡ 30 million (₡ = colón, the Costa Rican currency), that is US\$ 117,187,³ in accordance with the SUGEF ruling that no more than 20 percent of paid-in capital may be lent to a single party. In practice, each applicant's limit is set according to repayment ability and both cards carry a market-adjusted interest rate. In 1998, the interest rate, in local currency was 45 percent per annum. Both cards have a billing cycle of 30 days

² The finance company also offers other financial services to the broader public, namely, loans to individuals and corporations, factoring, investment management services (Invermax) and deposit certificates.

³ Exchange rate as of June 1998, US\$ 1 = ₡256.

and the typical guarantees used are co-signers who must have assets that can be pledged in the case of individual accounts, and real property in the case of business accounts. If the balance is not paid in full, clients must pay a minimum of 33 percent of the outstanding balance the first month. From then on, interests accumulate on the unpaid balance. As of December 1998, Agrimax credit card accounts represented approximately half of the outstanding credit balances. Approximately, 250 were green cards (distributor accounts) and 1950 were silver cards (individual accounts).

The green card, which was introduced in August 1992, predates the introduction of the silver card introduced in 1993. Initial positive results with the green card led Financiera Trisán managers to believe that end-users would use the Agrimax card to charge other types of products purchased and that not restricting purchasing to products exclusively distributed by Trisán, the widespread use of the individual card would contribute to increased consolidated profits for the Trisán Group. Preferred customers may receive cash advances on the silver card. These, however, are only disbursed at Financiera Trisán's two offices.

Maxicuenta

Maxicuenta is an enhanced service available to preferred Agrimax individual clients that takes into account the seasonal nature of rural households' cash flows. It is intended to be used to help finance short-term agricultural and livestock production and marketing. Instead of having to make regular payments within 25 days of billing, clients may make their first payment in a lump sum once they have had the opportunity to harvest and market their product. This is granted to current Agrimax cardholders with good repayment records (a minimum of three months standing). The maximum limit is negotiable and depends on the type of agricultural/livestock activity and the ability to repay of the individual.

Financiera Trisán sales agent must visit the farm, check the viability of the farming business and review bank statements and sales receipts of previous crops. Another visit is scheduled 15 days prior to the due date of the first payment to check if there will be problems with repayment. *Maxicuenta*, has the same interest rate as Agrimax and the same conditions apply. As of December 30th, 1998, Financiera Trisán reported 273 *Maxicuenta* holders with an outstanding balance of ¢ 151 million (US\$ 556,333), representing 26 percent of the Financiera's portfolio. The logic behind this additional service is that rural clients want more flexibility in managing finances. *Maxicuenta* is essentially a product enhancement that serves to increase average outstanding balance and keep clients satisfied and loyal.

Service Delivery

Product Marketing

At the start of the credit card program, Financiera Trisán depended on indirect marketing; it later switched to more direct marketing campaigns. In 1992 and 1993, Financiera Trisán asked distributors affiliated with the Trisán Group to use the credit card as opposed to the traditional supplier credit financing arrangements. The advantage for Trisán S.A. was that the management of accounts receivable was essentially transferred to Financiera Trisán with two attractive financial benefits: lower administrative costs and improved cash flow. The advantage for retailers was the promise of improved service in the future, due to cost savings for, and greater efficiency of, Trisán S.A. The marketing campaign sometimes relied on aggressive tactics such as threatening cancellation of distribution rights if the credit card was not accepted. Once the retailers responded, Financiera Trisán followed three distinct stages of product promotion at individual client level.

In the first stage, Financiera Trisán strongly encouraged distributors affiliated with the Trisán Group to promote the use of Agrimax among individual clients who had existing credit accounts. The credit card was presented as a substitute for traditional supplier credit provided by the retailer to end-users (farmers). The advantage for the retailer was that the management of accounts receivable was essentially transferred to Financiera Trisán with three interesting financial benefits: lower administrative costs, improved cash flow and the elimination of default risk. The retailer received immediate payment for charges made on the Trisán credit card within 24 hours of presenting a claim.

In the second stage, Financiera Trisán requested lists of clients from the retailers affiliated with the Trisán Group. It issued cards to individuals on these lists with little or no further screening. The goal was rapid growth in the number of clients in order to lower unit operating costs.

In the third and current stage, the promotion process is more direct and selective. Growth in client number is slower, due largely to the fact that the strategy of contacting clients from affiliated retailers proved to contain risk related to inherent moral hazard.⁴ Financiera Trisán now promotes the product with prospective clients through talks, or *charlas*, held at the facilities of various agricultural input vendors, many of whom are not affiliated to the Trisán Group. The advantages of affiliation to the Trisán Group and of the card are explained, as well as the mechanics of the program. In addition to these direct presentations, sales representatives ask retailers to identify preferred clients with excellent credit histories and reputations for technical

4 Retailers had vested interests in promoting the widespread acceptance of their clients regardless of creditworthiness, since the possession of a credit card is bound to increase sales without default risk for the retailer.

and managerial capacity. These preferred clients are then visited at home or at their place of business.

Evaluation, Approval, Issuance and Billing Processes

The evaluation and approval procedures for obtaining credit cards are rigorous in the first instance, but simpler and more automatic at the time of increasing the maximum credit availability. The steps are briefly described below.

