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THE GUATEMALAN NATIONAL AGRICULTURAL DEVELOPMENT BANK (BANDESA): ANALYSIS OF CREDIT OPERATIONS AND POTENTIAL FOR SAVINGS MOBILIZATION

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PREFACE AND ACKNOWLEDGEMENTS

This report was prepared as part of a United States Agency for International Development (AID) funded research project that studied the Guatemalan National Agricultural Bank (BANDESA). AID has had a long-term and deep interest in agricultural credit in Guatemala, considering it to be an important component of the United States' development assistance to the country. For many years AID has worked with the Guatemalan government to establish credit programs to promote rural and cooperative development. Most of these credit programs have been channeled through BANDESA or its predecessors. At the present time, with AID's continuing interest in assisting Guatemala to promote rural development, the Guatemalan AID Mission considered it propitious to examine BANDESA in some depth to assist the Mission in the planning for future development assistance.

Arizona State University was selected to conduct the research that went into the preparation of this report under a subcontracting arrangement with The Ohio State University. Ohio State has a cooperative agreement (DAN-5315-A-2070-00) with AID/Washington to undertake programs of research on agricultural credit and savings mobilization in less-developed countries.

The project basically was carried out by the two authors. We hasten to add, however, that had it not been for the tremendous assistance of many others the task would not have been nearly so complete or enjoyable. We are very grateful to Harry Wing, Cecil McFarland and Gilberto Santamaria, as well as their able staff, of the AID/Guatemala Rural Development Office for their excellent support and backstopping of the project. In AID/Washington, Sandra Frydman provided important support. Douglas Graham and The Ohio State University Foundation were instrumental in getting the project established. Two Arizona State University research assistants, Gonzalo Afcha and Walter E. Quiroga, made important contributions in assisting with data tabulations, calculations and the translation. Above all, special appreciation is due to BANDESA. From the moment we began the study, we had the complete and unrelenting support of the director general, Dr. Leonel Rodríguez and his staff. Much of the data we needed was not published or was tucked away in files. Many persons, far to numerous to mention by name, cheerfully spent long and seemingly endless hours to help get what we needed. Without this invaluable assistance, the project would have been much more difficult and time consuming.

The study should not be considered a definitive report. Time and funding did not permit as much research as is warranted. As much as we tried to avoid them, a few minor errors of fact may have slipped in. If this is the case, we apologize. We believe, however, that we have been able to come to a reasonable understanding of the situation, identify and success and problematical aspects of BANDESA, and make recommendations that would enable the Bank to enhance its financial position and better perform its role as a rural financial intermediary. We have also identified topics that are worthy of more in-depth investigation.

JRL and JIT

I

INTRODUCTION

This report is a study of the Guatemalan National Agricultural Development Bank (BANDESA). Since its establishment in 1970, as the government's development bank for the agricultural sector, BANDESA has been the focal point for directing financial resources to small- and medium-sized farmers and cooperatives in the sector by the Guatemalan government and foreign donors alike. BANDESA, however, has experienced serious financial difficulties emanating from serious loan delinquency problems and high administrative costs relative to revenues. This has caused the Bank to continue to rely on new injections of capital and loanable funds from the government and donors of foreign aid, rather than developing into a financial intermediary with the capability for self-sustaining long-term growth. Therefore, the central question of the present study is to examine BANDESA and to make a set of coordinated recommendations about how the Bank might overcome these problems and become self-sustaining, while, at the same time, playing its important assigned role of helping medium- and small-sized farmers develop economically.

Over the last ten years there has been a considerable revision of thinking about the role of agricultural credit institutions in the process of economic development both by scholars and donors of foreign assistance.[1] In particular, this revisionist thought has made strong arguments pointing out the negative effects of the conventional wisdom of agricultural credit policy that incorporates concessionary interest rates as income transfer mechanisms designed to provide incentives for increasing agricultural output, especially among small farmers, and to improve rural income distribution. Part and parcel of this revisionist thought have been the arguments about the potential for mobilizing rural savings within the financial system, were interest rates on savings deposits raised to more attractive levels.

The authors of this report have been participants in this revisionist movement, and, as a consequence, approach the study of BANDESA from this perspective. While some readers may not be convinced completely by the arguments presented, or take the position that they are not appropriate or applicable in the Guatemalan setting at this time, it is hoped that the logic will not be lost, and can be employed in planning future agricultural credit programs and policies in the country.

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1 For a good summary of this thought see: Dale W Adams, Douglas H. Graham and J.D. Von Pischke, eds., Undermining Rural Development With Cheap Credit, (Boulder, Colorado: Westview Press, 1984).

The report is organized as follows. Chapter II presents an overview of credit and agricultural credit in the Guatemalan banking system in order to show BANDESA's role in financing of the economy. Chapter III describes and analyzes monetary and credit policy, particularly as it impacts on rural financial markets. Chapter IV presents a brief history of BANDESA and a description of the Bank's organization, structure and operations. Chapter V examines the trends and patterns of BANDESA lending over the 1977-1983 period. Chapter VI describes and analyzes BANDESA's credit delivery system including interest rates, procedures, paperwork, documents and technical assistance. Chapter VII examines BANDESA's delinquency problem. Chapter VIII presents a financial analysis of BANDESA. Chapter IX studies BANDESA's potential for savings mobilization. Finally, Chapter X provides an overall summary and conclusions, including recommendations.

OVERVIEW OF THE GUATEMALAN BANKING SYSTEM AND ITS RELATIONSHIP TO AGRICULTURAL CREDIT

The Structure of the System

The Guatemalan banking system --defined as institutions under the supervision and control of the Superintendency of Banks-- is comprised of the Bank of Guatemala (Central Bank), three state development banks, twelve domestically-owned private sector commercial banks, two foreign-owned commercial banks, one state financiera, and four private sector financieras. The Superintendency of Banks also supervises one public-sector deposit warehouse and eleven private sector deposit warehouses that are auxiliaries to financial institutions. The system operates under the monetary and credit policies established by the government's Monetary Board (Junta Monetaria) and is supervised and controlled by the Superintendency of Banks.

Functions of the Monetary Board, The Superintendency of Banks and the Bank of Guatemala[1]

The structure of the system and relationships between the Monetary Board, the Superintendency of Banks, the Bank of Guatemala and the other institutions is shown in Figure II-1.

Monetary Board

In accordance with the Organic Law of the Bank of Guatemala, the Monetary Board is charged with giving general guidance to the Bank of Guatemala (BG). It determines policies in respect to money, foreign exchange, and credit. To obtain these objectives, the Monetary Board is empowered to: (a) fix, modify and publish the rediscount and interest rates of the BG; (b) regulate the rediscount and credit services of the BG and lay down the general terms and the limits of the various operations of the Bank; (c) fix maximum interest rates of the liability and asset operations performed by banks and regulate bank credit; (e) direct the overall policy of banking institutions of a public or semi-public character, the policy of the Republic in respect to money, foreign exchange and credit.

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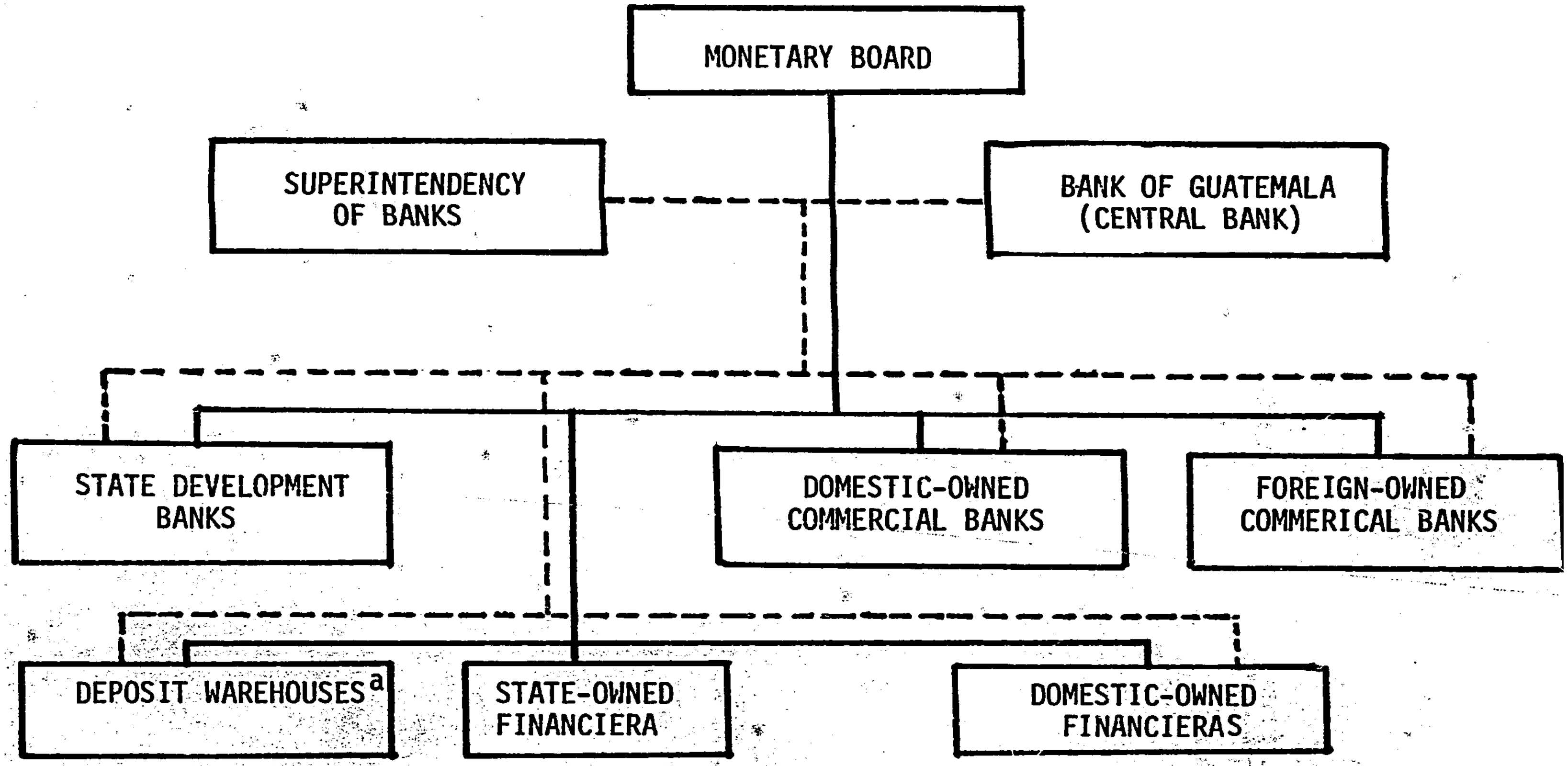
[1]This section is based on the Ley Organica del Banco de Guatemala, and the Boletín de Estadísticas Bancarias, II Trimestre 1983, published by the Superintendency of Banks.

FIGURE II-1

STRUCTURE OF THE GUATEMALAN BANKING SYSTEM



Supervision and control function.

Foreign exchange, monetary, and credit policy function.

[a]Non-bank but auxiliary credit institution.

Superintendency of Banks

The Organic Law charges the Superintendency of Banks with the supervision and regulation of the Bank of Guatemala and the banks in the system. The Superintendency of Banks is administered by the Superintendent who is responsible to the Monetary Board. The functions of the superintendent are to: (a) execute and enforce the laws, regulations and other rules applicable to the BG, the other banks of the system and other institutions subject to its control; (b) supervise all the operations and activities of the BG, checking the accounting and inventories by means of audits and other controls; (c) supervise issuing of currency as well as the operations of printing, coining, issuing, exchanging, withdrawing, cancelling, incinerating, and guarding currency; and (d) inspect regularly the various banking institutions through audits and other suitable means.

Bank of Guatemala

The BG was created in 1945 with the objective of promoting the most favorable conditions for an orderly development of the national economy in respect to currency, foreign exchange and credit. The Organic Law of the Bank states that the duties of the institution are to: (a) adopt the media of exchange and credit policy to the legitimate needs of the country and to the development of productive activities; (b) promote the liquidity, solvency and efficient operation of the national banking system, as well as the distribution of credit; (c) maintain the external value and convertibility of the national currency; and (d) administer the foreign exchange reserves of the nation.

Financial Institutions

The financial institutions in the banking system are presented in Table II-1. It is noteworthy that all but one, the Banco de Occidente, S.A. are headquartered in the capital, which demonstrates the importance of Guatemala City as the financial center of the nation. Furthermore, that the system is relatively young. Since 1969 all but one of nine deposit warehouses, four of the thirteen commercial banks, two of the three state development banks, and two of the three financieras were established.

The three state development banks were established by the government to promote economic development. They are not strictly development banks, however, because each undertakes the normal time and demand deposit operations of commercial banks. The National Agricultural Development Bank (BANDESA) is charged with promoting agricultural development. The National Housing Bank (BANVI) deals with urban development and housing, and the National Mortgage Bank finances a wider range of activities.

The financieras are financial intermediaries specializing in medium- and long-term credit. As intermediaries, they mobilize savings from domestic and foreign sources and lend to domestic investors. One of the three financieras is state owned, The National Financiera Corporation (CORFINA).

TABLE II-1

FINANCIAL INSTITUTIONS SUBJECT TO THE CONTROL OF SUPERINTENDENCY OF BANKS
AS OF SEPTEMBER 30, 1983

Name	Date of Establishment	No. of Sub-sidiaries	No. of Agencies	Main Operations	Location of Main Office
Central Bank					
Banco de Guatemala	Jul/1946	-	32	Central Bank Government Bank	Guatemala
State Development Banks					
Crédito Hipotecario Nacional	Oct/1930	2	16	Commercial and Fiduciary Operations	Guatemala
Banco Nacional de Desarrollo Agrícola	May/1971	-	36	Agricultural Development	Guatemala
Banco Nacional de la Vivienda	Jul/1973	-	4	Urban Development and Housing	Guatemala
Commercial Banks					
De Occidente, S.A.	May/1881	1	9	Commercial and Mortgage Operations	Quezaltenango
Agrícola Mercantil, S.A.	Jul/1946	1	8	Commercial and other Productive Loans	Guatemala
Del Agro, S.A.	May/1958	-	16	Commercial and Agricultural Loans	Guatemala
Industrial, S.A.	Jun/1968	-	11	Commercial and Fiduciary Operations	Guatemala
Granai & Townson, S.A.	Sep/1962	-	20	Commercial and Mortgage Loans	Guatemala
Del Ejército, S.A.	Feb/1972	-	3	Commercial and Productive Loans	Guatemala
Inmobiliario, S.A.	Dec/1958	-	22	Commercial and Mortgage Loans	Guatemala
Banco de los Trabajadores	Feb/1966	-	4	Commercial and Mortgage Loans	Guatemala
Internacional, S.A.	Jul/1976	-	8	Commercial and Mortgage Loans	Guatemala
Metropolitano, S.A.	Oct/1978	-	6	Commercial and Mortgage Loans	Guatemala
Del Café, S.A.	Oct/1978	-	6	Commercial and Mortgage Loans	Guatemala
Lloyds Bank International Ltd.*	Jul/1959	-	2	Commercial and Mortgage Loans	Guatemala
America, NT&SA, Suc. Guatemala*	Jul/1963	-	2	Commercial and Mortgage Loans	Guatemala
Financieras					
Industrial y Agropecuaria, S.A.	Jan/1969	-	-	Investment	Guatemala
Guatemalteca, S.A.	Sep/1962	-	-	Investment	Guatemala
Corporación Financiera Nacional	Jan/1973	-	-	Investment and Development	Guatemala
Deposit Warehouses					
Almacenes Crédito Hipotecario	Jun/1937	-	-	Storage, Issuing of Certificates	Guatemala
Almacenadora Guatemalteca S.A.	Aug/1969	-	-	and Trust Bonds	Guatemala
Almacenes Generales S.A.	Feb/1970	-	-	" " " "	Guatemala
Compañía Almacenadora, S.A.	Jun/1971	-	-	" " " "	Guatemala
Central Almacenadora, S.A.	Oct/1972	-	-	" " " "	Guatemala
Centroamericana de Almacenes, S.A.	Apr/1980	-	-	" " " "	Guatemala
Almacenadora del Norte, S.A.	Aug/1980	-	-	" " " "	Guatemala
Almacenadora de Occidente, S.A.	Sep/1980	-	-	" " " "	Guatemala
Almacenadora del País, S.A.	Sep/1980	-	-	" " " "	Guatemala

SOURCE: Superintendencia de Bancos, Estadísticas Bancarias.
*Foreign-owned.

The deposit warehouses are public or private sector enterprises that function as auxiliaries to credit institutions. The warehouses receive deposits of merchandise of national or foreign origin. Against the deposits the warehouses may issue bonds or credit certificates. With these, clients can negotiate credit at credit institutions using the bond or certificate as collateral. In this manner, persons holding merchandise can obtain credit while waiting to sell their products.

Trust Funds

Beginning in 1971 the Guatemalan government developed a system of trust funds to mobilize domestic and international financial resources. Under this system, a trust fund is established for a specific purpose and is placed at the disposal of a financial institution, most commonly the state development banks. The institution uses these funds to make loans for the specific purpose. In this manner, credit can be directed to specific targets. In virtually all cases, loans made from trust funds feature concessionary loan rates for the final borrower.

As of June 1982, there were Q336 million in trust funds. Of this amount, BANDESA administered Q182 million, CORFINA Q48 million, BANVI Q97 million, the National Mortgage Bank Q5 million and the Banco Inmobiliario Q5 million. Of this total Q92 million were established by the government and the Inter-American Development Bank to lend monies for the reconstruction of homes damaged by the 1976 earthquake. The other loans were basically for development purposes.[1]

Most trust funds have been established in collaboration with international donors. The typical arrangement is for the donor to provide foreign funds with the government providing counterpart domestic funds. The Ministry of Finance is responsible for negotiating trust fund arrangements and their general supervision. The management of the funds, however, is the responsibility of the institution in which they are placed. The trust fund arrangement has been increasingly used in recent years as a means to both mobilize domestic and foreign resources and to direct credit to targeted objectives.

Overview of Credit From the Banking System

The growth of the total loan portfolio of the banking system for the 1977-1983 period is presented in Table II-2. Over this six-year period the portfolio increased steadily through 1982 and then virtually leveled off in 1983. Between 1977 and 1983 the nominal amount of the system's total portfolio increased 145.3 percent, the equivalent of a 16.1 percent average annual growth rate. In real terms, after accounting for inflation,

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[1]Oscar Isaías Alcántara Santos, Fideicomisos Estatales: Contabilidad, Fiscalización y Auditoría, Tesis para el título de Licenciado Contador Público y Auditor, Universidad de San Carlos de Guatemala, Facultad de Ciencias Económicas, p. 116.

