

POWAT 360



# center for latin american studies

arizona state university, tempe, arizona 85287  
telephone (602) 965-5127

October 5, 1984

Ms. Sandra Frydman  
AID/  
613 SA 18  
Washington, D.C. 20523

Dear Sandra:

Enclosed is a copy of our final research report on the Guatemalan project. Also enclosed is a copy of the brief write-up you requested.

We want to express our appreciation to you for your help in getting the project started and in seeing it through to completion. It involved lots of phone calls, letters and cables but we got it done.

I look forward to seeing you in the Dominican Republic.

Sincerely yours,

Jerry R. Ladman  
Director & Professor of  
Economics

JRL:say  
encl.

xc: Douglas Graham  
Cecil McFarland  
Isaac Torrico  
Harry Wing

1

# THE GUATEMALAN NATIONAL AGRICULTURAL DEVELOPMENT BANK PROJECT

## Introduction

On August 31, 1984, Arizona State University finished a ten-month intensive research project studying the National Agricultural Development Bank (BANDESA) of Guatemala. The project leader was Dr. Jerry R. Ladman, Professor of Economics. He was assisted by Lic. José Isaac Torrico, a credit specialist, and two A.S.U. graduate students. The project was financed by AID/Guatemala, and Arizona State University was selected as the sub-contractor under The Ohio State University and AID/Washington cooperative agreement "Rural Savings for Capital Mobilization".

The project had two principal dimensions. The first was to analyze BANDESA's credit and savings mobilization operations and to make specific recommendations for policies and improvements. The second was to organize a high-level policy seminar on agricultural credit and savings mobilization for senior-level officers, administrators and technicians in the major Guatemalan financial and agricultural sector institutions.

## Research Project Results

BANDESA, which is structured as both a development and commercial bank, plays an important role in the development of the Guatemalan agricultural sector by providing financing to large numbers of small- and medium-sized farmers through loans to individuals, cooperatives and other organized groups. Were BANDESA loans not available to these persons and organizations, many of these farmers, especially the smallest, would likely not have access to credit from the banking system. Therefore, BANDESA has a unique and particular place in the agricultural credit

system and in financing part of Guatemalan agricultural development. Other financial institutions, particularly the private commercial banks, are financing large-scale farming operations.

Although, BANDESA has been successful in extending credit to many farmers it has encountered many problems. The most serious are high rates of delinquency, high costs of operations and low revenues, all of which have contributed to deep and serious financial problems. In recent years loans from trust funds, rather than funds generated by savings mobilization in its commercial banking operations, have dominated BANDESA's lending. Commissions earned by BANDESA for managing the trust funds are now the Bank's major source of income and are sufficiently large to discourage BANDESA from mobilizing savings, and, at the same time, make the Bank dependent on funds from the government and foreign donors for growth. As reflected in its financial statements, these problems have led to increasing annual losses which have consumed the Bank's capital in face of insufficient subsidies to cover the losses. In essence, without heavy subsidization or drastic reforms and changes in its policies, the Bank's problems will only become worse.

The researchers recommend that BANDESA decrease its dependency on subsidization and trust funds as a source of financing by revitalizing its commercial banking operations through placing emphasis on the role of BANDESA as a financial intermediary. In this manner, BANDESA would not only emphasize lending but also savings mobilization. This strategy would directly contribute to both the development of the agriculture sector and rural financial markets; lead to improved allocation of financial and real resources in the sector; and improve BANDESA's financial viability by decreasing BANDESA's dependence on foreign assistance and the government for financing.

To accomplish this objective, it is recommended that BANDESA pursue an aggressive savings mobilization program; raise real interest rates for loans and savings deposits; reduce delinquency; and streamline the operations of the central office to reduce costs. A detailed analysis of BANDESA and complete recommendations are presented in English and Spanish editions of the report by Jerry R. Ladman and José Isaac Torrico, The Guatemalan National Agricultural Development Bank (BANDESA): An Analysis of Credit Operations and Potential for Savings Mobilization, Report Prepared for AID/Guatemala by Arizona State University, August 31, 1984, pp. 192.

#### Policy Seminar

The high-level policy seminar was held in Antigua, Guatemala, on two days, August 16 and 17, 1984. The purpose of the seminar was to stimulate thinking in Guatemala about new ideas in rural financial markets in the hope that they could be considered in future policy formulation and programming in that country. The first day consisted of presentations to approximately forty high-level administrators of BANDESA and the major agricultural and financial sector institutions, including vice-ministers. On the second day the audience consisted of nearly sixty middle level managers from BANDESA. The invited speakers were selected based on their expertise and recent experience in Central America. They were Drs. Claudio Gonzalez-Vega, Douglas Graham and Carlos Cuevas of The Ohio State University and Ladman and Torrico. The topics covered were financial intermediation, interest rate policy, savings mobilization, credit delivery systems and the role of foreign assistance. There was ample time for discussion by the participants about these topics in the Guatemalan context. The seminars were adjudged very successful and served as an

4

excellent basis for a later in-depth discussion of the results of the research project with BANDESA officials.

Prepared for Sandra Frydman  
October 5, 1984

5