First, a six-page application form is filled out and analyzed. Most often a representative of Financiera Trisán completes the application at the home or business of the prospective client and makes whatever additional visits to third parties that may be necessary. The form collects information on socioeconomic and business/household income data. The analysis focuses on determining the repayment ability of the business/household, the willingness to repay and the quality of the collateral that can be offered. To determine repayment ability, current debt servicing burdens are compared to projected income flows. To assess to repay, credit bureau reports are used. To establish the quality of guarantees, points are assigned for the four commonly accepted forms of guarantees: (1) personal guarantee, which carries the most risk and, therefore, the least points; (2) lien, some risk, a few points; (3) titled property, less risk, more points; and (4) a certificate of deposit, least risk and a high number of points. One of three risk categories may be assigned to an application, based on its total number of points: A (acceptable), B (marginal) and C (poor). If the category is C, the application is automatically refused.

Second, once the application is evaluated, a recommendation is made whether or not to issue a card with corresponding limits. The higher the limit, the more people are involved in the decision (Table 8.1).

Table 8.1. Credits Limits and Composition of Credit Approval Committee

Credit limits ^a	People involved in approval
¢ 0.5 to ¢ 1.5 million (US\$ 1,953 to US\$ 5,859)	Loan officer and Credit Manager
¢ 1.5 to ¢ 7 million (US\$ 5,859 to US\$ 27,343)	Loan officer, Credit Manager, Operations Manager and Assistant Manager
¢ 7 to ¢ 20 million (US\$ 27,343 to US\$ 73,529)	Loan officer, Credit Manager, Operations Manager, Assistant Manager and Manager
¢ 20 to ¢ 30 million (US\$ 78,125 to US\$ 117,187)	Board of Directors

^a Exchange rate as of June 1998, US\$ 1 = ¢ 256.

Third, once the application has been approved, legal contracts are drawn and signed by the cardholder and guarantors. A card is printed and delivered to the residence of the client. Financiera Trisán usually assumes the most of the transaction costs involved.

Fourth, once the card is activated, monthly statements are sent by mail no later than four days after the close of the billing cycle.⁵ Clients have 25 days to pay from the end of the billing cycle, thus resulting in a maximum 55-day credit term. Payments may be made in one of four ways. These are, in order of decreasing frequency: (1) deposit in a Financiera account in one of the state-owned banks conveniently located throughout the country (very reliable); (2) payment to Financiera Trisán sales agent on routine visits (very reliable); (3) in person at the Financiera's regional or head offices (most reliable); or (4) by mail (least reliable and rarely used).

Collection Processing

Normally, Financiera Trisán staff monitor Agrimax clients periodically, once or twice during the growing season, and occasionally when Trisán representatives run into its clients at the agricultural products store, gas station or on the road. Monitoring of *Maxicuenta* holders may be more frequent. Billing statements are mailed after the close of one of the five billing cycles in the month (the 5th, 10th, 15th, 20th and 25th of each month). If payment is not received within 2 days of the official due date, the following steps are taken:

- (1) a phone call is made;
- (2) a telegram is sent after the 5th overdue day and co-signers are contacted by phone;
- (3) a letter is sent after 10 overdue days;
- (4) a letter from a attorney is sent after 15 overdue days;
- (5) a marketing and sales agent from Financiera Trisán visits the client in person after 30 days;
- (6) if a mutually satisfactory agreement cannot be reached, legal measures are taken.

At each of the above steps, additional charges are added to the outstanding balance: each phone call is ¢ 500 (US\$ 1.84); telegram, ¢ 1,000 (US\$ 3.68); letter from the Financiera, ¢ 2,000 (US\$ 7.37); letter from a retained attorney ¢ 2,500 (US\$ 9.21); and each visit by a marketing and sales agent ¢ 3,000 (US\$ 11.04). Late penalty interest charges are also added to the balance. Financiera Trisán has a

⁵ From 1992-97, there were several problems with the postal service, but since 1998, service quality has improved and the number of lost and returned-to-sender statements has diminished considerably. In earlier years, because of poor postal services, marketing and sales agents either delivered the statements personally or made arrangements for pick-up at a central location, normally a dry goods store or agricultural input supply store.

total staff of 27, most of whom are located at the head offices, in the capital. A small number (four) are located in a branch office in Muelle, in the northern region. It is difficult for the company to maintain an aggressive collection presence in the countryside due to distances. Approximately 9 sales and marketing executives make visits to clients according to a pre-established circuit.

Client Profiles

The typical credit card client of Financiera Trisán is a primary school educated, middle-aged, male, medium-sized farmer, with about 15 ha of land and a substantial asset base and relatively high yearly income. The cardholders tend to be more commercially oriented and specialized than the typical farmer in the countryside. For example, Financiera Trisán's clients tend to generate close to 79 percent of their income from one activity. The most common agricultural activity is fruit and vegetable production (Table 8.2). In comparison, the typical farmer in Costa Rica has a farm of less than 10 ha and depends on a mix of field crops and livestock to generate income and subsistence for the family. Whereas 26 percent of Trisán's clients have completed high school, only 16 percent of the general population has done so (Dirección General de Estadística y Censos, 1999). Lastly, household income levels (US\$ 10,850) are above the norm for rural areas (World Bank, 1998e, and Dirección General de Estadística y Censos). They roughly equal 4.1 times the national average rural income, which, in turn, is equal to the national income *per capita* (US\$ 2,640 in 1997).