TABLE II-2

END-OF-YEAR BALANCES OF PORTFOLIO FROM BANKING INSTITUTIONS
GUATEMALA, 1977 - 1983

Financial Institutions	1977 Amount	1977 %	1978 Amount	1978 %	1979 Amount	1979 %	1980 Amount	1980 %	1981 Amount	1981 %	1982 Amount	1982 %	1983[a] Amount	1983[a] %	Percent Change 1977-1983 Amount	Percent Average Annual Rate of Growth
								Nominal Values								
State Development Banks	94.5	12.5	117.2	12.2	115.9	10.1	139.3	9.8	156.5	9.6	153.5	8.4	165.5	8.9	75.1	9.8
Commercial Banks	547.2	72.5	701.4	72.9	847.9	74.2	1,019.5	71.8	1,090.5	66.9	1,153.9	63.3	1,167.5	63.1	113.4	13.5
Financieras	35.1	4.7	46.2	4.8	55.2	4.8	93.3	6.6	186.8	11.5	275.7	15.1	280.6	15.2	699.4	41.4
Trust Funds	77.8	10.3	97.0	10.1	124.8	10.9	168.6	11.8	195.6	12.0	240.8	13.2	237.5	12.8	205.3	20.4
Total	754.6	100.0	961.8	100.0	1,143.8	100.0	1,420.7	100.0	1,629.4	100.0	1,823.9	100.0	1,851.1	100.0	145.3	16.1
								Real Values[b]								
State Development Banks	75.8		87.1		77.3		83.9		84.5		82.8		81.7		7.8	1.3
Commercial Banks	439.2		521.5		565.3		613.8		589.1		622.4		576.2		31.2	4.6
Financieras	28.2		34.3		36.8		56.2		100.9		148.8		138.5		391.1	30.4
Trust Funds	62.4		72.1		83.2		101.5		105.7		129.9		117.2		87.8	11.1
Total	605.6		715.1		762.5		855.3		880.3		983.8		913.6		50.8	7.1

SOURCE: Superintendencia de Bancos, Boletín de Estadísticas Bancarias.

[a] Balance as of June 30, 1983.

[b] Deflated using Consumer Price Index, with 1975 as base year.

the increase was still impressive, 50.8 percent, or an average of 7.1 percent per year.

In the data, trust funds are considered separately from the loans made by the banking institutions with their own resources, in order to show the growth of this instrument as a means of finance. Over the period, real outstanding loans from these funds grew 87.8 percent. In sharp contrast, the real portfolio of the state development banks grew only 7.8 percent. What was happening was that trust funds, rather than other capital, were being used to expand these banks' portfolios.

The most impressive real growth was observed in the financieras, whose real portfolio increased 391.8 percent, particularly due to their expansion in the 1980s. Commercial banks also experienced strong real growth of 31.2 percent.

The different growth rates for the various institutions are reflected in the changes in relative importance of the size of portfolios of the institutions. Over time, private commercial banks have been by far the most important lenders, however, between 1977 and 1983, their relative importance declined from 72.5 to 63.1 percent, over the same period, state development banks declined from 12.5 to 8.9 percent, financieras increased from 4.7 to 15.2 percent and trust funds rose from 10.3 to 12.8 percent.

Agricultural Lending in Banking System

Growth of Agricultural Credit

As shown in Table II-3, as of June 30, 1983, the system had a portfolio of Q426.8 million in loans to agriculture. Compared to 1977, this was 142.6 percent larger, measured in nominal terms, the equivalent of a 15.9 percent average annual growth rate. In real terms, the change over the six-year period was 49.2 percent, which corresponds to a 6.9 percent average annual real growth rate.

In order to study lending activity it is more useful to examine annual credit flows, since the portfolio figures correspond to all outstanding loans, including outstanding long-and medium-term loans made in prior years as well as delinquent loans. These figures are presented in Table II-4. Between 1977 and 1983, the nominal annual flows of credit to agriculture increased 117.8 percent, the equivalent of a 13.8 percent average annual growth rate. In real terms the corresponding percentages were 93.3 and 11.6.

TABLE II-3

TOTAL AND AGRICULTURAL PORTFOLIO BY TYPE OF FINANCIAL INSTITUTION, 1977-1983
(Million Quetzales)

Years	State Development Banks: Total Portfolio	State Development Banks: Agricultural Portfolio	State Development Banks: Agricultural as Percentage of Total Portfolio	Private Commercial Banks: Total Portfolio	Private Commercial Banks: Agricultural Portfolio	Private Commercial Banks: Agricultural as Percentage of Total Portfolio	Financieras: Total Portfolio	Financieras: Agricultural Portfolio	Financieras: Agricultural as Percentage of Total Portfolio	Trust Funds: Total Portfolio	Trust Funds: Agricultural Portfolio	Trust Funds: Agricultural as Percentage of Total Portfolio	Total Portfolio: Total Portfolio	Total Portfolio: Agricultural Portfolio	Total Portfolio: Agricultural as Percentage of Total Portfolio
							Nominal Values								
1977	94.5	28.6	30.3	547.2	112.4	20.5	35.1	4.7	13.4	77.8	30.2	38.8	754.6	175.9	23.3
1978	117.2	31.4	26.8	701.4	131.3	18.7	46.2	6.5	14.1	97.0	35.2	36.3	961.8	204.4	21.3
1979	115.9	33.4	28.8	847.9	142.1	16.8	55.2	9.9	17.9	124.8	44.2	35.4	1,143.8	229.6	20.1
1980	139.3	44.6	32.0	1,019.5	206.3	20.2	93.3	17.9	19.2	168.6	58.1	34.5	1,420.7	326.9	23.0
1981	156.5	44.1	28.2	1,090.5	234.4	21.5	186.8	31.0	16.6	195.6	68.0	34.8	1,629.4	377.5	23.2
1982	153.5	48.3	31.5	1,153.9	273.8	23.7	275.7	32.2	11.7	240.8	70.2	29.2	1,823.9	424.5	23.3
1983[a]	165.5	59.5	36.0	1,167.5	265.4	22.7	280.6	37.0	13.2	237.5	64.9	27.3	1,851.1	426.8	23.1
Percent Change 1977-83	75.1	108.0		113.4	136.1		699.4	687.2		205.3	114.9		145.3	142.6	
Percent Average Annual Growth Rate	9.8	13.0		13.5	15.4		41.4	41.0		20.4	13.6		16.1	15.9	
							Real Values[b]								
1977	75.8	22.9		439.2	90.2		28.2	3.8		62.4	24.2		605.6	141.2	
1978	87.1	23.3		521.5	97.6		34.3	4.9		72.1	26.2		715.1	151.9	
1979	77.3	22.6		565.3	94.7		36.8	6.6		83.2	29.5		762.5	153.1	
1980	83.9	26.9		613.8	124.2		56.2	10.8		101.5	34.9		855.3	196.9	
1981	84.5	23.8		589.1	126.6		100.9	16.7		105.7	36.7		880.3	203.9	
1982	82.8	26.1		622.4	147.7		148.8	17.4		129.9	37.9		983.8	229.1	
1983[a]	81.7	29.3		576.2	131.0		138.5	18.3		117.2	32.0		913.6	210.6	
Percent Change 1977-83	7.8	28.0		31.2	45.2		391.1	381.6		87.8	32.2		50.9	49.2	
Percent Average Annual Growth Rate	1.3	4.2		4.6	6.9		30.4	30.0		11.1	4.8		7.1	6.9	

SOURCE: Superintendencia de Bancos, Boletín de Estadísticas Bancarias.

[a]Balance as of June 30, 1983.

TABLE II-4

TOTAL AND AGRICULTURAL CREDIT FLOW BY TYPE OF FINANCIAL INSTITUTION, 1977-1983
(Million Quetzales)

Years	State Development Banks: Total Credit Flow	State Development Banks: Agricultural Credit Flow	State Development Banks: Agricultural Credit Flow as Percentage of Total Credit Flow	Private Commercial Banks: Total Credit Flow	Private Commercial Banks: Agricultural Credit Flow	Private Commercial Banks: Agricultural Credit Flow as Percentage of Total Credit Flow	Financieras: Total Credit Flow	Financieras: Agricultural Credit Flow	Financieras: Agricultural Credit Flow as Percentage of Total Credit Flow	Trust Funds: Total Credit Flow	Trust Funds: Agricultural Credit Flow	Trust Funds: Agricultural Credit Flow as Percentage of Total Credit Flow	Total Portfolio: Total Credit Flow	Total Portfolio: Agricultural Credit Flow	Total Portfolio: Agricultural Credit Flow as Percentage of Total Credit Flow
Nominal Values															
1977	60.3	13.4	22.2	416.0	73.5	17.7	16.1	1.8	11.2	31.1	14.0	45.0	523.5	102.7	19.6
1978	60.6	17.5	28.9	486.4	79.4	16.3	20.9	2.9	13.9	35.7	18.1	50.7	603.6	117.9	19.5
1979	47.8	17.2	36.0	568.3	81.1	14.3	28.0	4.9	17.5	51.0	23.8	46.7	695.1	127.0	18.3
1980	61.2	23.4	38.2	664.4	133.2	20.1	63.6	9.2	14.5	52.9	24.5	46.3	842.1	190.3	22.6
1981	57.7	19.4	33.6	702.9	140.6	20.0	187.7	14.1	7.5	56.1	31.9	56.9	1,004.4	206.0	20.5
1982	44.1	7.6	17.2	720.7	139.4	19.3	34.8	8.1	23.3	70.2	33.7	48.0	869.8	188.8	21.7
1983	53.0	8.6	16.2	870.9	159.7	18.3	108.8	14.0	12.9	56.4	41.4	73.4	1,089.1	223.7	20.5
Percent Change 1977-83	-12.1	-35.8		109.4	117.3		575.8	677.8		81.3	195.7		108.0	117.8	
Percent Average Annual Growth Rate	-2.1	-7.1		13.1	13.8		37.5	40.8		10.9	19.8		13.0	13.8	
Real Values[b]															
1977	48.4	10.8		333.9	59.0		12.9	1.0		17.3	7.8		290.8	57.1	
1978	45.0	13.0		361.5	59.0		15.5	2.2		26.5	13.5		448.6	87.6	
1979	31.9	11.5		378.9	54.0		18.7	3.3		34.0	15.9		396.8	84.7	
1980	30.9	14.0		400.2	80.2		38.3	5.5		31.9	14.8		507.2	114.6	
1981	31.2	10.5		379.7	75.9		101.4	7.6		30.3	17.2		542.6	111.3	
1982	23.8	4.1		388.8	75.2		18.8	4.4		37.9	18.2		469.2	101.9	
1983	26.2	4.2		429.8	78.8		55.7	6.9		27.8	20.4		537.5	110.4	
Percent Change 1977-83	-45.9	-6.1		28.7	33.6		316.3	590.0		60.7	161.5		84.8	93.3	
Percent Average Annual Growth Rate	-9.7	-14.6		4.3	4.9		26.8	38.0		8.2	17.4		10.8	11.6	

SOURCE: Superintendencia de Bancos, Boletín de Estadísticas Bancarias.

[a]Balance as of June 30, 1983.

There was considerable variation among classes of institutions with respect to the growth of agricultural credit. Financieras had little agricultural credit in 1977, but expanded their annual credit flows at an average annual rate of 38.0 percent between that year and 1983. Trust fund lending also grew rapidly, at a 17.4 percent annual real rate. The real growth rate for loans from private commercial banks was 4.9 percent. Loans from the state development banks declined sharply after 1980 to register an average annual real decline of -14.6 percent.

With respect to the portfolio, all classes of institutions experienced positive average annual real growth rates. Measured in this way, the financieras had the most rapid growth, with 30.0 percent. Private commercial banks followed with 6.9 percent, trust funds were 4.8 percent and the state development banks were 4.2 percent. In comparison to the growth rates of annual flows, the portfolio rates for development and private banks were higher because of the larger portions of their portfolios in loans with a term of more than one year and the amount of the portfolio in arrears, especially the case for the development bank.

Comparison of Agriculture Portfolio with Total

As shown in Table II-3, over the period 1977-1983 there has been little variation in the percentage of the banking system's total loan portfolio directed to agriculture. Over the period, the sector has consistently accounted for approximately 23 percent of the banking system's loan portfolio. When measured by annual credit flows, as presented in Table II-4, the sector's importance has tended to rise slightly from 19.6 percent in 1977 to 20.5 percent in 1983. The fact that the portfolio percentage is larger than that of the flow is essentially due to the large amount of the agricultural portfolio that is delinquent, or medium or long term.

An examination of the individual institutions, as reported in Table II-4, shows the relative importance of agricultural lending for each over the 1977-1983 period. For the development banks, the total annual credit flows tended to decline. Annual flows for agriculture declined even more. In 1983, agriculture lending accounted for only 16.2 percent of the development banks' flow, whereas in 1980 lending to the sector had reached 38.2 percent. These declines were compensated by the increase in credit flows from the trust funds. The proportion of trust funds going to agriculture, however, remained somewhat constant, ranging from 45 to 57 percent, except in 1983, when they jumped to 73.4 percent, due to both the decline in flows from trust funds for other sectors and the increase in flows for agriculture in that year.

Credit flows to agriculture from the commercial banks increased over the period. This is reflected in the rise in relative importance of agricultural loans in the banks' total lending prior to 1980. Since then, agriculture has received about one-fifth of commercial bank loans.

Financiera lending to agriculture has also increased. However, sector lending has been quite variable with respect to the total. The flows to agriculture have ranged from 11.2 to 23.3 percent.

Relative Importance of Lending by Class of Institution

Table II-5 shows the relative importance of each class of institution in lending to the agricultural sector. In 1983, commercial banks were the predominate institution accounting for 71.4 and 62.2 percent of the total system's annual flows and agricultural portfolio, respectively. The trust funds were second with 18.5 and 15.2 percent. The figures for financieras were 6.3 and 8.7, and those for the state development banks were 3.8 and 13.9. The large difference between the relative importance of flows and portfolio for the development banks is an indicator of the delinquency problem faced by BANDESA. The trends for the relative importance of the institutions in agricultural lending between 1977 and 1983 are similar to those observed above for the system as a whole. The state development banks declined considerably in importance, and commercial banks declined slightly. The trust funds and financieras increased.

Agricultural Activities Financed

As shown in Table II-6, over the 1977-1983 period more than 80 percent of the banking system's sector credit has flowed to crops with the two major export crops of cotton and coffee consistently receiving about half or more of all credit. The other principal crop has been sugar cane, which has grown in relative importance over the period.

Livestock, mostly beef production, has accounted for between about 12 and 25 percent of the annual flows. Hunting, fishing and forestry has been less than 2.5 percent.

There have been annual fluctuations in the relative importance of the various activities, but the overall pattern has not tended to change much with time.

Agricultural Activities Financed by Class of Institutions

Table II-7 presents the distribution of credit by activities financed by classes of financial institutions in 1983. For the whole system five activities were dominate: cotton received 23.4 percent of the financing, coffee 22.1 percent, livestock 13.6 percent, cereals and legumes 12.2 percent and sugar cane 11.0 percent. The different classes of institutions, however, specialized in certain activities.

TABLE II-5

AGRICULTURAL CREDIT FLOW AND PORTFOLIO BY TYPE OF FINANCIAL INSTITUTION, 1977-1983
(Million Quetzales)

Financial Institutions	1977	%	1978	%	1979	%	1980	%	1981	%	1982	%	1983[a]	%
State Development Banks														
Annual Flow	13.4	(13.1)	17.5	(14.8)	17.2	(13.5)	23.4	(12.3)	19.4	(9.4)	7.6	(4.0)	8.6	(3.8)
Portfolio	28.6	(16.3)	31.4	(15.4)	33.4	(14.5)	44.6	(13.6)	44.1	(11.7)	48.3	(11.4)	59.5	(13.9)
Private Commercial Banks														
Annual Flow	73.5	(71.6)	79.4	(67.3)	81.1	(63.9)	133.2	(70.0)	140.6	(68.3)	139.4	(73.8)	159.7	(71.4)
Portfolio	112.4	(63.9)	131.3	(64.2)	142.1	(61.9)	206.3	(63.1)	234.4	(62.1)	273.8	(64.5)	265.4	(62.2)
Financieras														
Annual Flow	1.8	(1.7)	2.9	(2.5)	4.9	(3.9)	9.2	(4.8)	14.1	(6.8)	8.1	(4.3)	14.0	(6.3)
Portfolio	4.7	(2.7)	6.5	(3.2)	9.9	(4.3)	17.9	(5.5)	31.0	(8.2)	32.2	(7.6)	37.0	(8.7)
Trust Funds														
Annual Flow	14.0	(13.6)	18.1	(15.4)	23.8	(18.7)	24.5	(12.9)	31.9	(15.5)	33.7	(17.9)	41.4	(18.5)
Portfolio	30.2	(17.1)	35.2	(17.2)	44.2	(19.3)	58.1	(17.8)	68.0	(18.0)	70.2	(16.5)	64.9	(15.2)
Total														
Annual Flow	102.7	(100.0)	117.9	(100.0)	127.0	(100.0)	190.3	(100.0)	206.0	(100.0)	188.8	(100.0)	223.7	(100.0)
Portfolio	175.9	(100.0)	204.4	(100.0)	229.6	(100.0)	326.9	(100.0)	377.5	(100.0)	424.5	(100.0)	426.8	(100.0)

SOURCE: Superintendencia de Bancos, Boletín de Estadísticas Bancarias.

[a] Balance as of June 30, 1983.

TABLE II-6

AGRICULTURAL CREDIT FLOW BY MAIN ACTIVITIES, 1977-1983[a]
(Million Quetzales)

Activities	1977 Amount	1977 %	1978 Amount	1978 %	1979 Amount	1979 %	1980 Amount	1980 %	1981 Amount	1981 %	1982 Amount	1982 %	1983 Amount	1983 %
Total	103.1	100.0	115.0	100.0	121.0	100.0	181.1	100.0	192.0	100.0	180.5	100.0	192.7	100.0
Livestock	15.9	15.4	19.8	17.2	31.0	25.6	28.2	15.6	27.9	14.5	23.0	12.7	22.6	11.7
Crops	84.6	82.1	92.5	80.4	88.4	73.1	150.5	83.1	161.6	84.2	153.4	85.0	167.2	86.8
Coffee	26.2	25.4	37.4	32.5	34.8	28.8	64.7	35.7	52.2	27.2	48.1	26.7	44.7	23.2
Cotton	29.0	28.1	29.1	25.3	23.9	19.7	47.9	26.5	50.4	26.3	44.3	24.5	48.7	25.3
Sugar Cane	7.5	7.3	5.5	4.8	3.1	2.6	11.3	6.2	27.4	14.3	19.6	10.9	17.6	9.1
Corn	8.7	8.4	8.4	7.3	10.4	8.6	10.5	5.8	13.5	7.0	13.3	7.3	12.1	6.3
Wheat	2.1	2.0	1.8	1.6	2.6	2.2	1.6	0.9	1.4	0.7	1.1	0.6	2.8	1.5
Others[b]	11.1	10.8	10.3	8.9	13.6	11.2	14.5	8.0	16.7	8.7	27.0	15.0	41.3	21.4
Forestry, Fisheries & Hunting	2.6	2.5	2.7	2.4	1.6	1.3	2.4	1.3	2.5	1.3	4.1	2.3	2.9	1.5

SOURCE: Banco de Guatemala, Boletín Estadístico.