Table 8.2. Client Profile: Individual End-Users^a

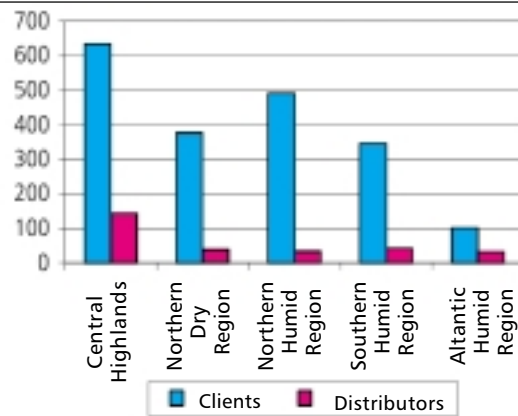
Variable	Value	
Number surveyed	100	
Average age	39.9 years	
Education (% with completed level)	Primary	58.0
	High School	25.7
	University	3.0
Gender (%)	Male	97.0
	female	3.0
Average farm size (owned land)	15.5 ha	
Total assets	US\$ 26,517	
Average gross income	US\$ 23,197	
Average yearly household net income	US\$ 10,850	
Value of main crop	US\$ 18,424	
Main agricultural activities (%)	Fruits and vegetables	39.0
	Coffee/Tobacco	10.0
	Livestock	7.0
	Dairy	3.0
	Grains	28.0

^a Sample excludes retail distributors.

Source: Financiera Trisán, June 1998.

As shown in Figure 8.1, the largest number of clients and distributors is concentrated in the central highlands, the area of the country with the highest population density and the most developed infrastructure. In the central highlands, average farm size is smaller and the predominant cash crop is coffee, but other main crops include sugarcane, vegetables and basic grains. The second largest concentration of clients is in the northern humid region that runs from the northern central mountains, northeast of the border with Nicaragua. It is an area characterized by lower population density, more rudimentary infrastructure and larger farms dedicated to dairy, beef cattle and the growing export tree crops (citrus, African palm and heart of palm). Average farm sizes are larger in this region compared to the central highlands.

Figure 8.1. Geographic Distribution of Clients and Distributors



Source: Financiera Trisán, July 1998.

PERFORMANCE ANALYSIS

Outreach and Growth Indicators

Financiera Trisán has exhibited a significant increase in the number of clients and nominal outstanding balances, but a slight drop in average outstanding balance. The nominal dollar portfolio in the same period increased from US\$ 1.58 million in December of 1995 to US\$ 2.32 million in December of 1998, that is, 47 percent. The number of clients increased in the same period from 1,658 to 2,467, or 49 percent. Over the same period, the average outstanding balance declined from US\$ 953 to US\$ 940 (Table 8.3). Furthermore, the average number of new cards issued monthly has fallen over time, from 69 in 1996 to 14 in 1998 (Table 8.4). Similarly, the number of cards cancelled or revoked made up a sizeable percentage of the total number issued up to May 1999 (715 out of 2,289 or 31 percent) (Table 8.5). These trends reflect a switch from a “massification” strategy toward a more deliberate selection process and greater concern about delinquency management.

Table 8.3. Growth of Outreach, Financiera Trisán 1995-1998, at Year End

Year	Total credit card portfolio		Number of active clients		Average balances	
	Total portfolio (US\$ million)	Growth percentage	Total #	Growth percentage	Average outstanding balance (US\$)	Growth percentage
1995	1.58		1,658		952.95	
1996	2.09	32	2,375	43.2	880.74	-7.5
1997	2.25	7.6	2,746	15.6	819.37	-6.8
1998 ^b	2.32	3.1	2,467	-10	940.41	14.7
Total Change		46.8		48.8		-1.3

^a Up to June 1998.

Source: Financiera Trisán.

Table 8.4. Number of Cards Issued

Month	Jan	Feb	Mar	Abr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	Average
1996	33	46	72	35	109	69	70	92	87	88	74	51	826	69
1997	53	67	59	65	86	65	58	45	19	16	21	15	569	47
1998	19	18	11	9	8	13	9	24	12	11	18	14	166	14

Source: Financiera Trisán.

Table 8.5. Agrimax: Closure Rates from November 1997 to May 1999

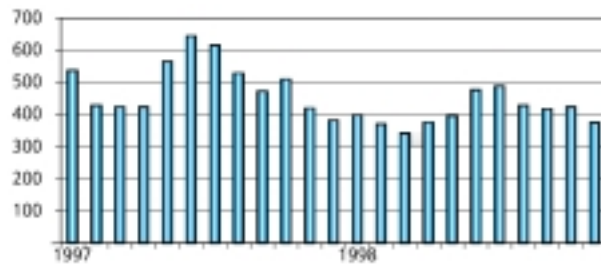
Reason for closing credit card account	Number of closed accounts	Percentage
At client's request	366	51
Poor repayment performance	283	39
Other	66	9
Total	715	100

Source: Financiera Trisán.

Despite the growth in the credit card portfolio over time (Table 8.3), the number of cards with transaction activity has been on a downward trend for the last two years, on a monthly basis (Figure 8.2). In January 1997, slightly over 500 accounts had transaction activity, while in November 1998, the number of accounts with transaction activity fell below 400. Account activity peaks according to agricultural cycles. There are two agricultural seasons in Costa Rica. One starts in May-June and the other in October-November. During these months, the volume of monthly transactions increases as producers purchase agricultural input products. During harvest periods and the dry season, from January to March, the number of

transactions falls as clients tend to pay off balances. At the end of 1998, 64 percent or 1,240 accounts had transaction activity at some time during the year, with transactions totaling ₡ 1,180 million (US\$ 4.3 million). A fifth of these transactions were cash advances.

Figure 8.2. Agrimax: Number of Credit Cards with Transactions
(January 1997 to November 1998)



Source: Financiera Trisán.

Financial Analysis

Both credit card products constitute nearly 75 percent of Financiera Trisán’s assets; the performance of these products therefore largely shapes and determines the performance of the entire finance company (Table 8.6). On the liability side, Financiera Trisán accesses funds strictly on commercial terms; it receives no concessionary loans or grants.

Table 8.6. Main Assets and Liabilities on December 31st, 1998

Type	Balance (millions of US\$)	Percentage share
Credit	2.17	100.0
Agrimax	1.03	47.5
Maxicuenta	0.556	25.6
Loans in domestic currency	0.438	20.1
Loans in dollars	0.138	6.4
Factoring	0.008	0.4
Deposits from the public^a	2.14	100.0
Deposit certificates - stock exchange	1.55	72.3
Deposits certificates - walk-in	0.59	27.7

^a Financiera Trisán issues deposit certificates in the national securities exchange and to walk-in clients.

Source: Financiera Trisán.

Structure of Assets, Liabilities, Capital and Portfolio

As shown in Table 8.7, Financiera Trisán had, on average, 67 percent of its assets in the credit card and loan portfolio. However, a sizeable proportion was in liquid assets, on average, 25 percent, between 1992 and June 1998. Over time the ratio of capital to assets has declined. The ratio of overdue loans to net loans tended to be high in the mid-nineties, but has gone down. The loan loss reserve to net loan ratio has mirrored the previously mentioned indicator, reflecting a prudential response on the part of management.

Table 8.7. Financial Indicators: Structure of Assets, Liabilities, and Capital

Indicator	1992 ^a	1993	1994	1995	1996	1997	1998 ^b	Avg.
Asset structure (%)								
Cash/Total assets	15.2	19.6	13.3	14.3	15.1	14.0	15.1	15.2
Temporary investments/ Total assets	10.9	15.9	11.1	2.3	10.8	7.6	8.9	9.6
Net revolving credit/ Total assets	68.6	60.0	61.3	69.5	65.2	71.7	71.1	66.8
Fixed and other assets/ Total assets	4.0	3.6	14.9	14.5	9.0	7.0	6.2	8.5
Liability structure (%)								
Deposits/Total assets	52.7	44.6	60.0	60.5	63.8	68.2	68.8	59.8
Other liabilities/Total assets	4.5	1.7	1.0	1.1	9.7	1.4	1.5	3.0
Capital structure (%)								
Paid in capital/Total assets	35.3	41.9	28.9	25.7	16.1	24.2	21.7	27.7
Reserves/Total assets	1.5	1.5	1.2	1.2	0.9	1.0	0.9	1.2
Portfolio structure (%)								
Gross portfolio/Net loans	103.9	103.9	104.6	106.3	102.6	102.9	103.4	104.0
Delinquent loans/ Net loans	18.2	25.0	46.4	40.8	45.7	33.2	21.9	27.0
Loan loss reserve/ Net loans	3.9	3.9	4.6	6.3	2.6	2.9	3.4	4.0
Total assets (US\$ millions)	1.51	1.61	2.14	2.03	2.86	2.83	3.00	2.28

^a Change in accounting calendar.

^b Up to June 1998.

Source: Financiera Trisán.

Profitability and Sustainability

Financiera Trisán has consistently posted profits and respectable returns on assets (Tables 8.8 and 8.9). The return on equity has not been as high due to the relatively strong equity position, that is, a high proportion of paid-in capital compared to total assets. However, between 1995 and 1997, Financiera Trisán reported high levels of extraordinary income that made substantial contributions to net earnings. The average share of extraordinary income in net income before taxes and distributions for the three years was 39 percent. This income was generated by the sale of property. As a result of this high dependence on extraordinary income combined with a large bad debt write-off, Financiera Trisán did not achieve financial self-sufficiency in 1997, because extraordinary income does not enter in the numerator. Due to sustained profitability though, Financiera Trisán has been able to attain operating self-sufficiency every year for which data is available.

The yield on portfolio compares favorably with medium-scale microfinance institutions in Latin America that target a broad set of clients. For example, a peer group of institutions conducting similar operations, including EDPYME ProEmpresa (Peru); Fundación para el Apoyo a la Microempresa-FAMA (Nicaragua); Fundación Nacional para el Desarrollo de Honduras, FUNADEH; Fundación Ecuatoriana de Desarrollo, FED (Ecuador); Corporación Nicaragüense Financiera S. A.-CONFÍA (ex Fundación CHISPA); Corporación Acción por el Tolima-ACTUAR Famiempresas (Colombia); and others for which portfolio size ranges from US\$ 1 to US\$ 8 million, reported a group average portfolio yield (interest income/average loan portfolio) of 62.6 percent compared to Financiera Trisán's average of 68 percent (Micro Banking Bulletin, 1999).

As shown in Table 8.8, Financiera Trisán's two main sources of income are interest paid on credit cards and loan products (financial margin) and commissions received from affiliated vendors and merchants who accept Trisán's cards (net operating income). These two sources of income generate a clear surplus over administrative costs, yielding a positive profit margin or positive rate of return every year.

Table 8.8. Financial Margins and Costs in Financiera Trisán
(Percentages)

Indicator	1992 ^a	1993	1994	1995	1996	1997	1998 ^b
a. Financial margin/ Average assets	16.07	11.85	22.97	21.06	20.18	15.69	7.86
b. Write-offs/ Average assets			1.39	1.70	2.41	5.13	0.31
c. Net operating income/ Average assets	4.05	11.91	1.34	1.23	0.79	7.06	3.31
d. Administrative costs/ Average assets	12.63	18.01	20.09	20.46	16.34	16.77	8.38
e. Other income/ Average assets				3.54	1.49	2.95	
f. Rate of return on assets ^c	7.49	5.75	2.84	3.67	3.71	3.79	2.49

^a Accounting calendar change.

^b As of June 1998.