[a]Flows from January to November, 1983.

[b]It includes tobacco, rice, cacao, beans, fruits, vegetables, and other crops.

TABLE II-7

AGRICULTURAL CREDIT FLOW BY MAIN ACTIVITIES, AND TYPE OF FINANCIAL INSTITUTIONS, 1983
(Million Quetzales)

Activities	State Development Banks			Private Commercial Banks			Financieras			Trust Funds			Total		
	Amount	Column %	Row %	Amount	Column %	Row %	Amount	Column %	Row %	Amount	Column %	Row %	Amount	Column %	Row %
Total	8.7	100.0	3.9	159.7	100.0	71.3	14.0	100.0	6.3	41.4	100.0	18.5	223.8	100.0	100.0
Livestock	3.6	41.3	11.8	19.7	12.3	64.8	3.2	22.9	10.5	3.9	9.4	12.9	30.4	13.6	100.0
Forestry, Fisheries & Hunting	0.1	1.2	3.2	2.7	1.7	87.1	0.1	0.7	3.2	0.2	0.5	6.5	3.1	1.4	100.0
Crops	5.0	57.5	2.6	137.3	86.0	72.2	10.7	76.4	5.6	37.3	90.1	19.6	190.3	85.0	100.0
Coffee	3.1	35.6	6.3	28.6	17.9	57.8	1.6	11.4	3.2	16.2	39.1	32.7	49.5	22.1	100.0
Cotton	.0	.0	.0	52.3	32.8	100.0	.0	.0	.0	.0	.0	.0	52.3	23.4	100.0
Cereals and Legumes[a]	0.1	1.2	0.4	12.0	7.5	43.9	1.9	13.6	7.0	13.3	32.1	48.7	27.3	12.2	100.0
Sugar Cane	0.1	1.2	0.4	20.2	12.6	81.8	4.0	28.6	16.2	0.4	1.0	1.6	24.7	11.0	100.0
Others[b]	1.7	19.5	4.6	24.2	15.2	66.3	3.2	22.8	8.8	7.4	17.9	20.3	36.5	16.3	100.0

SOURCE: Superintendencia de Bancos, Boletín de Estadísticas Bancarias.

[a]Includes corn, wheat, rice, beans, and others.
[b]Includes vegetables, fruits, tobacco, cardamom, and others.

The private commercial banks had almost three-fourths of their annual loans in cotton, coffee, sugar cane and livestock. Because of their relative size they were the most important institutional financier of these activities and the only banking system financier of cotton. They were also the leading financier of cereals and legumes. More than 90 percent of these banks loans went for annual operations.

In contrast financieras and development banks had only about two-thirds of their loans for operations, giving much more emphasis to financing longer-term investments. The financiera loans were concentrated in livestock, sugar cane and coffee. The state development banks had more than three-fourths of their loan volume in cattle and coffee. The trust funds had almost three-fourths of their loan volume in cereals and legumes and coffee. It is noteworthy, that they accounted for almost half of the systems' financing of cereals and legumes.

Distribution of Agricultural Credit by Loan Size

The distribution of agricultural credit has been very unequal and concentrated in the hands of few borrowers, undoubtedly those specializing in the capital-intensive export crops. As shown in Table II-8, in 1983 some 2.4 percent of the borrowers had loans in excess of Q50,000, which corresponded to 75.7 of the amount lent in that year. In contrast, some 55.5 percent of the borrowers received loans up to Q1,000 in size, which corresponded to 3.3 percent of the year's credit. The pattern between 1977 and 1983 was similar, except that there was a tendency, over time, towards larger loans, probably due to the effects of inflation.

There is a marked contrast between the distribution of agricultural loan sizes of the various institutions. As shown in Table II-9, in 1983, the large loans are concentrated in the private commercial banks reflecting their tendency to finance export crops grown by large farmers. In that year, 31 percent of private commercial bank loans were for more than Q50,000, which accounted for 89.6 percent of their loan volume. This was equivalent to more than 80 percent of the banking system's portfolio for large loans. These banks made loans of all sizes. They were also the major lender for loans of Q10,000 to Q50,000, measured both by loan size and number.

The financieras made no loans under Q1,000, but made quite a few loans of all sizes above that amount. Like the private commercial banks their loan volume was concentrated in large loans, with 86.4 percent of their loan volume in loans exceeding Q50,000. A notable difference, however, was that 36.6 percent of their loan number fell in that category, a proportion much higher than the private banks. This more even distribution reflects the mission of the financieras to undertake medium- and long-term financing.

The distribution of state development bank loans shows that they made a number of loans in all sizes in excess of Q1,000. However, 75.2 percent of their loan volume and 16.7 percent of their loans, exceeded Q50,000, which shows that they use their own funds to finance larger farming operations.

TABLE II-8

AGRICULTURAL CREDIT FLOW BY SIZE OF LOANS, 1977-1983[a]
(Million Quetzales)

	Total				Up to 1,000				1,001-10,000				10,001-20,000				20,001-50,000				More than 50,000			
Year	Number	%	Amount	%	Number	%	Amount	%	Number	%	Amount	%	Number	%	Amount	%	Number	%	Amount	%	Number	%	Amount	%
1977	19,671	100.0	100.7	100.0	12,650	64.3	6.2	6.1	5,982	30.4	15.3	15.2	312	1.6	4.9	4.9	371	1.9	12.6	12.5	356	1.8	61.7	61.3
1978	17,256	100.0	115.1	100.0	9,986	57.9	5.1	4.4	6,115	35.5	15.5	13.5	352	2.0	5.5	4.8	439	2.5	15.4	13.4	364	2.1	73.6	63.9
1979	20,242	100.0	121.1	100.0	10,844	53.6	5.8	4.8	7,969	39.4	20.8	17.2	458	2.2	7.4	6.1	568	2.8	20.6	17.0	403	2.0	66.5	54.9
1980	20,284	100.0	181.1	100.0	11,222	55.3	5.8	3.2	7,456	36.8	20.9	11.5	441	2.2	7.2	4.0	525	2.6	18.5	10.2	640	3.1	128.8	71.1
1981	19,441	100.0	191.8	100.0	14,263	73.4	8.3	4.3	3,687	19.0	25.8	13.5	395	2.0	6.2	3.2	474	2.4	16.9	8.8	622	3.2	134.6	70.2
1982	16,766	100.0	180.5	100.0	8,832	52.7	4.9	2.7	6,756	40.3	21.0	11.6	289	1.7	4.6	2.6	318	1.9	11.4	6.3	571	3.4	138.6	76.8
1983	17,999	100.0	161.7	100.0	9,993	55.5	5.4	3.3	7,100	39.5	21.8	13.5	225	1.2	3.6	2.2	250	1.4	8.5	5.3	431	2.4	122.4	75.7

SOURCE: Banco de Guatemala, Boletín Estadístico.

[a]Flows from Janauary to September, 1983.

TABLE II-9

AGRICULTURAL CREDIT FLOW BY SIZE OF LOANS, AND TYPE OF FINANCIAL INSTITUTIONS, 1983
(Million Quetzales)

Financial Institution	Total Number	%	Total Amount	%	Up to 1,000 Number	%	Up to 1,000 Amount	%	1,001-10,000 Number	%	1,001-10,000 Amount	%
State Development Banks	185	100.0	8.7	100.0	1	0.5	.0	.0	78	42.2	0.5	5.8
%	(0.9)		(3.9)		(0.0)		(.0)		(0.9)		(1.9)	
Private Commercial Banks	1,658	100.0	159.7	100.0	62	3.7	0.1	0.1	555	33.5	2.9	1.8
%	(8.0)		(71.3)		(0.6)		(1.7)		(6.6)		(11.1)	
Financieras	145	100.0	14.0	100.0	.0	.0	.0	.0	30	20.7	0.2	1.4
%	(0.7)		(6.3)		(.0)		(.0)		(0.4)		(0.8)	
Trust Funds	18,713	100.0	41.4	100.0	10,926	58.4	5.9	14.3	7,709	41.2	22.5	54.3
%	(90.4)		(18.5)		(99.4)		(98.3)		(92.1)		(86.2)	
Total	20,701	100.0	223.8	100.0	10,989	53.1	6.0	2.7	8,372	40.4	26.1	11.7
%	(100.0)		(100.0)		(100.0)		(100.0)		(100.0)		(100.0)	

Financial Institution	10,001-20,000 Number	%	10,001-20,000 Amount	%	20,001-50,000 Number	%	20,001-50,000 Amount	%	50,001-100,000 Number	%	50,001-100,000 Amount	%	More than 100,000 Number	%	More than 100,000 Amount	%
State Development Banks	44	23.8	0.7	8.0	31	16.8	1.0	11.5	11	5.9	0.9	10.3	20	10.8	5.6	64.4
%	(12.8)		(13.0)		(8.6)		(8.1)		(4.4)		(4.7)		(5.2)		(3.6)	
Private Commercial Banks	244	14.7	3.9	2.5	283	17.1	9.8	6.1	197	11.9	15.1	9.5	317	19.1	127.9	80.1
%	(70.9)		(72.2)		(78.4)		(79.0)		(79.1)		(78.2)		(82.1)		(82.7)	
Financieras	26	17.9	0.4	2.9	36	24.8	1.3	9.3	28	19.3	2.2	15.7	25	17.3	9.9	70.7
%	(7.6)		(7.4)		(10.0)		(10.5)		(11.3)		(11.4)		(6.5)		(6.4)	
Trust Funds	30	0.2	0.4	1.0	11	0.0	0.3	0.7	13	0.1	1.1	2.7	24	0.1	11.2	27.0
%	(8.7)		(7.4)		(3.0)		(2.4)		(5.2)		(9.7)		(6.2)		(7.3)	
Total	344	1.7	5.4	2.4	361	1.7	12.4	5.5	249	1.2	19.3	8.6	386	1.9	154.6	69.1
%	(100.0)		(100.0)		(100.0)		(100.0)		(100.0)		(100.0)		(100.0)		(100.0)	

SOURCE: Superintendencia de Bancos, Boletín de Estadísticas Bancarias.

Loans from the trust funds were concentrated in the small loan categories. Some 10,926 loans (58.4 percent of their total) were less than Q1,000 and another 7,709 loans (14.3 percent) were between Q1,001 and Q10,000. Combined, these loans in these two classes of loan size corresponded to 99.4 and 92.1 percent of the system's loans and 98.3 and 86.2 percent of the loan volume. Actually, these figures understate small loan activity of the trust funds. The larger loans made from the trust funds were made to cooperatives or federations of cooperatives for relending to their members. Therefore, the final user of credit also received small loans. Clearly, lending from the trust funds is fulfilling the stated goals of financing small- and medium-sized operations, with much of it apparently going to small farmers.

Agricultural Credit Flows and Agricultural Gross Domestic Product

As shown in Table II-10, the agricultural sector's contribution to national GDP has remained at about 25 percent over the 1977-1982 period. The proportion of the annual flows of the system's total credit going to agriculture, has been about one-fifth less. It appears, however, that, over the period, the system has increased slightly its importance in financing the sector. From 1977 to 1979, credit flow as a proportion of agricultural GDP averaged 7.2 percent, whereas from 1980-1983 it averaged 9.3 percent. This trend is commensurate with the previously observed trend of agricultural credit to account for an increasing portion of the banking system's total annual credit flows. This suggests that the system is financing the sector more intensively or comprehensively. The relatively low percentage of finance compared to sectoral output, however, demonstrates the labor-intensive production technology in the sector.

Summary and Conclusions

Guatemala has a well-developed, but relatively young, banking system consisting of a central bank, three state development banks, fourteen private commercial banks, and five financieras. Aside from the three development banks and one financiera, the banks are owned by the private sector. Most are in domestic hands; only two of the commercial banks are foreign owned. The system is concentrated in Guatemala City, but most commercial and all development banks have branches in several regions of the country.

The system is supervised by the Superintendency of Banking. The Bank of Guatemala undertakes normal central banking functions and implements the nation's monetary and credit policy that is established by the Monetary Board.

Since 1971, an important part of Guatemalan development policy has been the use of trust funds that are placed with a financial institution, mostly the development banks, to direct concessionary-priced credit to targeted economic and social objectives. This mechanism has been encouraged and financed heavily by foreign assistance institutions, especially AID and IDB, along with counterpart funds from the government. As a con-

TABLE II-10

GROSS DOMESTIC PRODUCT, AGRICULTURE GROSS DOMESTIC PRODUCT AND CREDIT FLOWS TO AGRICULTURE, 1977-1982
(Million Quetzales)

Year	Total GDP	Agriculture GDP	Agriculture GDP as % of Total GDP	Credit Flow to Agriculture	Credit Flow as % of Agriculture GDP	Agricultural Credit Flow as % of Total Credit
1977	5,480.5	1,441.60	26.3	102.7	7.1	19.6
1978	6,070.5	1,568.78	25.9	117.9	7.5	19.5
1979	6,903.0	1,752.00	25.4	127.0	7.2	18.3
1980	7,879.4	1,957.92	24.9	190.3	9.7	22.6
1981	8,607.7	2,150.28	25.0	206.0	9.6	20.5
1982[a]	8,727.8	2,214.00	25.4	188.8	8.5	21.7

SOURCE: Banco Guatemala, Boletín Estadístico, Enero-Marzo 1983, and unpublished data in Departamento de Cuentas Nacionales.

[a]Prelimary estimates.

sequence, financing from this source has been increasingly important in the system.

Within the system, the private commercial banks have been the predominate source of agricultural credit. In 1983, they accounted for 71.4 percent of the system's flow to the sector, concentrating on large loans for annual operating needs to producers of export crops such as cotton and coffee. Trust funds were the second most important source with 18.5 percent. Loans from these funds were directed mostly to small- and medium-sized farmers with emphasis on financing annual operations of basic grains, legumes and coffee. Loans from the financieras and development banks were of varying sizes, went mostly to medium and larger farmers, and about one-third were used to finance medium- and longer-term objectives.

As a result of this pattern of lending, the bulk of the nation's agricultural credit is concentrated in large loans to a few farmers. In 1983, 2.4 percent of the borrowers received 75.7 percent of the amount lent. In contrast, 55.5 percent of the borrowers received only 3.3 percent of the loan volume. Private commercial banks, financieras and the development banks concentrated their lending in larger loans, whereas, most of the small loans came from trust funds.

Over the 1977-1983 period there was some change in the relative importance the various classes of institutions in sectoral lending. The share of total annual lending for financieras and trust funds rose, whereas those for private commercial banks and state development banks declined.

Between 1977 and 1983 the system's annual credit flows grew consistently, exhibiting an average annual real growth rate of 10.8 percent. Annual lending for agricultural purposes increased at a slightly higher average rate of 11.6 percent. By 1983, agricultural credit accounted for more than one-fifth of the system's total annual credit flow. Simultaneously, the system's financing of the sector has tended to rise relative to sectoral GDP, going from 7.2 percent over the 1977-1979 period to 9.3 percent from 1980-1983, reflecting a trend of more intensive and/or comprehensive financing of agricultural activity by the system. A majority of the increase in financing has come from the private commercial banks, although the greatest rates of growth were experienced by the financieras and trust funds. Credit flows from the state develop banks declined. However, it should be recalled that, simultaneously, their loans from trust fund sources were rapidly increasing. Never-the-less the decline in development bank financing from non-trust fund sources, reflects the serious financial difficulties encountered by these banks in Guatemala, a matter that will be examined in detail later with respect to BANDESA.

III

MONETARY AND CREDIT POLICIES

Introduction

Monetary and credit policy, as determined by the Monetary Board, play important roles in the performance of Guatemalan rural financial markets and the individual credit institutions in three basic ways. First, at the macro-economic level, monetary policy, in conjunction with fiscal policy and balance of payments policy, play key roles in promoting economic growth and external and internal economic stability. Second, at the micro-economic level, the degree of success with these macro-economic policies create conditions that impact heavily on production, investment, credit and savings decisions made by farmers. Finally, financial intermediaries will be impacted by both the policies as well as the decisions made by borrowers and savers, and, in accordance with their own goals, the institutions will establish policies, rules and procedures to try to obtain their goals. Therefore, it is clear that monetary and credit policies play an important role not only in macro-economic stability, but also as they influence behavior of producers, consumers, savers and financial intermediaries.

This chapter briefly reviews Guatemalan monetary and credit policy, including trust funds, as they apply to agriculture. It concludes with an analysis of the impact of these policies on borrowers, savers and financial intermediaries in rural financial markets in order to set the stage for an understanding of BANDESA.

Monetary Policy

The Monetary Board has three basic instruments at its disposal to control the level of the nation's money supply and influence credit and savings activities. The instruments are: (a) cash reserve requirements on bank deposits, (b) rediscount lines available from the Bank of Guatemala to refinance banking system loans, and (c) maximum interest rates for loans and time deposits.

Cash Reserve Requirements

This instrument fixes the proportions of demand and time deposits of banking institutions that must be held in reserve as deposits in BG. This instrument directly impacts on both the level of the nations' money supply and on the profitability of banking institutions. The level of required reserves will place limits on the expansion of bank credit because it will impact on the banking system's liquidity available for lending. The higher the level of required reserves, the lesser the opportunities for banks to extend credit and the lower the limit on the possible expansion of the money supply. Obviously, at higher levels of required reserves banks will have fewer funds to lend and their profitability will be impacted.

Table III-1 presents the reserve requirements for commercial banks. As would be expected, there have been few changes in these requirements. Prior to 1979 the demand deposit requirements were 40 percent and the saving and time deposits were 15 percent. In 1979 and early 1980, the Monetary Board experimented with variable monthly requirements on time and savings deposits, the seasonal variation designed to cope with the available liquidity. Beginning in the third quarter of 1980, the variable requirement was discontinued and the level of requirements for savings and time deposits was fixed at 10 percent and demand deposits at 35 percent, where they have remained up to the present. The reduction was favorable for the financial institutions, allowing them more liquidity. It also provided the basis for expanding the money supply.

Rediscount Policy

The BG has funds from both domestic and foreign sources that it makes available to the banking system to refinance certain portions of their portfolio. This instrument has two dimensions. First, the amount of refinancing impacts on the total level of credit and money supply. Therefore, an easy policy, which expands the discounts, will be expansive and a tight policy, which contracts discounts, will be contractive. This dimension of the policy impacts on the levels of interest rates and prices as well as the overall level of economic activity.

The second dimension is qualitative. Rediscounting can be directed to certain sectors and activities by both limiting the rediscount activities to refinance loans that are commensurate with targeted objectives as well as by using rediscount rate incentives to encourage financial institutions and borrowers to use credit for targeted activities.

This is the monetary instrument most commonly employed in Guatemala to make adjustments in both the aggregate money supply and the flows of credit to targeted objectives. Because of the relationship to the rate of interest charged to borrowers by the financial institutions, it is closely linked to interest rate policy. An examiniation of what transpired in 1982 is illustrative of how rediscounting and interest rate policies are employed.