^c a-b+c-d+e = f.

Sources: Profit and Loss Financial Statements of Financiera Trisán.

Asset Quality

Financiera Trisán's portfolio at risk has been consistently high (Table 8.9). However, the finance company has improved its collection efficiency over time. The aging structure of arrears shows a divergent pattern. Whereas the portfolio with payments overdue more than 90 days has consistently remained over five percent during the 1994-97 period, the portfolio with overdue payments less than 30 days and between 30 and 90 days has improved dramatically. One would expect higher rates of delinquency with a credit card product compared to a normal loan product, but delinquency tends to be pronounced in the short term rather than the long term. This is a weak area for Financiera Trisán and a number of factors explain the less than ideal delinquency control performance: (1) difficult economic times, for example: 2.4 percent GDP growth rate in 1995 and -0.6 percent in 1996; (2) difficulties in screening and monitoring clients; (3) a pervasive culture of late payment or no repayment; and (4) weakness in the legal framework of enforced contract compliance and the distribution of creditor and debtor rights.

Liquidity and Leverage

In the mid-nineties, Costa Rica experienced macroeconomic and financial fragility. This was reflected in weak economic growth in 1991 and 1995, a slight economic recession in 1996, some bank failures in 1996 and 1998 and consecutive years of high public budget deficits. Against this background, Financiera Trisán decided to maintain a fairly liquid position, largely to satisfy the potential demand of savers who may not have renewed deposit certificates and to avoid extending credit in

weak economic times. Many other financial institutions in the country followed the same course. Nonetheless, the leverage ratio has increased slowly over time indicating that Financiera Trisán is not totally risk adverse and has acquired more confidence in managing its credit card program.

Operating Efficiency and Staff Productivity

Financiera Trisán reports average operating efficiency (operating expenses/average total assets) of 19 percent and average operating income as a percent of average total assets of 40 percent for the period 1993-98 (Table 8.9). These figures compare well with other microfinance institutions in Latin America.⁶ On the otherhand, Financiera Trisán is weak in staff productivity. It has a total staff of 27 and, as of March 1999, had 2,289 active cardholders, yielding a productivity ratio of 84. The mostly favorable efficiency ratios are explained by large average balances and a high degree of automation. In short, its streamlined operating processes and cost structure of costs compensate for its small-scale portfolio and low staff productivity.

6 See MicroBanking Bulletin Issue N° 3, July 1999 (Medium Latin American (broad targeting) and Small Latin American (low-end targeting) peer groups). Note that Financiera Trisán is not a typical microfinance organization (MFO). It is a deposit-taking, regulated entity that is self-sustaining. In contrast, most MFOs are not regulated and depend on donations. Financiera Trisán has a great deal in common with American Express Corp. and banks that issue VISA cards. These include high delinquency rates and a high dependence on computer automation. However, its small scale, low average outstanding balances, high operating costs and focus on a clientele difficult to serve make it similar to MFOs.

Table 8.9. Selected Financial Indicators

Indicator	1992 ^a	1993	1994	1995	1996	1997	1998 ^b	Avg.
Profitability								
Net Income (US\$)	113,242	89,683	53,252	76,560	90,752	107,874	72,585	86,278
Return on assets (%)	7.49	5.58	2.49	3.77	3.17	3.81	2.42	4
Return on equity (%)	12.69	10.41	7.00	9.82	10.86	12.50	11.19	11
Yield on portfolio (%)	48.65	36.33	82.95	104.10	99.70	75.28	28.77	68
Asset quality (%)								
Portfolio at risk	18	26	43	38	44	32	21	31.71
Portfolio < 30 days past due/Total Portfolio	16.88	24.91	26.56	19.00	20.76	13.28	5.90	18.18
Portfolio > 31 < 90 days past due/Total portfolio	0.04	0.66	8.07	6.13	8.17	7.88	7.19	5.44
Portfolio > 91 < 180 days past due/Total portfolio	0.58	0.17	5.38	5.29	6.60	5.46	2.68	3.73
Liquidity (%)								
Liquid assets/Total assets	26.10	35.46	24.43	16.60	25.87	21.60	24.02	25
Capital adequacy (%)								
Total equity/Total assets	59.05	53.55	35.55	38.40	29.19	30.45	21.59	38.26
Assets at risk (%)								
Total equity/Total assets less cash equivalents	79.92	82.97	47.05	46.05	39.38	38.84	28.41	51.80
Leverage								
Total assets/Equity	1.69	1.87	2.81	2.60	3.43	3.28	4.63	3
Operating efficiency (%)								
Operating costs/Average total assets	12.70 ^c	18.40	20.30	20.64	18.46	19.02	18.52 ^d	19.22
Total operating income/Average total assets	37.49 ^c	35.25	39.06	41.33	41.73	41.17	38.54 ^d	39.51
Overall performance (%)								
Operational self-sufficiency	124.98	119.49	107.85	100.32	105.6	102.08	114.82	
Financial self-sufficiency	1.21	113.73	104.63	97.92	103.5	100.28	110.97	

^a Change in accounting calendar.

^b Figures up to June

^c Not annualized, not included in average.

^d Annualized. Included in average.

Source: Financiera Trisán.

Interest Rate Structure

Financiera Trisán historically has charged high rates of interest to compete for deposits with large state-owned banks, and in order to cover the higher costs associated with operating in rural areas (Table 8.10)

Table 8.10. Agrimax: Structure of Interest Rates
(December 1998)

Rates of interest (%)	Lending Rate Interest	Cost of Funds	Margin of Intermediation
Nominal	45.0	26.5	18.5
Effective	38.1	30.5	7.6

Fuente: Financiera Trisán.

The effective interest rate paid for raising funds, by issuing deposit certificates, has increased due to legal reserve requirements. Similarly, on the lending side, the effective lending interest rate charged to clients is lower than the nominal lending rate since clients may pay in full at the end of the billing cycle, and many do.⁷ Thus, the difference between the effective lending and cost of funds rates is 7.6 percent. In comparison, the average margin for the banking system is 9 points. Financiera Trisán's lower margin is due to two factors. First, as mentioned above, it has to compete for public deposits with strong state-owned banks, which dominate the financial market and enjoy implicit deposit insurance, by offering higher rates on deposit certificates.⁸ Second, it has largely agricultural clients with marked seasonal income flows, which implies that there are limits to the interest rates that agricultural projects can bear.

CHALLENGES FACING THE EXPANSION AND DEEPENING OF THE PRODUCT

Financiera Trisán faces a number of challenges in expanding and perfecting its credit card products. These challenges belong to three broad areas: (1) marketing; (2) legal, institutional and technological constraints; and (3) competition.

7 Thirty-eight percent is the minimum possible effective interest rate, an estimate that is based in the assumption that the client pays the total outstanding balance, at the latest, on the official due date.

8 When a number of private finance companies failed in the late 1980s, depositors were not reimbursed. By contrast, the Government of Costa Rica paid all depositors in full when a state-owned bank, Banco Anglo Costarricense, failed in the mid-1990s. These circumstances probably strengthen the belief of depositors that similar actions will be taken in the event of the collapse of one of the three remaining large deposit-taking, state-owned financial institutions: Banco Nacional de Costa Rica (BNCR), Banco de Costa Rica (BCR), and Banco Crédito Agrícola de Cartago (BCAC). Therefore, depositors are more attracted to state-owned institutions despite lower rates of interest.

Marketing Challenges

Financiera Trisán has three marketing options: (1) to maintain current individual clientele but increase average outstanding card balances and add services and enhancements; (2) to focus on expanding the distributor clientele and rural small retail business clientele; or (3) to target more “down market” clients, those with less total household income, smaller asset bases and more seasonal cash flows. Each option has profound implications and could be mutually exclusive.

The first possible marketing strategy, maintaining its current individual clientele base but increasing card transaction activity and outstanding balance, would imply getting more vendors to accept the card and aggressively promoting its use through mailings and special discounts for selected products purchased on the card. In addition to the credit card, Financiera Trisán could entice its clientele to invest or purchase other products, such as deposit certificates, offer a multifunctional smart card (for debit and credit) as well as provide instant access to account balance and payment history information, thereby further reducing transaction costs, and/or offer financial investment advice. The focus would likely have to be on high worth, “up market” individuals with very predictable cash flows. The strategy would be to build long-term relationships and develop brand loyalty.

The second possible marketing strategy would be to target small nonagricultural, retail businesses located in rural areas and convince them that it would be advantageous to use the credit card to finance inventory. Just as Financiera Trisán convinced agricultural input suppliers that there were administrative cost savings involved in using the card as opposed to the traditional 30-day supplier credit arrangements, it can do the same with dry good stores (*pulperías*), gas stations, restaurants, gift shops and a number of other retail establishments. Wholesalers extending more generous supplier credit terms (60 and 90-day terms), as opposed to 30 days, could however counter this strategy. Nonetheless, the credit card should be theoretically superior to traditional supplier credit and its financing term could effectively be extended beyond 60 to 90 days, increasing its attractiveness. In certain subsectors, such as handicraft retailing, consignment arrangements may remain superior to a credit card arrangement and thus demand may not be high for a credit card product.

The third possible marketing strategy would be to go “down market” and attempt to increase the volume of cards, with the knowledge that the outstanding balances on each card would be smaller due to the more limited economy of this clientele. The challenge of a “mass market strategy” is that new investments in technology and changes in operating procedures will be needed to keep the transactions costs down and to quickly evaluate and maintain collection discipline. The required investments in product design, technology and staff training will be high in order to achieve a high level of productivity and efficiency in control systems. The focus would be on “standardizing” the process as much as possible.

In order to determine the correct strategy to pursue, it is important to understand five factors: (1) size of the potential market segment; (2) patterns of card use among existing clients; (3) number and type of merchants accepting the card; (4) delivery features of the card; and (5) general market conditions. First, the company estimates that the total potential agricultural credit card market is made up of 20,000 users. Thus, Financiera Trisán, with its approximately 3,000 clients has a sufficient market to grow. Second, utilization rate, as measured by the ratio of actual charges to total amount of credit approved, ranges from 27 percent to 37 percent (Table 8.11). Existing clients are not using the card to the fullest extent, but the rate is on an upward trend. Third, the number of merchants accepting the card has increased markedly in the last three years (Table 8.12). Acceptance of the card in the marketplace therefore does not seem to be a major factor explaining slow growth or the low utilization ratio.

Cuadro 8.11. Credit Card Utilization Rate

Year end	(A) Total value of approved lines of credit (US\$)	(B) Total outstanding balances (US\$)	Utilization rate (%) (B/A)
1997	5,622,193	1,537,396	27
1998	5,343,141	1,613,773	30
1999	4,496,922	1,664,705	37

Fuente: Financiera Trisán.

Table 8.12. Number and Type of Merchants Accepting Agrimax

Type of merchant	1997	1998	1999
Trisán affiliated agrochemical distributors	4	4	4
Non-affiliated agrochemical distributors	168	184	207
Hardware stores	12	13	15
Gas stations	0	1	2
Oil change and lubrication shops	1	2	3
Vehicle and equipment repair shops	1	2	3
Total number of merchants	186	206	234

Source: Financiera Trisán.