In the first quarter of that year, the Monetary Board authorized the BG to make discounts with domestic funds to both banks and financieras. Each institution could receive no more in rediscounts and advances than the repayments that they had made on rediscounts and advances previously held. In this way there would be no expansionary effect on the total money supply. Those institutions that had no prior discounts or advances could not receive more than 10 percent of the BG's funds available for rediscounts. The BG was also authorized to extend rediscounts from any foreign sources that were obtained for purposes of economic development.

TABLE III-1

PERCENT RESERVE REQUIREMENTS ON DEMAND, SAVINGS AND TIME DEPOSITS 1977-1983

Year	Demand Deposits	Savings Deposits	Time Deposits
1977	40	15	15
1978	40	15	15
1979	40	a	a
1980[c]	40	b	b
1981	35	10	10
1982	35	10	10
1983	35	10	10

SOURCE: Banco de Guatemala, Boletín Estadístico.

[a]According to the Monetary Board Resolution No. 8875, dated July 20, 1979 a seasonal percent cash reserve requirement for savings and time deposits was established: January 13 percent, February 14 percent, March and July 15 percent, April, May and June 16 percent, August 14 percent, September and December 12 percent, and October and November 11 percent.

[b]The Monetary Board Resolution No. 9045, dated March 26, 1980 changed the seasonal percent cash reserve requirement previously established as follows: 14 percent April, 13 percent May, and 2 percent June and July.

[c]The same resolution (No. 9045) established the level of cash requirement for demand deposits as 35 percent and for savings and time deposits as 10 percent for the October-December 1980 quarter.

The rediscount rate was fixed at 12 percent. Simultaneously, there was a 15 percent upper limit on all bank loan interest rates, thus the bank could earn a 3 percent spread using the rediscount lines. The rediscount rate for refinancing from foreign funds was to be fixed by the BG Credit Committee by adding 1.5 points to the average LIBOR rate for the previous quarter.

As an incentive to encourage investment in housing, a special rate was established to refinance loans for this purpose. Financial institutions could refinance at 7 percent as long as they did not charge the final borrower more than 11 percent. Note, in this case the spread for the intermediary was 4 percent.

In the third quarter, the policy was modified to favor also lending for basic grains and soy beans. In a manner similar to housing, the rediscount rate for loans for these agricultural products was placed at 7 percent, with the proviso that the loan interest charged to borrowers not exceed 11 percent.

In the fourth quarter there were major changes. First, the Monetary Board established a larger overall limit on the amounts of rediscounts and advances of 169 million Quetzales and sublimits for specific activities These limits were 50 million for agriculture, 40 million for industry, 44 million for housing, 5 million for basic grains and soy beans and 30 million for other purposes. Second, as part of an easy money policy the general rediscount rate was lowered from 12 percent to 9 percent, but there were no changes in the concessionary rates for housing, basic grains and soy beans. Third, the maximum loan interest rate to final borrowers was lowered from 15 to 12 percent and the maximum rate on savings and time deposits was lowered to 9 percent.

The effect of the policy in this year was to encourage rediscounting by the financial institutions, but only up to certain limits, as specified for foreign and domestic funds. In overall terms, the effect was neutral on the level of the money supply until the fourth quarter when an easy money policy was put into effect. Simultaneously, concessionary rates were employed, first to encourage investment in housing, which allowed the financial institutions an additional one percent margin, while at the same time benefiting borrowers who would pay only 11 percent rather than the 15 percent maximum for other loans. Clearly, this provision was designed to stimulate investment in housing and to lower the cost of housing for home buyers. Second, at a later date this incentive was also available for refinancing loans for basic grains and soya.

The rediscount operations provided an inexpensive source of funds for the financial institutions. The general rediscount rate was pegged at 1 percent less than the maximum rate that the financial institutions were allowed to pay on time and savings deposits.

The rediscount policy, as applied in 1982, is representative of that employed over the 1977-1983 period as a means to both control the flow of credit towards targeted activities and as a means of impacting on money supply. The use of rediscounts, or credit from the Central Bank, has increased sharply since 1977. As shown in Table III-2, rediscounts, as measured by their percentage of the end-of-the year portfolio for the combined financial institutions rose from 2.0 to 10.5 percent of the banking system's portfolio from 1977 to 1983. The growth of refinancing relative to the total portfolios in the financieras and private commercial banks has bee the strongest. In contrast, the use of rediscounts by the state development banks has declined. The reasons for the latter have been the lack of growth in these banks portfolio from their own funds and their increased reliance on trust funds.

Interest Rate Policy

The keys to monetary policy are the interest rates charged of borrowers and paid to savers. The interest rates, considered as the price of money, not only affect borrower and saver behavior, but also, through the aggregate effects, impact on the level of macro-economy activity. Higher (lower) loan rates discourage (encourage) borrowing and higher (lower) rates on time deposits encourage (discourage) saving. The spread between loan and savings rates is important for the financial institutions, because this margin is a major source of income to cover their operating expenses and generate earnings for future growth.

Table III-3 presents the interest rate structure over the period 1977-1983. It is clear that the Monetary Board has not varied frequently the rates of interest on loans and deposits. Indeed, they have endeavored to keep them stable, in the belief that this promoted economic stability. For example, between 1977 and 1980 the loan rate remained at 11 percent. In 1981 the rate was raised abruptly to 15 percent, to compensate for the simultaneous reduction in required deposits as well as to counteract inflationary pressures. In 1983 it was lowered to 12 percent. In contrast, the changes in rediscount rates have been much more frequent, indicating that the Monetary Board prefers to use this instrument to effect its monetary policy.

The rate on savings and time deposits was maintained consistently at two points less than the loan rate, until 1983 when there was a three point spread. It is noteworthy that the spread for the financial institutions that have rediscounted loans has been typically higher than the spread on loans made from time deposits. This action encourages the financial institutions to make use of rediscounts whenever possible.

When examining interest rates it is important to take account of inflation in order to obtain the real interest rates. As shown in Table III-3, there has been considerable variation in the real loan rates, ranging from a negative 1.4 percent in 1977 to a positive 14.8 percent in 1982. Because of significant inflation between 1977 and 1981, the real loan rate was considerably less than the nominal rate. In 1982 and 1983, when inflation was very low, there was little difference between the two rates. The same pattern is observed for real savings and rediscount rates.

It is clear that the Monetary Board has not aggressively used the interest rate instrument for monetary policy. As a result, with changes

TABLE III-2

END-OF-YEAR BALANCES OF PORTFOLIO FROM BANKING INSTITUTIONS AND CREDIT FROM CENTRAL BANK
(Million Quetzales)

Banking Institutions	1977	1978	1979	1980	1981	1982	1983
State Development Banks							
Portfolio	94.5	117.2	115.9	139.3	156.5	153.5	165.5[a]
Credit From Central Bank	8.5	6.0	3.6	7.7	16.3	9.2	7.8
Credit as % of Portfolio	9.0	5.1	3.1	5.5	10.4	6.0	4.7
Commercial Banks							
Portfolio	547.2	701.4	847.9	1,019.5	1,090.5	1,153.9	1,167.5[a]
Credit From Central Bank	2.3	22.3	72.7	118.0	115.4	55.0	100.7
Credit as % of Portfolio	0.4	3.2	8.6	11.6	10.6	4.8	8.6
Financieras							
Portolio	35.1	46.2	55.2	93.3	186.8	275.7	280.6[a]
Credit From Central Bank	2.0	9.2	10.2	18.7	33.5	52.4	61.1
Credit as % of Portfolio	5.7	19.9	18.5	20.0	17.9	19.0	21.8
Total							
Portfolio	676.8	864.8	1,019.0	1,252.1	1,433.8	1,583.1	1,613.6
Credit From Central Bank	13.3	37.5	86.5	144.5	165.2	116.6	169.6
Credit as % of Portfolio	2.0	4.3	8.5	11.5	11.5	7.4	10.5

SOURCE: Superintendencia de Bancos, Boletín de Estadística Bancarias.

[a]Balance as of June 30, 1983.

TABLE III-3

INTEREST RATE STRUCTURE, 1977-1978
(Percent)

Year	Maximum Loan Rate		Maximum Time and Savings Deposit Rates		Minimum General Rediscount Rate		Spread Between Loan and Rediscount Rates		Spread Between Loan and Time Deposit Rates		Annual Rate of Inflation[a]
	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real	
1977	11	-1.4	9	-3.2	7	-5.0	4	3.6	2	1.8	12.6
1978	11	2.9	9	1.0	5	-2.6	7	5.5	2	1.9	7.9
1979	11	-0.4	9	-2.2	8	-3.1	3	2.7	2	1.8	11.5
1980	11	0.3	9	-1.5	9	-1.5	2	1.8	2	1.8	10.7
1981	15	3.2	13	1.4	8	-3.1	7	6.3	2	1.8	11.4
1982	15	14.8	13	12.9	12	11.8	3	3.0	2	1.9	0.2
1983	12	11.9	9	8.9	9	8.9	3	3.0	3	2.0	0.1

SOURCE: Banco de Guatemala, Boletín Estadístico, 1977-1983.

[a]Based on overall Consumer Price Index for Guatemala City.

in the rates of inflation there have been important consequences for borrowers and savers, which will in turn affect their behavior. In a similar manner, the financial institutions were impacted as their spreads were reduced, the magnitude depending on the amount of inflation.

Analysis of Monetary Policy as it Impacts on Financial Markets

The Monetary Board has relied basically upon its rediscount instrument to make marginal changes in monetary policy: reserve requirements and interest rates were changed only to affect major changes. While, it appears that the policy has been successful in maintaining low rates of inflation within a context of global inflation, and a relatively stable, albeit overvalued, currency, it would seem that insufficient attention has been given to the powerful role of interest rates on financial markets.

Previously, data were presented showing that maintaining the fixed nominal rate during periods of fluctuating inflation caused the real rates to vary considerably. When real loan rates are low or negative excessive borrowing is encouraged and the incentives are in place to use the credit for low productive and speculative purposes. Furthermore, low real rates on time deposits discourage saving within the financial system. Inflation also impacts on the financial institutions by reducing the real values of the spreads between deposit and loan rates and, consequently, harming their viability. Therefore, it is our position that strong consideration should be given to allowing the loan and deposit rates to fluctuate in accordance with real, and not nominal values.

There is evidence that the maximum loan rates are too low to clear the market. Private commercial banks consistently lend at the maximum rate. Most development bank loans are made at lower concessionary rates. The fact that financeria loan rates, which are free floating, consistently exceed the maximum bank rate by several points is a strong indicator that there is an excess demand for credit at the bank rate. These conditions create an excess demand for both commercial and development bank credit and cause the banks to look to other means to ration credit among potential customers. These means include the price rationing mechanisms of commissions and minimum compensating balances as well as the non-price rationing mechanisms of complicated loan application requirements and outright rejection of credit-worthy clients.

The low bank loan rate also affects borrower behavior, because it means that loans carry an implicit income transfer from society to the borrower. When the loan rate is lower than the social opportunity cost of borrowed funds it encourages borrowers to direct credit to less-productive activities and facilitates speculation, particularly if inflation is present. For state banks, it creates a system whereby patronage can be favored for clients who have political influence. The possible effects are even more severe with the loans that are made from the rediscount lines that carry concessionary rates.

The low loan interest rate imposes upper limits on the interest rates that banks are willing to pay for time deposits. In this manner, domestic saving is discouraged and is kept at levels lower than could otherwise be obtained by paying higher rates. Seldom do the banks pay the maximum rate allowed on time deposits. There appear to be two principal factors. First, the financieras pay a higher rate on time deposits and compete for business. Second, the banks resist paying higher rates, trying to maintain a larger spread. Were the bank loan rate raised, it is probable that the bank deposit rate would be raised to compete for funds.

In conclusion, it would appear that too much reliance is being placed on the rediscount mechanism, a more efficient allocation of resources would be obtained through a more realistic interest rate policy.

The special rediscount lines, such as for housing and basic grains, have merit in trying to provide socially important goods at low prices, while still maintaining a decent spread for financial institutions. One should not be misled, however, in thinking that all rediscounts for these purposes will be used as stated. Given the preferential interest rates for these rediscounts, and their attendant income transfers, many borrowers will seek credit under this pretext, but indeed direct it to other activities, because money is fungible and loans taken for these purposes can easily be substituted for other funds already at the disposal of the borrower.

Trust Funds

The inability of financial markets to provide much credit to the large economically marginal population in rural and urban areas led to a major innovation in Guatemalan financial markets, the creation of trust funds. Under this arrangement, domestic and foreign funds are mobilized by the Guatemalan government and placed in a trust fund that is designed to provide credit for a specific objective. The development of trust funds has been enhanced by foreign assistance coming from lenders who want to target credit to this portion of the population. Particularly important have been the United States Agency for International Development and the Inter-American Development Bank. The Ministry of Finance negotiates the arrangement. Once established, the fund is placed at the disposal of a given financial institution, usually a state development bank, which is charged with administering the funds and undertaking credit activities.

The first fund was established in 1971. The recent growth of the program is illustrated by the fact that in 1977 there were only 77.8 million Quetzales in outstanding loans from trust funds. By June 1983, the portfolio had increased 205.2 percent to 237.5 million Quetzales. The agricultural sector has been the biggest recipient, receiving almost three-fourths of the credit flows in recent years.

Although the funds play an important role in providing credit for specific purposes that otherwise would not be covered as extensively were not the trust funds available, they do create problems. The problems will be analyzed in detail in a chapter on BANDESA. Suffice at this point to provide a general review. The funds are made available to the financial institution at zero cost. The institution receives a commission for all amounts lent. When the loan is repaid the lending institution receives an additional commission and the recovered principal and interest revert to the fund, to be used for future loans. Usually, the loan rate is highly concessionary. Under this arrangement, the financial institution has little incentive to recover the loans for it has already received the most of its commission. Moreover, the nature of the loans made the highly concessionary loan interest rates contribute to delinquency by the borrower. As a consequence, the delinquency rate from trust fund loans is very high and ends up creating problems for the institutions.

Another aspect is that the ready availability of trust funds has discouraged the financial institutions from mobilizing other resources. As a consequence, the level of operations resulting from other activities has declined.

In conclusion, the trust fund innovation has been far from successful as a credit instrument. Strong consideration needs to be given to restructuring the whole system by creating incentives that will both reward the financial institutions for good management and enhance loan repayment.

Summary and Conclusions

The Monetary Board has three major monetary policy instruments at its disposal: required reserves, maximum interest rates on loan and time deposits, and rediscounts to refinance loans. Of the three, the latter is used most often in an attempt to affect marginal changes in the money supply and to direct credit to selected purposes. The Board does not change the interest rate structure nor reserve requirements often. Although trust funds are not a monetary policy instrument, the government, with considerable assistance from foreign donors, has, since 1971, increasingly used this mechanism to expand the supply of credit towards targeted objectives for economic and social development.

It appears that the monetary authorities have had reasonable success at the macro-economic level in promoting internal and external stability, while simultaneously obtaining reasonable economic growth. Yet, on the contrary, it also appears that the policies employed have not been as satisfactory in promoting the development of financial markets and financial intermediation, especially in rural areas. It is on this topic that this chapter concentrates.

The high required reserves, especially the 35 percent portion of demand deposits, impose a substantial cost on banks in that they immobilize a large portion of the institutions' deposits, thus denying the bank the opportunity to invest or lend these funds. This instrument serves as a basic foundation for determining the money supply and, as such, cannot be changed radically. It would appear, however, in the interests of financial intermediation that the percentage of required reserves, especially on demand deposits, should be gradually lowered as the need to expand the money supply presents the opportunity.

The maximum interest rate policy is another instrument that places limits on the ability of financial institutions to earn income if the maximum loan interest rate is lower than would be determined in a free market, which appears to be the case in Guatemala. Under these conditions, financial institutions not only lose interest income that could be obtained with higher loan rates, but also are faced with an excess demand for loans. Under these circumstances, for lack of a higher interest rate to ration credit to clear the market, the institutions are forced to use other price or non-price rationing mechanisms that may raise the cost of credit to the borrower and possibly generate revenue for the institutions. Examples of price rationing mechanisms are the requiring of borrowers to maintain compensating balances in checking or savings accounts, the shifting of loan transactions costs to borrowers and by requiring borrowers to undergo such high borrowing costs that it is economical only for borrowers seeking large loans to obtain credit. Non-price mechanisms include high requirements for collateral.

The fixed interest rate structure policy does not appear to have adequately taken account of inflation because of the infrequency with which the rates are adjusted in relation to changes in the inflation rate. Under the policy, real interest rates have fluctuated considerably, and, as such, have created changing incentives for borrowers, savers and financial intermediaries that lead to both a misallocation of financial resources as well as work contrary to macro economic goals. Under this policy real rates have fallen to low positive or even negative levels which leads to distortions in the financial markets and cause borrowers to misallocate resources because of inexpensive credit. Moreover, the low real interest rates also serve to expand the money supply during inflationary times. To avoid these consequences it would be better to adjust the rate structure more frequently to take account of the impact of inflation.

Another characteristic of the interest rate structure is that it has built-in subsidies to borrowers because the maximum rates appear to be often lower than market-clearing rates. This is definitely the case for loans from almost all trust funds and from some of the rediscount lines, where concessionary loan rates--those that are considerably below the general maximum loan rates--have been established. The implications of this policy are several and are very important in terms of income distribution, financial intermediation, the allocation of real and financial resources in the economy, and the possibilities of using credit as a political instrument.

Concessionary rates imply income transfers to borrowers, and, as such, favor borrowers. Under these conditions there are consequent impacts on income distribution. Those who have access to credit gain, whereas, those who do not get loans do not benefit. Financial institutions often prefer to make loans to larger and more well-established clients in order to reduce lending costs, especially when they are lending at concessionary rates. Therefore, under concessionary rates income is shifted to this group and not to the target groups that the policies were designed to benefit.

Low-priced credit contributes to a misallocation of real resources because the low interest rate encourages borrowers to use it for low productive purposes. This may mean in many cases these will be non-targeted objectives, including consumption and speculative activities. Therefore, concessionary interest foster "agricultural illusion" where borrowers seek inexpensive credit, designed for agricultural purposes, under the pretext of agricultural objectives, but in reality, because of the fungibility of money, use the funds to finance some other non-agricultural activity. As such, statistics for loans made for agricultural purposes with concessionary loan rates need to be taken with caution for they may overstate financing of agriculture, therefore, leading to the above-described "illusion".

The availability of income transfers through concessionary-priced credit in the hands of government institutions or those which are subject to government control, makes such credit highly subject to political influence. Typically those who benefit by receiving the cheap credit are the large farmers or associations of farmers who have political influence. Likewise, a promise of subsidized credit is a handy tool for a high-level government official to use to gain support of small farmers, peasant organizations, etc. Consequently, the political dimension of concessionary-priced credit is one of its major characteristics.