By process of elimination, the two major constraining factors on more rapid portfolio and clientele growth seem to be (1) a poor business environment (negative or low positive economic growth rates in 1996-99); and (2) unattractive delivery features, such as the need to authorize charges by a phone connection limited to head office working hours, inability to quickly handle problems at the point of sale, strong interest rate competition from traditional suppliers of lines of credit and, most importantly, the condition that 33 percent of outstanding balance must be paid within a first month of charge on the Agrimax card. Given the poor business environment, management is extremely concerned about controlling delinquency and has become increasingly selective and cautious in its approval policies. The challenge, in short, is to relax the unattractive features of the Agrimax card, especially the requirement to pay 33 percent of each new charge, without compromising asset quality.

Legal, Institutional and Technological Challenges

Regardless of the marketing strategy chosen, Financiera Trisán faces a series of legal, institutional, and technological challenges that will have to be overcome. The choice of marketing strategy will depend on how binding these constraints are. The specific challenges can be identified as having to do with credit bureaus, the postal service, computer technology, and connectivity and delinquency control.

Credit Bureaus: Only three credit bureaus are currently functioning in Costa Rica. These credit bureaus have limited databases due to a banking secret law that protects consumers from having data on their repayment performance reported without prior permission. This legal restriction tends to limit the reach of credit bureaus. Those clients that appear in the databases tend to be high worth individuals and well-established businesses that clearly see it in their interest to grant permission. Many moderate and lower-income individuals tend not to apply, because they have no formal credit history or refuse to grant permission for releasing data in the event they do have credit.

The information in the credit bureau helps mostly in determining if prospective clients have “negative marks,” such as liens and collection actions, and not positive indicators such as consistent on-time payment patterns. Accordingly, the absence of “negative marks” on a credit report has limited predictive power. The current system helps to identify who should not be approved and less so the likelihood of someone with a certain set of characteristics repaying on time. The lack of fuller and more complete information on clients delays efforts to develop credit-scoring models appropriate for developing countries, which could represent a significant cost-reducing innovation in credit analysis.

Postal Service: The quality of postal service has improved over the past two years, especially successful mail delivery, but it can be a limiting factor for an aggressive campaign to increase outreach. The average time for mail to be delivered from one point to another may still vary significantly, from 3 to 10 days. This variability in the time needed to successfully deliver the mail forces the Financiera to use a very long

effective billing cycle, which has significant cost implications. A reduction in mail delivery time could contribute to the capacity to lower interest rates and thus, increase the demand for credit card services. When the postal service fails and alternative arrangements have to be made, such as leaving the bill at a centrally located store to be picked up by the client, transaction costs rise and this creates unreliability.

Computer Technology and Connectivity: Financiera Trisán invested a significant amount of its own resources in developing a management information system to handle credit card operations.⁹ Furthermore, it has acquired real-time connectivity between its branch office in Muelle and the company's head offices, as well as with a number of vendors. Future growth and expansion will hinge on the ability to handle more types of individual client subaccounts and a greater absolute number of clients. The ability to recruit more vendors to accept the Trisán credit card will hinge on the reliability and cost of communicating and transmitting data. To date, data transmission is largely over fixed land-lines and the cost of the service is high. For example, the monthly cost for telecommunications averaged US\$ 3,932 in 1999.

Delinquency Control and Contract Enforcement: In Costa Rica, borrowers' rights outweigh those of creditors.¹⁰ Coupled with poorly functioning property registries and a backlogged judiciary system, this implies that financial institutions operate at a disadvantage and, subsequently, face higher intermediation costs and risk than would be the case if the environment were more favorable. The solution lies in improving the overall legal framework as well as refining the delivery and collection technology. Financiera Trisán has little ability to effect changes at the national level. However, more can be done to improve screening and collection systems within the organization. This includes experimenting with the notion of dedicating personnel to focus on accounts with peculiar risk factors, building rudimentary credit scoring models and offering staff performance incentives based on a composite measure of the number of clients served and the volume, as well as portfolio quality.

Competition

Currently, Financiera Trisán has no major competitors for credit cards in rural areas. Several private commercial banks offer VISA and MASTERCARD products, but their clientele consists mostly of urban wage earners. The Banco Nacional de Costa Rica (BNCR), a state-owned bank, which accounts for 32 percent of the total assets of the country's formal financial sector and has the most extensive network of branches in the country (135 branches), is experimenting with a similar product. In conjunction with the Banco Centroamericano de Integración Económica, BCIE (Central American Bank for Economic Integration), BNCR is introducing a smart debit card (Futura

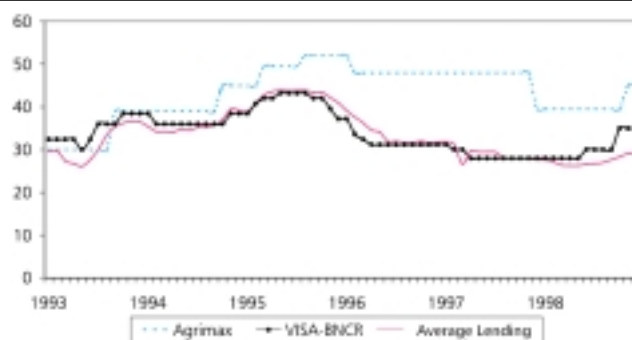
9 According to the company's managing director, Financiera Trisán spent US\$ 250,000 starting in the late eighties to develop software to manage the credit card program. This amount has been fully depreciated.

10 This represents a serious problem also in Peru. As reported in Chapter 3, in the case of judiciary enforcement of guarantees, debtors have many ways to delay the legal actions, and several steps for doing it.

3000) in rural areas. To date, Futura 3000 is a prepaid debit card with very low limits (US\$ 105 for individuals and US\$ 3,500 for businesses). The card pays no interest for mandatory deposits and charges a 4 percent user fee.

In addition to this rural-focused product, BNCR has a VISA product that is well-accepted in urban areas. BNCR charges an interest rate that is considerably lower than that of Agrimax, close to the average lending rate in the entire banking system (Figure 8.3). BNCR can charge a low lending rate because it enjoys comparative advantages in receiving savings. The general public prefers to save with BNCR despite considerably lower deposit interest rates, because of an implicit deposit insurance scheme. Given its size, reputation and branch network, BNCR could quickly emerge as a strong competitor in rural areas. If state-owned banks were to enter the rural areas with a credit card product, Financiera Trisán would most likely have to compete on service quality (timeliness in processing applications, billing accuracy and on-time payment to vendors), its reputation as an innovator, and the promise of product enhancements (insurance services, financial consulting, smart card).

Figure 8.3. Nominal Interest Rates Charged for Agrimax and VISA-BNCR Compared to the Average Lending rate in the Financial System
(September 1992 - December 1998)



Sources: Financiera Trisán, Banco Nacional de Costa Rica, BNCR (National Bank of Costa Rica) and SUGEF.

CONCLUSIONS

Financiera Trisán has pioneered the introduction of an entirely rural credit card. The card has been generally well accepted by the target population, demonstrating the viability of a new financial service that helps to better manage risk and liquidity. More importantly, the product has been profitable and the entire firm is operationally self-sufficient. While outreach has been limited, this is driven by attempts to better contain delinquency in a less than favorable economic environment. This section discusses the main findings concerning replicability, lessons learned that may help others contemplating the introduction of a similar product, and short- to medium-term institutional needs.

Replicability of the Product

The credit card product that Financiera Trisán has pioneered could be established in other areas of Latin America if certain conditions hold; namely: (1) a density of rural clients with variable but predictable cash flows; (2) a minimum level of functioning physical infrastructure (telecommunications, electricity, postal services, roads); (3) an appropriate legal and financial regulatory framework that would allow profitable intermediation; and (4) a profit-oriented, client-driven service provider with a history of active participation in the rural sector.

Most of Financiera Trisán's clients are located in the densely populated central highlands and in the northern region, both of which have high agricultural potential and are characterized by high-value agricultural production. Costa Rica has high rates of teledensity and rural electrification. For example, it has 155 main telephone lines per 1,000 people compared to the average for low and middle income Latin American and Caribbean countries of 102 per 1,000 in 1996. Furthermore, Costa Rica's consumption *per capita* of electrical power exceeds the regional average; the country consumes 1,348 kilowatts per hour (kwh) per person versus 1,298 kwh (World Bank, 1998e). The lack of a large manufacturing base suggests that consumption is evenly distributed across the country. Similarly, the financial regulatory framework does not hinder profitable intermediation, but the legal framework does increase the cost and risk of intermediation. Lastly, the parent company enjoys a strong reputation for quality service and innovation, built up over nearly four decades of operations in rural areas. Its staff is also extremely knowledgeable about local conditions and skilled in agricultural credit analysis.

Lessons Learned

The key lessons to be drawn from the Financiera Trisán experience are:

- (i) Incremental product innovation is a safe and proven route to sustainability. Financiera Trisán essentially promoted the credit card as a substitute to factoring and traditional 30 day-supplier credit provided by the parent agricultural input wholesale company to a "captive clientele" of agricultural input retailers. Once enough experience was gained, the card was introduced to individual end-users. A more massive intervention would have required a substantial investment of resources, resulting in a larger volume of clients but possibly greater delinquency. In short, Financiera Trisán is moving from a context of enhanced agricultural supplier credit toward a widely accepted credit card.
- (ii) The typical first wave of clients who will adopt the service will be, most likely, higher income rural residents with large and predictable cash flows. An agricultural credit card is not best suited for low-income subsistence producers. Nonagricultural business may be an even more attractive clientele than farmers.

- (iii) Infrastructure deficiencies, such as slow postal service, a high percentage of unpaved roads and the limited usefulness of credit bureaus can be overcome by means of creative solutions such as leaving bills at centrally located stores and having sales agents visiting clients deliver bills to other clients along their route. These steps, nonetheless, increase operating costs and may reach a threshold that will render the credit card product nonviable. Fortunately, the infrastructure weaknesses in Costa Rica are not severe.
- (iv) A clear and well-developed plan for product testing, expansion and enhancement is crucial. Financiera Trisán constantly seeks feedback from clients and staff to fine-tune its product, pricing, and processing procedures. The company is also actively seeking to increase its scale of operations.

Institutional Needs

While Financiera Trisán is an interesting example of how to engage in financial product innovation in a rural setting, it still faces some challenges and has short- and medium-term institutional needs to answer, as detailed below:

- (i) Financiera Trisán needs to undertake cost accounting exercises, marketing studies and product testing in order to determine how best to expand and refine its product(s). At present, the company is serving two distinct segments, retailers and individual farmers, and little is known about the costs of serving these two niches. Moreover, the company needs to research and test products suitable for new market segments such as nonagricultural business.
- (ii) Financiera Trisán needs the services of experts in credit card operations to learn about best management practices in developed countries and adapt them to its own setting.
- (iii) Financiera Trisán needs access to additional financing (deposits, borrowing, equity or a combination thereof) to ensure its growth.