Finally, the maximum loan interest rate is accompanied by maximum interest rates on savings and time deposits, which are designed to allow the financial institution an adequate spread between their cost of money and their returns from borrowing. If the real interest rates on savings and time deposits are less than the returns on alternative forms of saving then the banks will not be able to mobilize the volume of savings that they could if they offered more attractive interest rates. Therefore, because of the relationship between loan and deposit rates, low loan interest rates discourage mobilization of domestic savings. The financial institutions, therefore, are forced to rely more on loans from the government and foreign donors, both of which typically carry low interest rates to the institution. An example is the trust fund. When available, they are very attractive to institutions as a source of loanable funds because of the larger spread.

It is clear that the interest rate structure of fixed and low rates works to the disadvantage of the financial institutions and their long-run financial viability. Their income earning possibilities through interest are limited as are their abilities to mobilize savings. Moreover, the structure forces the institutions to develop other price and non-price rationing mechanisms that are disadvantageous to borrowers as well as to become more reliant on inexpensive sources of financing from the government and donors of foreign aid.

This brief review of credit and monetary policy and its impact on savers, borrowers and financial intermediaries provides a good background for the in-depth study of BANDESA in the following chapters.

IV

THE NATIONAL AGRICULTURAL DEVELOPMENT BANK (BANDESA)

Introduction

BANDESA is the government's financial institution to provide public sector credit for the agricultural sector. It is both a development bank and a commercial bank, with its capital coming from the government. In addition to its own funds, it has been assigned the responsibility to administer credit from trust funds made available by the Guatemalan government and foreign donors for agricultural development. BANDESA is the financial agent for The National Institute of Agricultural Change [Instituto Nacional de Transformación Agropecuaria (INTA)].

The presentation for BANDESA is divided in five parts. The present chapter describes its history, and organizational structure. Chapter V analyzes its credit trends over the 1977-1983 period. Chapter VI examines its serious delinquency problem. Chapter VII analyzes the credit delivery systems, Chapter VIII examines its ability to mobilize resources and presents a financial analyses. Where appropriate the analysis of these chapters will be divided between bank operations from BANDESA's own funds and those of trust funds, as well as between loans to individual farmers and cooperatives.

Brief History

BANDESA was created on December 22, 1970, under Legislative Decree No. 99-70, and opened its doors to the public four months later, on May 1, 1971. The Bank was established as part of a major reorganization and consolidation of state financial services for the sector. Previously, three state credit institutions--the National Agrarian Bank (BNA), the Production Development Institute (INFOP) and the Inter-American Cooperative Supervised Credit Service (SCICAS)--had been established to provide agricultural credit. With time, it was apparent that they were needlessly duplicating efforts. Therefore, the decision was made to create a single government institution to serve the sector. When established, BANDESA received the assets of BNA and INFOP and took over the portfolio of SCICAS. In addition, it received Q3.0 million in fresh capital from the government.

INFOP was established as a state financial institution in 1949 with the objective of financing the nation's productive activities through three specialized departments. The Agricultural Development Department was responsible for granting production and investment credit for the agricultural sector. The Housing Department directed its operations towards financing long-term investment credit for construction. Finally, the Industrial and Tourism Department was charged with providing credit for these two sectors.

BNA was created in 1954 under the administration of President Jacobo Arbenz to support the land reform program initiated by him. In 1956, Arbenz was ousted and replaced by President Castillo Armas who opposed the revolutionary ideas of Arbenz. He continued, however, with the land reform program and obtained foreign resources to support BNA's activities.

In 1956, the Supervised Credit Program for small farmers (SCICAS) was formed with funding from the United States Agency for International Development (AID). SCICAS operated as an autonomous unit within BNA.

Over the 1960-1970 period the three state financial institutions were granting agricultural credit, and, in many cases, were trying to serve the same clientele. The government and potential donors of foreign assistance for credit considered this stituation as a misallocation of resources. Pressure was placed on the government by AID and the Inter-American Development Bank (BID) to reorganize the financial institutions. Indeed, they made it a condition of receiving more assistance, which was designed to establish trust funds to be used for lending to targeted objectives. Thus, BANDESA was created.

BANDESA has been assigned a key role by the state in sector activities. Although a commercial bank, it has been mostly employed as a development bank. Of particular importance has been its increasing role in financing small- and medium-sized farmers and the economically marginated rural population through its trust fund operations. Indeed, this was to be a major thrust of its orientation following its establishment, using funds made available both by international donors and the government. In 1984 there were twenty-two trust funds administered by the Bank.

In 1974, the Bank was reorganized in an attempt to decentralize its operations. District offices were established, which were given considerable, but limited, autonomy and authority over lending operations.

BANDESA lending goes for three basic activities: (1) agriculture and livestock, (2) rural housing (which became very important after the wide-spread devastation resulting from the 1976 earthquake) and (3) rural artisanry. The bank lends to individual farmers, rural cooperatives, federations of cooperatives and other organized groups. With the rapid expansion of trust fund operations, its commercial banking activities have declined considerably, both in relative and absolute terms.

Organization and Structure

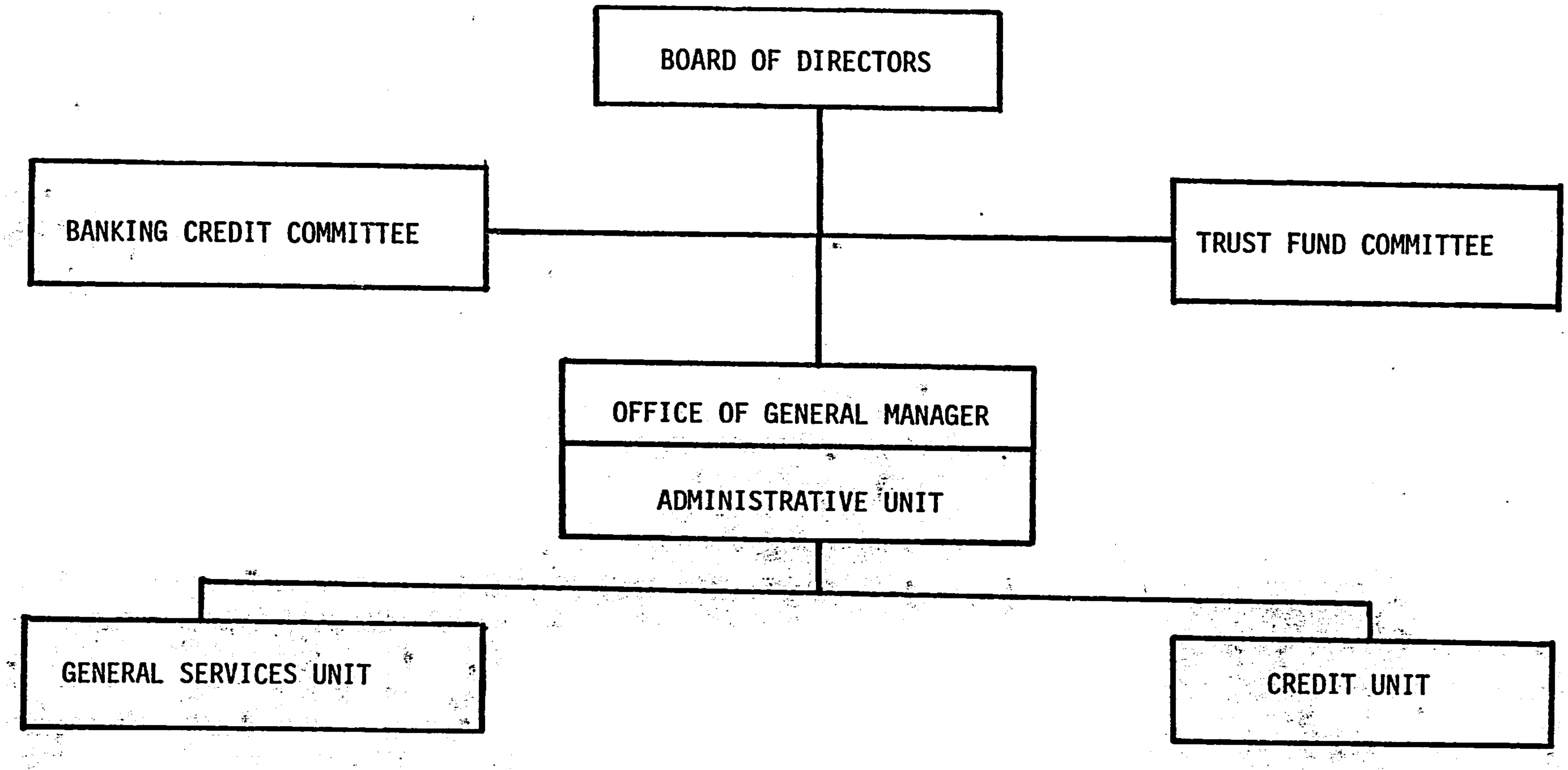
BANDESA's organizational structure is presented in Figure IV-1.

Board of Directors

The Board of Directors is the bank's maximum authority, which defines the overall policy of the institution. The Board of Directors is comprised of the minister or the vice-minister of agriculture and food, the minister or the vice-minister of finance, the minister or vice-minister of economy, the president or vice-president of the Bank of

FIGURE IV-1

ORGANIZATIONAL STRUCTURE OF BANDESA



Guatemala, and the general secretary or the undersecretary of the National Economic Planning Council. The Board is chaired by the minister of agriculture and food. If this minister is absent, the minister of finance or the minister of the economy presides.

The main functions of the Board of Directors include the following: (1) defining the credit and institutional policy in accordance with BANDESA's Organic Law, (2) approving BANDESA's annual lending programs, (3) determining the sources of funding for the annual lending programs, (4) approving BANDESA's annual budget, (5) authorizing the opening or closing of new agencies, cajas rurales, and offices, (6) reviewing the regulations and norms for issuing bonds, (7) approving trust fund agreement, and (8) undertaking other functions in accordance with the BANDESA's Organic Law, and Bank Regulations.

The Board of Directors is advised by BANDESA's general manager, INDECA's general manager, INTA's general manager, and one representative of the Ministry of Agriculture. With respect to credit, the Board is assisted by two committees: the Banking Credit Committee and the Trust Fund Committee.

Banking Credit Committee

The Banking Credit Committee is chaired by BANDESA's general manager. The other members are the vice-minister of agriculture, and the BANDESA's credit manager. This committee reviews loan applications and approves and disapproves all loans in the amounts of Q25,000 to Q150,000. Loans of a lesser amount are approved at the agency or district level, or by a high-lev bank officer depending on their size. For loans that exceed Q150,000, the Credit Committee analyzes the applications and submits them to the Board of Directors with recommendations for approval or disapproval.

The Trust Fund Committee

This Committee is comprised of BANDESA's general manager and programing division coordinator the vice-minister of livestock, and the managers of INT and INDECA. The Committee assists the Board of Directors in the formulation of credit policy for trust funds, and in implementation of projects financed by these funds. In recent years this committee has not been operational; their responsibilities having been assumed by the Credit Committee.

General Management

The general manager--assisted by the under general manager, the under-manager for banking operations and the under-manager of trust fund operations--plans, organizes, guides and controls the Bank's activities. The general manager has an advisory section to assist him in developing bank policy. The internal auditing office supervises and controls the BANDESA's general financial operations.

Bank Operations

Bank operations are divided into three major administrative units: (1) the Administrative Unit, (2) the General Services Unit, and (3) the

Credit Unit. The Administrative Unit provides the accounting and statistical services, supervises the central office and field office activities, and undertakes overall housekeeping responsibilities. The General Services Unit is responsible for the banking operations, bank portfolio, and checking, savings and time deposits. The Credit Unit is responsible for lending from both bank and trust fund resources. Also it administers trust funds made available to BANDESA from both domestic and foreign resources.

BANDESA Districts and Agencies

In 1971, when BANDESA began its operations, there was a central office in the capital city, a subsidiary office in Quetzaltenango, and twenty-eight agencies located throughout the country.

In August 1974, the Bank was reorganized to descentralize its administrative operations. Seven districts were established; each corresponding to natural ecological and economic regional subdivisions. The districts were given reasonable but limited administrative authority and autonomy for lending decisions and management of the agencies assigned to the district. At that time the number of agencies was thirty-four, because six new agencies had been created over the 1971-1974 period.

In 1978, BANDESA made another innovation to better serve the small farmer by taking its credit activities into more remote areas with the establishment of cajas rurales. The cajas operations are limited to lending and to not provide the commercial banking services that were available in the agencies.

In 1982, an eighth district was created to serve small farmers in an area of the country that had been particularly subjected to insurgency and counterinsurgency activities.

Thus, in 1984 there were eight districts, thirty-seven agencies and thirty cajas rurales. A detailed list of regional districts, agencies and cajas rurales, is presented in Table IV-1. The location of BANDESA's regional districts, agencies and cajas rurales is shown in Figure IV-2.

BANDESA Input Department

Due to the 1974 world energy crisis, Guatemala was faced with a shortage of fertilizers. To supply this agricultural input the government decided to utilize BANDESA's field agencies. BANDESA began to import fertilizers in August 1974. The initial capital for the purchase of fertilizer came from the U.S. Agency for International Development Loan (520-L-018) and Central Bank funds. In 1975, BANDESA created the Input Department with the purpose of supplying fertilizers at reasonable prices, i.e., at prices below the prevailing market prices. Since that year, BANDESA has been selling fertilizers, mostly as a form of in-kind credit. For most loans that include provisions for fertilizer, borrowers are expected to purchase the fertilizer through the BANDESA input department. This is effected by a loan in kind, where the farmer obtains fertilizer from the warehouse as part of his credit. At the end of 1983, BANDESA had thirty-three warehouses throughout the country to store fertilizers.

TABLE IV-1

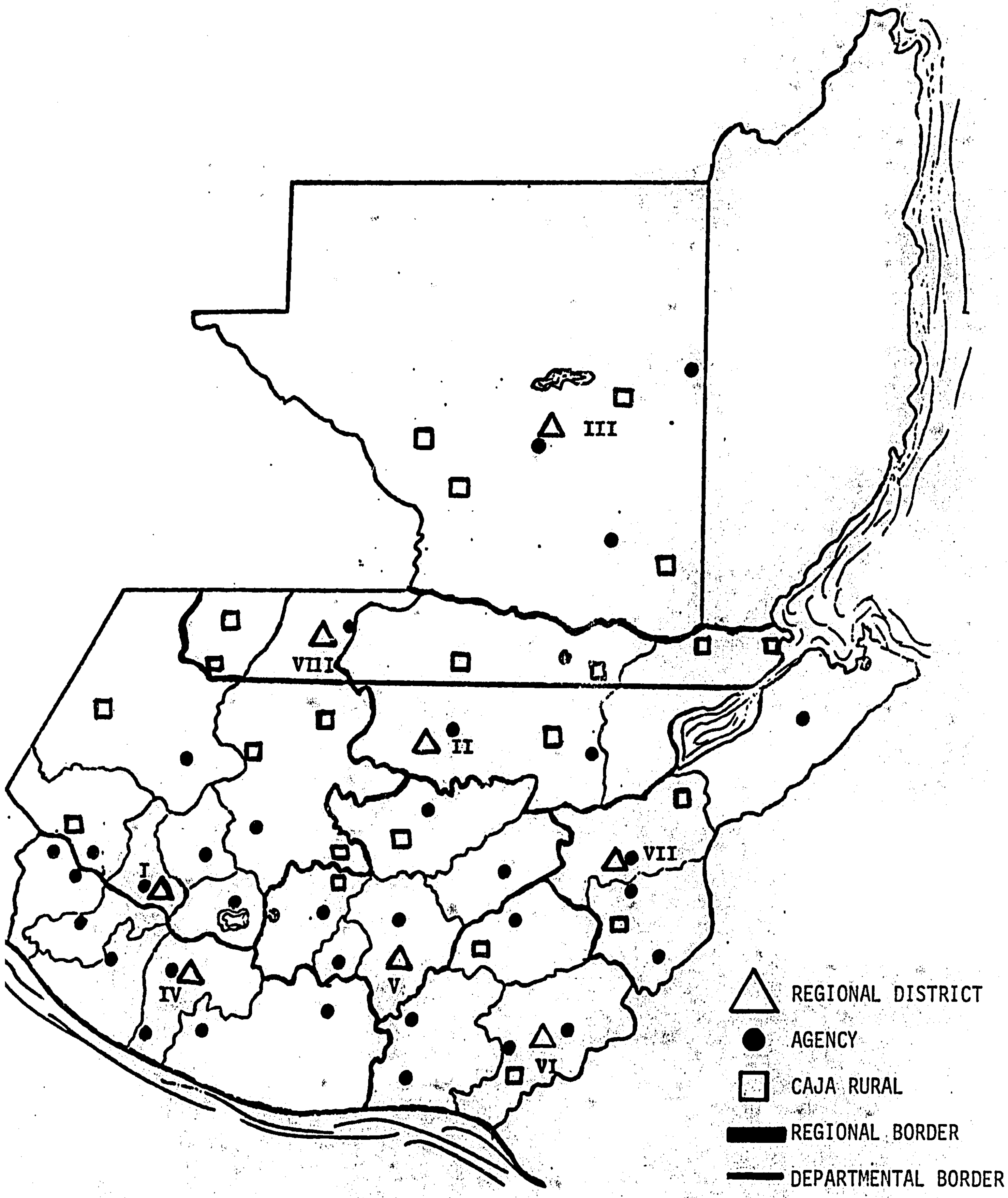
DISTRICT OFFICES, AGENCIES AND CAJAS RURALES--BANDESA, 1984

District Offices	Agencies	Cajas Rurales
District I Quetzaltenango	Totonicapán, Sololá, San Marcos El Quiché, Huehuetenango Quetzaltenango	Tejutla, Nebaj, Joyabaj, Uspantán, Soloma, San Antonio Huista, Santa Cruz Barillas, Aguacatán, La Democracia, San Carlos Sija, Santiago Atitlán
District II Alta Veracruz, Cobán	Panzos, Cobán, Playa Grande	Chisec, Chahal, Cahabón
District III El Petén	Santa Elena, Sayaxché, Poptún	El Chal, San Luis Sayaxché, Las Cruces
District IV Mazatenango, Suchitepequez	Escuintla, Nueva Concepción, El Tumbador, Malacatán, Coatepeque, Retalhuleu,Mazatenango, La Máquina	
District V Guatemala	Antigua, El Progreso, Salamá, Chimaltenango, La Reforma, Patzún	Rabinal, San Martín Jilotepeque
District VI Jutiapa	Barberena, Jalapa, Jutiapa, Chiquimulilla, Asunción Mita	Mataquescuintla, Jalpatagua, Ciudad Pedro de Alvarado, Nueva Santa Rosa, Atescatempa
District VII Zacapa	Zacapa, Chiquimula, Esquipulas, Puerto Barrios, Morales	Gualán, Ipala, Camotán, Livingston, Chocón
District VIII Fray Bartolomé de las Casas	Fray Bartolomé de las Casas	

SOURCE: BANDESA, unpublished data.

FIGURE IV-2

BANDESA DISTRICTS, AGENCIES AND CAJAS RURALES



Beginning in 1984, the Input Department has been in the process of closing down its activities. The Department had regularly run a deficit and, hence, was drawing down on the Bank's funds. Therefore, the Board of Directors decided to discontinue these operations because of their high cost to the Bank. The decision was prompted by the Bank's serious financial difficulties.

Personnel

As of December 31, 1983, BANDESA was staffed with 1,158 persons. According to the personnel office, at this time, there were 33 executive personnel (top-level administrators, heads of departments, heads of districts), 21 professional and technical advisors distributed between Secretariat of the Board of Director's and the general management offices, 399 technicians (auditors, accountants, computer operators, credit agents, etc), 541 administrative personnel (heads of sections, secretaries, etc.), and 164 persons in general services (guards, drivers, janitors, etc.). Out of the 1,158 persons, 1,099 were working as direct hires, and 59 were working under personnel service contracts.

Table IV-2 presents the distribution of BANDESA personnel by type of functions. There was a heavy concentration, 42 percent, of personnel in the central office. The other 52.9 percent worked in bank offices in the field, of which 18.6 percent were involved in banking operations other than credit, and 34.3 percent dealt directly with credit. Another 5.1 percent corresponded to contract personnel, who worked at all levels, but of whom more than half worked in the Input Department.

The Bank appears to be top-heavy in terms of the number of employees working in the central office, although it needs to be recognized that this office is responsible for most record keeping, accounting and reporting activities. Never-the-less there appears to be an excessive number of employees at this level.

Bank employees are not unionized, and, therefore, do not work collectively to place pressure on the administration for worker interests. Morale seems to be reasonably high. There is stability of employment with little turnover.

BANDESA as Part of The Agricultural Sector

BANDESA is closely integrated into the government's sectoral programs and policies. Within the government, the set of public enterprises, entities and institutions responsible for agricultural development is defined as the Guatemalan Agricultural Public Sector and Food (SPAA). The SPAA headed by the Minister of Agriculture and Food (MAG). The coordination of operations within the sector is handled through the Agricultural Planning Unit (USPADA), and the Administrative Coordination Unit (UCA).

MAG has four centralized units that provide technical assistance and formulate general policies for the sector. The Livestock Development Program (PRODEGA), the National Reserve Control Office (OCREN), the

TABLE IV-2

DISTRIBUTION OF PERSONNEL BY TYPE OF FUNCTIONS, AS OF DECEMBER, 1983

Description	Central Office		Other Bank Offices: Bank Operations		Other Bank Offices: Credit Operations		Contract Personnel		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%
Executive Personnel	25	75.8	--	--	8	24.2	--	--	33	100
Advisors	8	38.1	--	--	11	52.4	2	9.5	21	100
Technicians	166	41.6	45	11.3	179	44.9	9	2.3	399	100
Administrative Personnel	238	44.0	89	16.5	180	33.3	34	6.3	541	100
General Service	49	29.9	82	50.0	19	11.6	14	8.5	164	100
Total	486	42.0	216	18.6	397	34.3	59	5.1	1,158	100

SOURCE: BANDESA, Department of Personnel.

General Direction of Agricultural Services (DIGESA), and the General Direction of Livestock Services (DIGESEPE).

At a descentralized level there are six government entities supporting the countries agricultural development. The National Institute of Technology and Science (ICTA) is responsible for agricultural research programs. The National Agricultural Development Bank (BANDESA) is responsible for credit. The National Agricultural Marketing Institution (INDECA) is responsible for agricultural marketing policies, the price control, and providing of marketing services. The National Forestry Institute (INAFOR) is responsible for the country's forestry reserves and reforestation programs. The Milk Production Plant (PROLAC) is the public interprise in charge of milk processing. The National Agrarian Transformation Institute (INTA) is responsible for the efficient land exploitation. The Minister of Agriculture and Food is the president of all of the above-listed institutions.

BANDESA coordinates its activities within the sector not only through its Board of Directors, but also through the Superior Committee of Coordination (COSUCO). COSUCO is formed by the presidents, general managers, and the directors of the institutions in SPAA. BANDESA is also part of the Sectorial Programming Council (COPRASEC). COPRASEC is presided over by the Nutrition and Agricultural Sectoral Planning Unit (USPADA). USPADA is in charge of planning and programming the National Agricultural Policy.

Trust Funds and Bank Funds

When BANDESA was founded, provision was made to separate bank operations with trust funds. Banking operations were to be undertaken with Bank funds, defined as BANDESA's paid-in capital, and other government contributions. BANDESA was created as a full-service bank to undertake the following operations: (a) act as banker and financial agent for INTA and INDECA, (2) grant investment and production credit for agricultural (including marketing) credit, (3) provide credit for small industry and agroindustry, (4) issue and sell bonds with the guarantee of its portfolio, and issue mortgage certificates with the collateral of its real estate, (5) contract foreign debt with previous authorization of the Monetary Board, (6) receive demand, savings and time deposits, and (7) undertake any other operations corresponding to commercial banks in accordance with the Guatemalan Banking Law.

Trust Funds

As shown in Table IV-3, BANDESA's available trust fund portfolio consists of twenty-four trust funds with a value of Q203.6 million, of which Q99.2 million (51.3 percent) correspond to foreign donor contributions and Q104.4 million (48.7 percent) are government contributions. With respect to the latter figure, Q25.8 million come from trust funds established by the government and Q78.6 million are counterpart funds that have accompanied foreign assistance. Of the total available amount, all but 17.7 percent were disbursed as of November 1, 1983.

TABLE IV-3

TRUST FUNDS CURRENTLY AVAILABLE TO BANDESA

No. of Project and Donor	Date Established	Terminal Date	Contribution (000'sQ) Donor	Government	Undisbursed Balance (000'sQ)	Purpose	Maximum Loan Size (000'sQ) Individual Loan	Cooperative Loan	Observations
AID			36,328.1	29,873.0	15,387.7				
520-L-018 (Basic Grains)	10/13/71	10/12/91	10,697.0	14,266.0	8.2	Basic grains production	20.0	.5 per member	
520-L-018 (Cooperatives)	01/15/72	01/14/97	2,000.0	--	8.2	Credit promotion in Federation of Cooperatives	--	.5 per member	
520-L-018 (Artisanry)	12/11/72	12/10/92	100.0	500.0	8.2	Promotion & technical asst.	2.0	.25	
520-L-024 (Fertilizers)	10/30/74	10/29/2014	4,500.0	500.0	-	Purchase of fertilizers	--	.5 per member	
520-L-026 (Land Improvment)	12/23/77	12/22/2002	734.3	125.0	63.0	Small-scale irrigation	--	.5 per member	Up to Q200,000 for specific projects
520-L-026 (Colonization)	10/12/78	10/11/2003	1,446.8	---	3.4	Investment and operating credit	20.0	.5 per member	Up to Q300,000 for specific projects
520-L-030 (Credit)	08/31/79	01/18/2011	3,400.0	2,500.0	2.1	Investment, production & marketing credit	--	.5 per member	
520-L-034 (Crop Diversification)	12/03/82	12/02/2002	3,000.0	2,200.0	794.6	Investment & production credit	10.0	.5 per member	Up to Q200,000 for specific projects
520-L-036 (Economic Support Fund)			--	4,000.0	4,000.0	Cooperative credit for agriculture	--	--	
520-T-037 (Highlands Ag.)	09/30/83	09/30/88	10,500.0	5,782.0	10,500.0	Crop diversification & small-scale irrigation	--	--	
IDB			56,130.3	25,407.8	8,397.7				
204/SF-Gu	07/23/71	07/22/92	4,500.0	3,000.0	747.1	Crops livestock production	10.0	200.0	
058/TF-Gu	07/23/71	07/22/92	710.0	5,467.8	412.0	Investment & production loans	1.5	50.0	
410/SF-Gu	02/23/76	For ever	4,400.0	1,440.0	425.6	Livestock improvement loans	50.0	--	
460/SF-Gu	11/02/76	01/14/96	1,020.0	6,000.0	2,717.6	Crop diversification, housing, transport	20.0	250.0	Up to Q500,000 for specific projects
120/SF-Gu	02/18/77	For ever	20,000.0	5,000.0	3,155.8	Housing	3.5	1,000.0 per member	
630/SF-Gu	02/02/82	02/01/2022	25,500.0	4,500.0	939.6	Production & investment loans	30.0	30.0 per member	

TABLE IV-3 cont.

TRUST FUNDS CURRENTLY AVAILABLE TO BANDESA

No. of Project and Donor	Date Established	Terminal Date	Contribution (000,'sQ) Donor	Government	Undisbursed Balance[1] (000'sQ)	Purpose	Maximum Loan Size (000'sQ) Individual Loan	Cooperative Loan	Observations
OTHERS			6,710.0	49,158.3	12,170.6				
3-GUA-A/O.1.c.	03/20/73	03/19/91	4,452.0	--	1,109.9	Dairy cattle, tropical fruits	25.0	5.0 per member	Up to Q200,000 for specific projects
P.I.C.P.A.	04/05/76	04/04/96	--	2,000.0	5.0	Fishery cooperatives of the Pacific	--	--	
F.E.E.R.	05/03/76	For ever	--	18,000.0	3,520.9	Housing reconstruction	3.0	no limit	
FEDECOAG	05/10/76	05/09/96	--	1,625.0	--	Housing for FEDECOAG members	--	0.325 per member	
A.C.D.I.-1-Gu	11/29/76	For ever	508.0	--	--	To improve Cooperative members	--	--	Credit to FEDECOCAGUA
L.I.C. DECRETO 50-74	07/26/77	07/27/97	--	24,083.3	4,711.6	Agriculture & agro-industrial	25.0	5.0 per member	Up to Q200,000 for specific projects
O.P.E.P.015	06/29/78	06/28/2003	1,750.0	1,750.0	2,823.1	Capital goods imports	--	--	
Coffee rust campaign	06/07/77	06/06/2002	--	1,700.0	0.1				It was disbursed to ANACAFE
TOTAL			99,168.4	104,439.1	35,956.0				

SOURCE: Estados Financieros de Fideicomiso y Escrituras de Constitución Registros de la Dirección de Financiamiento Externo y Fideicomisos, Ministerio de Finanzas Públicas.

[1] The undisbursed balance figures correspond to 11/15/83.

The Role of Foreign Assistance

IDB and AID have been the principal foreign donors of trust funds. The IDB contribution of Q56.1 million corresponds to 27.5 percent of the total funds and the AID contribution of Q36.3 million is equivalent to 17.8 percent. The impact of these donors has been far greater, however, given that they made money available on the condition of government counterpart funds that account for 38.6 percent of the total.

From its own, non-counterpart, funds the Guatemalan government has provided only 12.7 percent of the total. The remaining 3.4 percent have come from other foreign donors. These donors are the International Coffee Organization (ICD), the Canadian Agency for International Development (CAID), and the Organization of Petroleum Exporting Countries (OPEC).

The role of foreign donors in the trust fund operations should not be understated. Indeed, as noted previously, the foundation of BANDESA was predicated by the availability of foreign aid. AID and IDB insisted upon the reorganization of the government credit institutions and the inclusion of trust fund activities as a condition for Guatemala receiving the major loans from those two donors beginning in 1971 and 1972.

The evolution of the trust fund program is presented in Table IV-3. The program was initiated with loans from AID and IDB in 1971. Since that time both institutions have continued to use the trust fund mechanism to channel agricultural credit to the targeted objectives.

The objectives are varied but most funds are to be used for loans to small-or-medium-sized farmers. Some are for very specific objectives, such to combat coffee rust, fisheries, and purchase fertilizers. Most are for more general purposes such as crop production or investment. Some are exclusively for cooperatives or members of cooperatives. Most can be used to lend to individual farmers as well as cooperatives.

It is important to seperate the trust funds that were established to repair or rebuild houses damaged by the 1976 earthquake from those that are for agricultural objectives. In 1976 the Guatemalan government and in 1977 IDB created trust funds that were to be lent to farmers to rebuild houses. Credit from these loans played an important social role, but, unfortunately, on very small percentage are not in arrears.

Management of Trust Funds

The trust fund operations were established to finance specific development programs. As noted previously, they operate under the jurisdiction of the Trust Fund Committee. Trust fund operations, however, are carried out by the regular personnel of the bank. For purposes of accounting and accountibility to the several donors of funds for the specific trusts the accounts for the trust funds are kept seperate. The Bank must absorb all costs of operating the trust funds. There are no financial costs to the Bank because the funds are made available to the Bank at zero interest. All interest earned and repayments of principal are returned to the trust fund, to be used for future lending. The Bank receives an annual 5 percent commission on the outstanding non-delinquent trust fund portfolio. When a loan is repaid, the Bank receives a 7 percent commission. It is from these commissions that the bank receives earnings from the trust funds.

With the passage of time, lending for trust fund operations has become increasingly more important, relative to lending from bank funds. The reason has been because of a concerted government policy to use the trust fund mechanism to direct financing to targeted objectives. Foreign donors, have assisted in the process, viewing trust fund lending as a means to obtaining their objectives. Another reason for the trend has been the large annual operating losses of BANDESA, which have caused the institution to use its own capital to cover operating expenses, and, therefore, reduce its lending capacity from its own funds. Still other reasons include the high delinquency rate of loans made with bank funds and the Bank's inability to mobilize demand and time deposits. All of these are topics that will be covered in detail in future chapters. Suffice it to say at this point, that ultimately BANDESA has become essentially an institution to channel financing from trust funds to targeted development objectives and it has lost its character as a commercial bank financial intermediary that mobilizes resources in financial markets and relends them. It has come to the point that the trust funds are the tail that wags the dog, the Bank. Analysis of lending from trust funds and bank funds is the topic of the next chapter.

Summary and Conclusions

BANDESA was created in 1970 as part of a major reorganization of the public sector's financial services to agriculture. Whereas BANDESA is mainly a development bank to work with small- and medium-sized farmers, it also carries on normal commercial banking operations.

In 1974, the Bank was reorganized to decentralize operations, and, by 1984, has an extensive and growing network of offices to provide financial services that are located throughout the nation. There are eight districts, thirty-seven agencies and thirty cajas rurales. Under this arrangement much decision making, especially that related to applications for small loans, is delegated to the field offices, a factor which greatly facilitates the loan approval process. Yet, in spite of the reorganization, the Bank appears to be top-heavy in terms of the number of employees--42.8 percent of the total 1,158 bank personnel--that work in the central office.

BANDESA plays an integral role in the government's activities in the agricultural sector, thus permiting it to coordinate its activities with sectoral plans and goals. This occurs through control in the formation of the Bank's policies and plans, because the Minister of Agriculture and Food heads the Bank's Board of Directors. It also takes place through BANDESA's involvement in sector planning and coordination. As a state bank, BANDESA also must conform to credit policies as administered by the Bank of Guatemala, the Superintendency of Banks and the Ministers of Finance and Economy.

Beginning in 1971, the government, with considerable assistance by AID and IDB, has created a series of trust funds to finance selected economic and social development goals. Currently, BANDESA administers twenty-two such funds. As will be shown in the next chapter, by 1984, trust funds were virtually the only source of loanable funds available to the Bank because of the financial difficulties that have debilitated BANDESA's own funds in its banking operations. This trend has placed the Bank in virtually the position of being an administrator of trust funds for development purposes, rather than a viable financial intermediary, a matter that will be discussed in considerable detail in succeeding chapters.

V

PATTERNS AND TRENDS OF BANDESA FINANCING: 1977-1983

Introduction

This chapter presents the patterns and trends of BANDESA financing over the seven-year period, 1977-1983, in order to place the current situation in perspective of the recent past. The chapter is organized as follows: (a) trends in annual lending activity, (b) division of lending between bank and trust funds, (c) the relative importance of BANDESA in financing the agricultural sector, (d) the distribution of financing by activities, (e) the distribution of financing by term of loans, (f) the distribution of financing by geographic region, (g) the distribution of financing by size of loan, and (h) the distribution of financing by size of farm, (i) financing by type of land tendency and (j) the financing of cooperatives. The chapter includes with a summary and conclusions of the trends and patterns.

Trends in Annual Lending Activity

As shown in Table V-1, between 1977 and 1983, BANDESA experienced a slight increase in lending activity. In 1983, compared to 1977, the Bank's annual credit flow in nominal terms rose 66.3 percent, but in real terms it only grew 14.7 percent, the equivalent of an average 2.2 percent real annual growth rate. Measured in terms of number of loans, there was virtually no change.

Division of Lending Between Bank and Trust Funds

As shown in Table V-2, between 1977 and 1983, BANDESA increasingly relied upon trust funds as its source of loanable funds, such that by 1983, only 0.3 percent of the Bank's loans and 1.7 percent of the loan volume came from the Bank's own resources. In 1977, the percentages were 17.3 and 34.6. Not only was there a relative change, indeed, the number of loans and the nominal value of loans made from the Bank's own funds declined 98.5 and 92 percent, respectively, over the seven-year period. By 1983 there was almost no lending from these sources. The decline is due to high rates of loan delinquency for the Bank's own portfolio, the Bank's inability to mobilize additional resources, and the increasing availability of trust funds, which has permitted the Bank to use this source of funding to expand its lending.

Between 1977 and 1983 the number of loans made from trust funds increased 20.6 percent, the equivalent of an average annual rate of growth of 3.17 percent. Over the same period, the real value of trust fund loan volume grew 68 percent, an average annual rate of 9.06 percent.

TABLE V-1

ANNUAL CREDIT FLOWS AND NUMBER OF LOANS OF BANDESA, 1977-1983

Year	Amount of Loans (Million Quetzales) Nominal Value	Real Value (1975 prices)[a]	Number of Loans	Amount of BANDESA Loans as % of Sector Loans
1977	24.0	19.7	20,164	23.4
1978	34.9	27.4	19,311	29.6
1979	54.3	38.6	22,032	28.5
1980	43.3	27.7	22,148	24.3
1981	50.1	28.8	23,850	20.7
1982	39.4	23.3	17,412	20.8
1983	39.9	22.6	20,171	17.8
% change 1977-1983	66.3	14.7	0.0	

SOURCE: BANDESA, Memorias Anuales, y Estadísticas.

[a]Real values computed using price index for food products in urban areas as reported by Banco de Guatemala, Boletín Estadístico.

TABLE V-2

DIVISION OF CREDIT FLOW BETWEEN TRUST FUNDS AND BANK FUNDS, AMOUNT AND NUMBER OF LOANS, 1977-1983
(Million Quetzales)

	Total				Trust Funds				Bank Funds			
Year	Number	%	Amount	%	Number	%	Amount	%	Number	%	Amount	%
1977	20,164	100.0	24.0	100.0	16,677	82.7	15.7	65.4	3,487	17.3	8.3	34.6
1978	19,311	100.0	34.9	100.0	15,561	80.6	24.9	71.3	3,750	19.4	10.0	28.7
1979	22,032	100.0	54.3	100.0	18,160	82.4	40.8	75.1	3,872	17.6	13.5	24.9
1980	22,148	100.0	43.3	100.0	21,252	96.0	33.0	76.2	896	4.0	10.3	23.8
1981	23,850	100.0	50.1	100.0	23,159	97.1	40.5	80.8	691	2.9	9.6	19.2
1982	17,412	100.0	39.4	100.0	17,392	99.9	39.0	99.0	20	0.1	0.4	1.0
1983	20,171	100.0	39.9	100.0	20,116	99.7	39.2	98.3	55	0.3	0.7	1.7

SOURCE: BANDESA, Memorias Anuales y Estadísticas.

Importance of BANDESA in Financing the Agricultural Sector

The relative importance of BANDESA lending in the agricultural sector has declined. As shown in Table V-1, in 1983, the Bank's loans were the equivalent of only 17.8 percent of the amount lent by the banking system to the sector. In the prior years of the period under study the percentages were higher. In 1977, the percentage was 23.4 percent. In the following year it rose to a high of 29.6 percent, before steadily declining to the 1983 level.

BANDESA is responsible for almost all of the lending to the sector from trust funds. With respect to the state development bank loans from their own funds, in 1977, BANDESA accounted for almost two-thirds of state development bank loans to the sector. By 1983, the figure had declined to 8.1 percent, another indicator that loans from the banking operations were not only a very minor part of BANDESA operations, but also of credit to the sector from the other state development banks.

Distribution of Financing by Economic Activity

BANDESA finances four major lines of economic activities: (a) crop production, (b) livestock production, (c) artisanry and small industries and (d) housing. The latter line of financing was established in 1977 because of the urgent need to repair and rebuild the large numbers of homes damaged or destroyed by the 1976 earthquake. Loans in this category are largely long-term. Loans in the first three lines are directed to financing either annual operating expenses or medium- and long-term investments.

Breakdown by Major Lines of Activity

As shown in Table V-3, the large bulk of BANDESA loans and loan volume has financed crops. In 1983, 86.5 percent of the number of loans and 76.4 percent of the amount lent went for this purpose. Housing loans were second most important, with 8.1 percent of the number of loans and 11.8 percent of the volume. Livestock loans, accounted for 3.7 percent of the loans but 11.0 percent of the volume. Artisanry loans were the least important, covering only 0.8 and 1.7 percent of the loan numbers and volume respectively.

The 1983 distribution is representative of that over the period 1977 to 1983, except for the period from 1978 to 1980 when there was a big surge in housing loans, that resulted from the need to rebuild or repair homes destroyed by the 1976 earthquake.

The trend in lending activities with trust funds follows closely the overall trend due to its relative importance in BANDESA lending. It is noteworthy, however, that the loans from the Bank's own funds have always contained a larger proportion of livestock loans that have loans from the trust funds. For example, in 1983, 43.6 and 57.1 percent of the number and amount of loans from these funds went to finance livestock activities.

TABLE V-3

DIVISION OF CREDIT BY ECONOMIC ACTIVITY, FOR TOTAL, TRUST AND BANKING FUNDS, BANDESA 1977-1983
(Million Quetzales)

Economic Activity & Source of Funds	1977				1978				1979				1980			
	Number	%	Amount	%	Number	%	Amount	%	Number	%	Amount	%	Number	%	Amount	%
Total	18,164	100.0	24.0	100.0	19,311	100.0	34.9	100.0	22,032	100.0	48.9	100.0	22,148	100.0	43.3	100.0
Crops	17,302	95.3	20.8	86.6	14,441	74.8	24.8	71.1	16,147	73.3	28.6	58.5	17,033	76.9	26.5	61.0
Livestock	259	1.4	2.8	11.7	331	1.7	40.0	11.5	687	3.1	11.2	22.9	778	3.5	9.2	21.3
Artisanry	603	3.3	0.4	1.7	577	3.0	0.4	1.1	655	3.0	0.4	0.8	603	2.7	0.3	0.8
Housing	--	--	--	--	3,962	20.5	5.7	16.3	4,543	20.6	8.7	17.8	3,734	16.9	7.3	16.8
Bank Funds	3,487	100.0	8.3	100.0	3,750	100.0	10.0	100.0	3,872	100.0	13.5	100.0	896	4.0	10.3	23.8
Crops	3,311	94.9	7.4	89.6	3,521	93.9	8.4	84.0	3,600	93.0	9.3	68.9	785	3.5	5.1	11.8
Livestock	173	5.0	0.9	10.3	214	5.7	1.4	14.0	262	6.8	4.2	31.1	101	0.5	5.1	11.8
Artisanry	3	0.1	a	0.1	1	a	0.1	1.0	9	0.2	a	a	9	a	0.1	0.1
Housing	--	--	--	--	14	0.4	0.1	1.0	1	a	a	a	1	a	a	a
Trust Funds	14,677	100.0	15.7	100.0	15,561	100.0	25.7	100.0	18,160	100.0	35.4	100.0	21,252	96.0	33.0	76.2
Crops	13,991	95.3	13.4	85.8	10,920	70.2	15.5	60.3	12,553	69.1	19.3	54.4	16,248	73.4	21.4	49.2
Livestock	86	0.6	1.9	11.9	117	0.8	3.5	12.8	425	2.3	7.0	19.8	672	3.0	4.1	9.6
Artisanry	600	4.1	0.4	2.3	576	3.7	0.3	1.2	646	3.6	0.4	1.1	599	2.7	0.2	0.7
Housing	--	--	--	--	3,948	25.3	6.6	25.7	4,542	25.0	8.7	24.6	3,733	16.9	7.3	16.8

	1981				1982				1983			
	Number	%	Amount	%	Number	%	Amount	%	Number	%	Amount	%
Total	23,850	100.0	50.1	100.0	17,412	100.0	39.4	100.0	20,171	100.0	39.9	100.0
Crops	21,770	91.2	39.3	79.3	15,344	88.1	31.9	81.0	17,447	86.5	30.5	76.4
Livestock	525	2.2	5.8	11.6	593	3.4	3.7	9.4	751	3.7	4.4	11.0
Artisanry	196	0.9	0.2	0.3	127	0.7	0.1	0.2	332	1.7	0.3	0.8
Housing	1,359	5.7	4.4	8.8	1,348	7.8	3.7	9.4	1,641	8.1	4.7	11.8
Bank Funds	691	100.0	9.6	100.0	20	100.0	0.4	100.0	55	100.0	0.7	100.0
Crops	623	90.2	7.5	78.6	1	5.0	a	2.5	19	34.6	0.2	28.6
Livestock	59	8.5	2.0	20.7	2	10.0	0.2	57.7	24	43.6	0.4	57.1
Artisanry	3	0.4	a	0.1	1	5.0	a	2.5	--	--	--	--
Housing	6	0.9	0.1	0.6	16	80.0	0.2	39.0	12	21.8	0.1	14.3
Trust Funds	23,159	100.0	40.5	100.0	17,392	100.0	39.0	100.0	20,116	100.0	39.2	100.0
Crops	21,147	91.3	32.2	79.5	15,343	88.2	31.9	81.7	17,428	86.6	30.3	77.3
Livestock	466	2.0	3.8	9.4	591	3.4	3.5	9.1	727	3.6	4.0	10.2
Artisanry	193	0.8	0.2	0.3	126	0.7	0.1	0.2	332	1.7	0.3	0.8
Housing	1,353	5.9	4.3	10.8	1,332	7.7	3.5	9.0	1,629	8.1	4.6	11.7

SOURCE: BANDESA, Memorias Anuales y Estadísticas.

[a] Less than .5 million.

Crop and Livestock Activities Financed

In 1983, as shown in Table V-4, basic grains were the principal crops financed, accounting for 56.4 and 38.2 percent of the loan number and volume respectively. Within this category, the large bulk of the loans were for corn, with wheat being an important second. Lending in the "other" category was almost as important as basic grains, being responsible for 31.5 and 51.6 percent of loan numbers and volume respectively. Crops in this category are those for industrial use and exports, including coffee, sugar cane, cardamomo, tobacco, coca, oil palm, achiote, etc.

Financing for vegetables was the third most important line, corresponding 11.6 and 9.5 percent of loan numbers and volume. There was relatively little lending for crop diversification purposes (citrus, bananas, sesame, avocado, etc.).

The pattern in 1983 is representative of those over the 1977-1983 period, however, there were some trends of change. The relative importance of basic grains declined some, as the loans numbers and volumes remained quite constant over the period. Crop diversification was more important in the late 1970s, but declined thereafter, in contrast, the relative importance of "other", industrial and export, crops tended to increase slightly.

The division between trust funds and bank funds shows that lending from trust funds increased from 80.8 and 64.6 percent of the crop loans and loan volume in 1977 to almost all of the crop lending activity in 1983. Therefore, the distribution of lending within the trust funds closely parallels that of the total. With the bank funds, up through 1980, lending for basic grains was by far the most important activity financed out of a declining annual portfolio. Beginning in 1981, most new lending was concentrated in the "other", industrial and export crop category.

Livestock loans were concentrated in cattle. In 1983, 71 and 91 percent of loan numbers and volume went for this purpose. Over the period under study, this pattern was consistent. In comparison to livestock loans from bank funds, which were concentrated in cattle, a large portion of trust funds were used for a wider variety of livestock lending, including bees, poultry and swine.

Distribution of Financing by Term of Loan

BANDESA lending, with respect to the term of loan, is essentially bimodal. The large bulk of loans are for one year or less. Most of the rest are for more than three years. Loans from the former group are loans for annual production and operating expenses. Financing from the latter group is for investment on livestock, housing, small-scale irrigation and other capital goods.

TABLE V-4

DISTRIBUTION OF ANNUAL CREDIT FLOWS BY SELECTED CROPS AND SOURCE OF FUNDS, 1977-1983
(Million Quetzales)

Crop & Source of Funds	1977 Number	%[a]	Amount	%	1978 Number	%	Amount	%	1979 Number	%	Amount	%	1980 Number	%	Amount	%
Total	17,302	100.0	20.9	100.0	14,434	100.0	23.9	100.0	16,141	100.0	28.7	100.0	17,033	100.0	26.5	100.0
Basic Grains	11,526	66.6	10.3	49.3	8,856	61.4	7.8	32.6	10,203	63.2	10.7	37.3	10,425	61.2	10.8	40.8
Crop Diversification	593	3.4	1.2	5.7	453	3.1	.9	3.8	458	2.8	1.1	3.8	362	2.1	1.0	3.8
Vegetables	1,732	10.0	1.8	8.6	1,392	9.6	1.5	6.3	1,616	10.1	2.0	7.0	1,961	11.5	2.6	9.8
Others	3,451	20.0	7.6	36.4	3,733	25.9	13.7	57.3	3,864	23.9	14.9	51.9	4,285	25.2	12.1	45.6
Trust Funds	13,991	80.8	13.5	64.6	10,913	75.6	15.5	64.9	12,541	77.7	19.4	67.6	16,248	95.4	21.6	80.8
Basic Grains	11,285	65.2	9.6	45.9	8,659	60.0	7.2	30.1	9,927	61.5	9.7	38.8	10,378	60.9	10.2	38.5
Crop Diversification	581	3.4	1.2	5.7	431	3.0	0.8	3.4	442	2.7	1.0	3.5	360	2.1	1.0	3.8
Vegetables	1,703	9.8	1.7	8.1	1,355	9.4	1.4	4.9	1,571	9.8	1.8	6.3	1,952	11.5	2.5	9.4
Others	422	2.4	1.0	4.8	468	3.2	6.1	25.5	601	3.7	6.9	24.0	3,558	20.9	7.7	29.1
Bank Funds	3,311	19.2	7.4	35.4	3,521	24.4	8.4	35.1	3,600	22.3	9.3	32.4	785	4.6	5.1	19.3
Basic Grains	241	1.4	0.7	3.4	197	1.4	0.6	2.5	276	1.7	1.0	3.5	47	0.3	0.6	2.3
Crop Diversification	12	0.1	0.0	0.0	22	0.1	0.1	0.4	16	0.1	0.1	0.4	2	0.0	0.0	0.0
Vegetables	29	0.2	0.1	0.5	37	0.3	0.1	0.4	45	0.3	0.2	0.7	9	0.4	0.1	0.4
Others	3,029	17.5	6.6	31.6	3,265	22.6	7.6	31.8	3,263	20.2	8.0	27.8	727	4.2	4.4	16.6

Crop & Source of Funds	1981 Number	%	Amount	%	1982 Number	%	Amount	%	1983 Number	%	Amount	%
Total	21,770	100.0	41.7	100.0	15,344	100.0	32.0	100.0	17,347	100.0	30.6	100.0
Basic Grains	9,667	44.4	11.2	26.9	9,414	61.4	11.6	36.2	9,792	56.4	11.7	38.2
Crop Diversification	93	0.4	0.6	1.4	101	0.7	0.6	1.9	75	0.4	0.2	0.7
Vegetables	1,858	8.5	2.7	6.5	1,890	12.3	2.6	8.1	2,006	11.6	2.9	9.5
Others	10,152	46.6	27.2	65.2	3,939	25.6	17.2	53.8	5,474	31.6	15.8	51.6
Trust Funds	21,147	97.1	32.1	77.0	15,343	99.9	31.9	99.7	17,328	99.9	30.4	99.4
Basic Grains	9,586	44.0	10.0	24.0	9,413	61.3	11.5	35.9	9,789	56.4	11.7	38.2
Crop Diversification	91	0.4	0.6	1.4	101	0.7	0.6	1.9	74	0.4	0.2	0.7
Vegetables	1,753	8.1	2.5	6.0	1,890	12.3	2.6	8.1	2,006	11.6	2.9	9.5
Others	9,717	44.6	19.0	45.6	3,939	25.6	17.2	53.8	5,459	31.5	15.6	51.0
Bank Funds	623	2.9	9.6	23.0	1	0.1	0.1	0.3	19	0.1	0.2	0.6
Basic Grains	81	0.4	1.2	2.9	1	0.1	0.1	0.3	3	.0	0.0	.0
Crop Diversification	2	0.0	0.0	0.0	0.0	.0	0.0	.0	1	.0	0.0	.0
Vegetables	105	0.5	0.2	0.5	.0	.0	.0	.0	0	.0	.0	.0
Others	435	2.0	8.2	19.6	.0	.0	.0	.0	15	.1	0.2	0.2

SOURCE: Unpublished data in BANDESA.

[a]Percentages may not add to 100 due to rounding.

As shown on Table V-5, in 1983, some 83.9 and 72.2 percent of loans and the loan volume from trust funds were for one year or less. For the term of more than three years the corresponding percentages were 14.1 and 25.0. Few loans were made for the intermediate terms. The bimodal pattern is representative of the years from 1977 to 1983, with one exception. After housing loans were introduced on a large scale in 1978, there was a decided shift in the relative importance of long-term lending in the portfolio.

With respect to loans from the Bank's own funds, for the small number of loans made in 1983, most were of three-years or more. In the years 1977-1979, when lending from this source of funds was much more active, both loan numbers and volume were highly concentrated in short-term lending, a pattern similar to that observed for other commercial banks.

In conclusion, BANDESA lending historically has been mostly commonly directed to financing annual production type activities, both from the Bank's own funds and from trust funds. In recent years, more trust fund financing has been directed to long-term loans because of the new programs for financing housing.

Regional Distribution of Financing

The regional distribution of credit is over the 1977-1983 period presented in Table V-6. The percentage distribution is reported in Table V-7. Of the seven districts, four are dominant.

For the seven-year period, District IV was the most important with an average of 30.2 percent of the loan volume and 20.4 of the number of loans. This southwestern coastal region--encompassing the departments of Escuintla, Suchitepequez, Retalhuleu and parts of Quetzaltenango and San Marcos-- consists of larger-sized farms than the mountainous regions and produces the important export crops of coffee and cotton, sugar cane, sesame and beef. Persons of Indian descent account for less than 30 percent of the population. The relative percentages of number of loans and loan size demonstrate the larger-sized loans for this district. Historically, this was the district that was most heavily financed from the Bank's own funds. Over the seven-year period it received 39.9 and 48.9 percent of the loan number and volume from this source. The relative importance of financing from the trust funds remained quite constant over the period; 18.5 and 25.9 percent of the trust fund loan numbers and volume went to the district.

Historically, District VI-- comprised of the departments of Jutiapa, Jalapa and Santa Rosa-- has been the second most important district after District IV for lending from bank funds, accounting for 22.4 and 16.5 percent of loan numbers and loan volume respectively. It has received relatively fewer trust funds, 18.7 and 17.1 percent of loan numbers and volume. Particularly important has been the IDB Dairy Development Program.

The district lies mostly in the hot tropical southeastern portion of the country. Farms are of medium size. In the coastal lowlands the principal crops are corn, rice, sorghum, sesame tropical fruits and dual-

TABLE V-5

NUMBER AND AMOUNT OF ANNUAL LOANS BY SOURCE OF FUNDS AND TERM, 1977-1983
(Million Quetzales)

	Up to 12 Months				From 12 to 24 Months				From 24 to 36 Months				More Than 36 Months				Total			
	Trust Funds		Bank		Trust Funds		Bank		Trust Funds		Bank		Trust Funds		Bank		Trust Funds		Bank	
Year	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1977	13,477	11.8	3,278	6.8	863	0.9	21	.0	72	0.2	27	0.1	265	2.8	161	1.4	14,677	15.7	3,487	8.3
%	(91.8)	(75.2)	(94.0)	(81.9)	(5.9)	(5.7)	(0.6)	(.0)	(0.5)	(1.3)	(0.8)	(1.2)	(1.8)	(17.8)	(4.6)	(16.9)	(100.0)	(100.0)	(100.0)	(100.0)
1978	11,162	14.8	3,376	7.7	166	0.2	39	0.2	78	0.2	57	0.2	4,155	10.5	278	1.9	15,561	25.7	3,750	10.0
%	(71.7)	(57.6)	(90.0)	(77.0)	(1.1)	(0.8)	(1.0)	(2.0)	(0.5)	(0.8)	(1.5)	(2.0)	(26.7)	(40.8)	(7.4)	(19.0)	(100.0)	(100.0)	(100.0)	(100.0)
1979	12,081	12.2	3,440	7.6	692	0.9	36	0.2	83	0.2	52	0.2	5,304	22.1	344	5.5	18,160	35.4	3,872	13.5
%	(66.5)	(34.5)	(88.8)	(56.3)	(3.8)	(2.5)	(0.9)	(1.5)	(0.5)	(0.6)	(1.3)	(1.5)	(29.2)	(62.4)	(8.9)	(40.7)	(100.0)	(100.0)	(100.0)	(100.0)
1980	16,288	19.8	767	3.2	268	0.4	22	0.9	168	0.4	9	0.3	4,528	12.4	98	5.9	21,252	33.0	896	10.3
%	(76.6)	(60.0)	(85.6)	(31.1)	(1.3)	(1.2)	(2.5)	(8.7)	(0.8)	(1.2)	(1.0)	(2.9)	(21.3)	(37.6)	(10.9)	(57.3)	(100.0)	(100.0)	(100.0)	(100.0)
1981	14,209	24.6	617	7.8	1,029	0.8	21	0.6	279	0.7	28	0.7	7,642	14.4	25	0.5	23,159	40.5	691	9.6
%	(61.4)	(60.7)	(89.3)	(81.3)	(4.4)	(2.0)	(3.0)	(6.3)	(1.2)	(1.7)	(4.1)	(7.3)	(33.0)	(35.6)	(3.6)	(5.2)	(100.0)	(100.0)	(100.0)	(100.0)
1982	14,604	30.5	2	0.2	477	0.6	1	.0	129	0.3	--	--	2,182	7.6	17	0.2	17,392	39.0	20	0.4
%	(84.0)	(78.2)	(10.0)	(50.0)	(2.7)	(1.5)	(5.0)		(0.7)	(0.8)			(12.6)	(19.5)	(85.0)	(50.0)	(100.0)	(100.0)	(100.0)	(100.0)
1983	16,868	28.3	16	0.2	203	0.6	4	0.1	210	0.5	2	0.0	2,835	9.8	33	0.4	20,116	39.2	55	0.7
%	(83.9)	(72.2)	(29.1)	(28.6)	(1.0)	(1.5)	(7.3)	(14.3)	(1.0)	(1.3)	(3.6)	(0.0)	(14.1)	(25.0)	(60.0)	(57.1)	(100.0)	(100.0)	(100.0)	(100.0)
Total	98,689	14.2	11,496	33.5	3,698	4.4	144	2.0	1,019	2.5	175	1.5	26,911	79.6	956	15.8	130,317	228.5	12,771	52.8
%	(75.7)	(62.1)	(90.0)	(63.5)	(2.8)	(1.9)	(1.1)	(3.8)	(0.8)	(1.1)	(1.4)	(2.8)	(20.7)	(34.8)	(7.5)	(29.9)	(100.0)	(100.0)	(100.0)	(100.0)

SOURCE: Unpublished data in BANDESA.

TABLE V-6

REGIONAL DISTRIBUTION OF ANNUAL LOANS BY SOURCE OF FUNDS, 1977-1983
(Million Quetzales)

Year & Source of Funds	District I		District II		District III		Disctrict IV		District V		District VI		District VII		District VIII		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1977	5,603	3.9	557	1.0	130	0.3	3,634	7.0	2,225	4.3	4,335	5.6	1,680	1.9	--	--	18,164	24.0
Trust Fund	4,940	2.9	414	0.6	118	0.3	2,223	4.3	2,003	2.0	3,549	4.1	1,430	1.5	--	--	14,677	15.7
Bank	663	1.0	143	0.4	12	0.0	1,411	2.7	222	2.3	786	1.5	250	0.4	--	--	3,487	8.3
1978	4,689	4.5	976	1.3	192	0.8	3,517	9.9	4,388	10.9	3,571	4.8	1,978	3.5	--	--	19,311	35.7
Trust Fund	4,003	3.3	767	0.9	183	0.6	2,019	5.3	4,197	9.9	2,737	3.0	1,655	2.7	--	--	15,561	25.7
Bank	686	1.2	209	0.4	9	0.2	1,498	4.6	191	1.0	834	1.8	323	0.8	--	--	3,750	10.0
1979	6,161	6.8	1,250	3.4	303	1.4	3,919	11.7	4,339	12.6	3,903	8.0	2,157	5.0	--	--	22,032	48.9
Trust Fund	5,511	5.7	1,000	2.3	261	0.7	2,416	5.0	4,120	12.0	2,975	5.5	1,877	4.2	--	--	18,160	35.4
Bank	650	1.1	250	1.1	42	0.7	1,503	6.7	219	0.6	928	2.5	280	0.8	--	--	3,872	13.5
1980	5,828	6.1	1,368	2.8	309	2.3	3,701	12.4	4,469	7.6	4,275	7.5	2,198	4.6	--	--	22,148	43.3
Trust Fund	5,781	5.9	1,297	1.8	294	1.1	3,151	6.2	4,437	7.2	4,121	6.7	2,171	4.1	--	--	21,252	33.0
Bank	47	0.2	71	1.0	15	1.2	550	6.2	32	0.4	154	0.8	27	0.5	--	--	896	10.3
1981	5,786	6.0	590	1.1	281	1.5	8,459	22.2	3,334	6.6	3,596	7.9	1,804	4.8	--	--	23,850	50.1
Trust Fund	5,651	5.7	573	0.9	271	1.0	8,355	16.9	3,227	6.0	3,446	6.0	1,636	4.0	--	--	23,159	40.5
Bank	135	0.3	17	0.2	10	0.5	104	5.3	107	0.6	150	1.9	168	0.8	--	--	691	9.6
1982	4,531	9.8	1,133	1.5	403	1.4	2,862	9.9	2,533	4.3	3,985	7.6	1,965	4.9	--	--	17,412	39.4
Trust Fund	4,531	9.8	1,133	1.5	402	1.3	2,861	9.9	2,518	4.2	3,982	7.4	1,965	4.9	--	--	17,392	39.0
Bank	--	--	--	--	1	0.1	1	0.0	15	0.1	3	0.2	--	--	--	--	20	0.4
1983	5,995	7.6	906	1.3	623	1.6	3,153	11.8	3,162	5.3	3,558	6.3	1,849	4.6	925	1.4	20,171	39.9
Trust Fund	5,987	7.5	902	1.3	623	1.6	3,130	11.5	3,146	5.1	3,557	6.3	1,846	4.5	925	1.4	20,116	39.2
Bank	8	0.1	4	0.0	--	--	23	0.3	16	0.2	1	0.0	3	0.1	--	--	55	0.7
Total	38,593	44.7	6,780	12.4	2,241	9.3	29,245	84.9	24,450	51.6	27,223	47.7	13,631	29.3	925	1.4	143,088	281.3
Trust Fund	36.404	40.8	6,086	9.3	2,152	6.6	24,155	59.1	23,648	46.4	24,367	39.0	12,580	25.9	925	1.4	130,317	228.5
Bank	2,189	3.9	694	3.1	89	2.7	5,090	25.8	802	5.2	2,856	8.7	1,051	3.4	--	--	12,771	52.8

SOURCE: BANDESA, Memorias Anuales, Estadísticas, and unpublished data.

TABLE V-7

REGIONAL DISTRIBUTION OF ANNUAL LOANS BY SOURCE OF FUNDS, 1977-1983

(Percentage)

Year & Source of Fund	District I		District II		District III		District IV		District V		District VI		District VII		District VIII		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1977	30.8	16.3	3.1	4.2	0.7	1.2	20.0	29.2	12.5	17.9	23.9	23.3	9.3	7.9	0.0	.0	100.0	100.0
Trust Fund	33.7	18.5	2.8	3.8	0.8	1.9	15.2	27.4	13.7	12.7	24.2	26.1	9.7	9.6	0.0	.0	100.0	100.0
Bank	19.0	12.1	4.1	4.8	0.3	0.0	40.5	32.5	6.4	27.7	22.5	18.1	7.2	4.8	.0	.0	100.0	100.0
1978	24.3	12.6	5.0	3.6	1.1	2.2	18.2	27.7	22.7	30.5	18.5	13.5	10.2	9.8	.0	.0	100.0	100.0
Trust Fund	25.7	12.8	4.9	3.5	1.2	2.3	13.0	20.6	27.0	38.5	17.6	11.7	10.6	10.5	.0	.0	100.0	100.0
Bank	18.3	12.0	5.6	4.0	0.2	2.0	40.0	46.0	5.1	10.0	22.2	18.0	8.6	8.0	.0	.0	100.0	100.0
1979	28.0	13.9	5.7	6.9	1.4	2.9	17.8	23.9	19.7	25.8	17.7	16.4	9.8	10.2	.0	.0	100.0	100.0
Trust Fund	30.4	16.1	5.5	6.5	1.4	2.0	13.3	14.1	22.7	33.9	16.4	15.5	10.3	11.9	.0	.0	100.0	100.0
Bank	16.8	8.2	6.5	8.2	1.1	5.2	38.8	49.6	5.7	4.4	24.0	18.5	7.2	5.9	.0	.0	100.0	100.0
1980	26.3	14.1	6.2	6.5	1.4	5.3	16.7	28.6	20.2	17.6	19.3	17.3	9.9	10.6	.0	.0	100.0	100.0
Trust Fund	27.2	17.9	6.1	5.5	1.4	3.3	14.8	18.8	20.9	21.8	19.4	20.3	10.2	12.4	.0	.0	100.0	100.0
Bank	5.2	1.9	7.9	9.7	1.7	11.7	61.4	60.2	3.6	3.9	17.2	7.8	3.0	4.8	.0	.0	100.0	100.0
1981	24.2	12.0	2.4	2.2	1.2	3.0	35.5	44.3	14.0	13.2	15.1	15.8	7.6	9.6	.0	.0	100.0	100.0
Trust Fund	24.4	14.1	2.5	2.2	1.2	2.5	36.1	41.7	13.9	14.8	14.9	14.8	7.1	9.9	.0	.0	100.0	100.0
Bank	19.5	3.1	2.5	2.1	1.5	5.2	15.0	55.2	15.5	6.3	21.7	19.8	24.3	8.3	.0	.0	100.0	100.0
1982	26.0	24.9	6.5	3.8	2.3	3.6	16.4	25.1	14.6	10.9	22.9	19.3	11.3	12.4	.0	.0	100.0	100.0
Trust Fund	34.4	25.1	5.2	3.8	3.6	3.3	18.0	25.4	18.1	10.8	20.4	19.0	10.6	12.6	.0	.0	100.0	100.0
Bank	.0	.0	.0	.0	5.0	25.0	5.0	.0	75.0	25.0	15.0	50.0	.0	.0	.0	.0	100.0	100.0
1983	29.7	19.0	4.5	3.3	3.1	4.0	15.6	29.6	15.7	13.3	17.6	15.8	9.2	11.5	4.6	3.5	100.0	100.0
Trust Fund	29.8	19.1	4.5	3.3	3.1	4.1	15.6	29.3	15.6	13.0	17.7	16.1	9.2	11.5	4.6	3.6	100.0	100.0
Bank	14.6	14.2	7.3	0.0	--	--	41.8	42.9	29.1	28.6	1.8	.0	5.4	14.3	--	--	100.0	100.0
Total	27.0	15.9	4.7	4.4	1.6	3.3	20.4	30.2	17.1	18.3	19.0	17.0	9.5	10.4	0.7	0.5	100.0	100.0
Trust Fund	27.9	17.9	4.7	4.1	1.7	2.9	18.5	25.9	18.2	20.3	18.7	17.1	9.7	11.3	0.7	0.6	100.0	100.0
Bank	17.1	7.4	5.4	5.9	0.7	5.1	39.9	48.9	6.3	9.8	22.4	16.5	8.2	6.4	.0	.0	100.0	100.0

SOURCE: Based on Table V-6

[a]Percentages may not add to 100 due to rounding.

purpose cattle. In the northern mountainous portion of the district, coffee and beans are the major products. The district is well-suited to small irrigation projects.

District I-- encompassing the departments of Huehuetenango, Totonicapan and Sololá as well as small parts of El Quiché, Quetzaltenango and San Marcos-- is a very densely populated, mountainous region, with considerable minifundia. The population is almost 80 percent Indian. The agricultural activities are basic grains (especially wheat), potatoes and vegetables such as carrots, and family livestock. There is considerable artisanry, especially textiles.

The district has been an important outlet for loans from trust funds, especially loans for basic grains made to small farmers. Over the seven-year period, 27.9 and 17.9 percent of the loan numbers and volume from this source were in this district. In contrast, much smaller percentages of the Bank's own funds were directed to the district; the corresponding percentages are 17.1 and 7.4.

The last major District is V-- encompassing the departments of El Progreso, Baja Verapaz, Chimaltenango, Sacatepequez and Guatemala. Within the district there are three subregions: (a) the coffee growing departments of Chimaltenango and Sacatepequez, (b) the area around Guatemala City which specializes in fruits and vegetables, and (c) the semi-desertous departments of Baja Verapaz and El Progreso. There are many regions suitable for small irrigation. Considerable handcrafts are produced in the district.

The district has been an important recipient of trust fund loans; 18.2 and 20.3 percent of the loan numbers and volume have come from this source. It has been much less important for loans from bank funds; accounting from only 6.3 and 9.8 percent of loans and loan volume.

Among the remaining districts, number VII-- located on the border with Honduras, and including the departments of Chiquimula and Zacapa and a portion of Izabal-- has been the most important. Corn and beans are the most common crops, and, under irrigation, vegetables and tobacco are grown.

District II, consisting of parts of the departments of Alta Verapaz, El Quiche and Izabal; District III in El Peten and District XIII, which was created in 1982 out of the northern part of El Quiche, Alta Verapaz, Huehuetenango and Izabel, each accounted for less than 5 percent of BANDESA lending activity.

In conclusion, the regions of the country that have historically lent themselves to commercial agriculture have been the principal recipients of BANDESA credit. Particularly important in these regions were loans from the Bank's own funds. With the expansion of trust fund activities, the regions with concentrations of indigenous populations began to receive relatively more credit as most of these funds were directed to small farmers in the economically poorer regions of the country. It should be noted, however, that trust funds also appeared to be used as substitutes for the declining availability of the Bank's own funds in some of the more important commercial agriculture regions.

Distribution of Financing by Size of Loan

Most BANDESA loans are relatively small. As shown in Table V-8, in 1983, 31.6 percent of the trust fund loans were for Q500 or less. Furthermore, all but 1.1 percent were for Q5,000 for less. The pattern for 1983 is typical of those for the years over the 1977 to 1983 period.

Loans from the Bank's own funds were also relatively small. In the late 1970s the patterns were not too dissimilar to those for trust funds. Beginning in 1981, however, there was a definite shift to larger loans from bank funds. In 1982 and 1983 there were few loans from this source, however, those that were made, tended to be larger.

It can be concluded that BANDESA has historically worked with relatively small loans to large numbers of farmers. Trust fund loans are always small. In recent years, of the few remaining loans from the Bank's own resources most have been of a relatively large size.

Distribution of Financing by Size of Farm

BANDESA loans are heavily concentrated in the hands of small farmers. The distribution of trust fund crop credit by size of farm is presented in Table V-9. In 1983, 30.2 percent of the number of loans were made to farmers who had no more than 2.0 hectares. Another 23.7 percent went to farmers who had between 2.1 and 4 hectares, and 15.7 percent to these between 4.1 and 7 hectares. Therefore, about two-thirds of the loans went to farmers with 7 hectares or less and more than one-half to farmers with 4 hectares or less.

In terms of loan volume the loans were concentrated among medium-sized farmers, those with 7.1-21 hectares received 27.7 percent of the loans. This size of farm is a likely recipient of capital-intensive loans for industrial and export crops such as sugar cane, coffee, vegetables and small-scale irrigation. Farmers, with up to 2 hectares received 11.2 percent, these with 2.1-4 hectares 13.5 percent, and those with 4.1-7 hectares received 13.9 percent. The fact that these farmers received loan volumes less than proportional to their numbers, reflects the low capital-intensity of their credit, such as that for basic grains. There were some few loans that were made to large-sized farms.

The pattern for 1983 is representative of those for the years over the 1977-1983 period. There has been, however, one major trend; that of lending more to very small farmers. This reflects the emphasis on lending for basic grains.

Data for lending on farm size for livestock, artisanry and housing loans are less complete and, therefore, are not easily analyzed. Since, however, crop loans account for such a large portion of the portfolio, the conclusions obtained are very representative of BANDESA lending practices.

TABLE V-8

DISTRIBUTION OF ANNUAL CREDIT FLOWS BY SIZE OF LOANS, AND SOURCE OF FUNDS, 1977-1983

Loan Size (Quetzales)	1977 Frequency Absolute	1977 Frequency Relative	1978 Frequency Absolute	1978 Frequency Relative[a]	1979 Frequency Absolute	1979 Frequency Relative	1980 Frequency Absolute	1980 Frequency Relative	1981 Frequency Absolute	1981 Frequency Relative	1982 Frequency Absolute	1982 Frequency Relative	1983 Frequency Absolute	1983 Frequency Relative
Trust Funds														
0- 500	7,533	40.8	5,547	35.7	5,594	30.8	7,218	34.0	5,774	24.9	5,263	30.5	6,348	31.6
501- 1,000	4,702	25.5	3,442	22.1	3,716	20.5	4,819	22.7	7,770	33.7	4,167	24.1	4,563	22.7
1,001- 2,500	5,031	27.2	5,588	35.9	7,017	38.6	6,616	31.1	6,115	26.4	3,481	20.1	4,355	21.7
2,501- 5,000	1,071	5.8	839	5.4	1,535	8.5	2,300	10.8	3,293	14.2	4,083	23.6	4,626	23.0
5,001- 7,500	45	0.2	30	0.2	44	0.2	53	0.3	8	.0	22	0.1	21	0.1
7,501- 10,000	31	0.2	23	0.1	58	0.3	64	0.3	43	0.2	171	1.0	123	0.6
10,001- 25,000	39	0.2	37	0.2	92	0.5	144	0.7	108	0.5	56	0.3	57	0.3
25,001- 50,000	13	0.1	40	0.3	95	0.5	20	0.1	27	0.1	18	0.1	5	.0
50,001-100,000	4	.0	4	.0	4	.0	11	0.1	6	.0	8	.1	9	.0
100,001-200,000	1	.0	3	.0	2	.0	4	.0	4	.0	6	.0	3	.0
200,000-More	7	.0	8	.1	4	.0	3	.0	11	0.1	7	.0	6	0.1
Total	18,478	100.0	15,561	100.0	18,161	100.0	21,252	100.0	23,159	100.0	17,282	100.0	20,116	100.0
Bank Funds														
0- 500	1,522	43.1	1,340	35.7	1,340	34.6	289	32.2	50	7.2	--	--	--	--
501- 1,000	796	22.5	985	26.3	942	24.3	248	27.7	92	13.3	--	--	--	--
1,001- 2,500	598	16.9	756	20.1	760	19.6	134	15.0	137	19.8	--	--	1	1.8
2,501- 5,000	458	13.0	529	14.1	599	15.5	90	10.0	276	39.9	2	10.0	6	10.9
5,001- 7,500	42	1.2	22	0.6	30	0.8	16	1.8	4	0.6	--	--	--	--
7,501- 10,000	64	1.8	55	1.5	44	1.1	30	3.4	25	3.6	16	80.0	22	40.0
10,001- 25,000	28	0.8	40	1.1	96	2.5	44	4.9	49	7.1	--	--	22	40.0
25,001- 50,000	17	0.5	14	0.4	41	1.1	23	2.6	33	4.8	--	--	4	7.3
50,001-100,000	3	0.1	3	0.1	12	0.3	14	1.6	12	1.7	1	5.0	--	--
100,001-200,00	--	--	2	0.1	4	0.1	2	0.2	3	0.4	1	5.0	--	--
200,001-More	5	0.1	4	0.1	4	0.1	6	0.7	10	1.5	--	--	--	--
Total	3,533	100.0	3,750	100.0	3,872	100.0	896	100.0	691	100.0	20	100.0	55	100.0

SOURCE: Unpublished data in BANDESA.

[a]Relative frequencies may not add to 100 due to rounding.

TABLE V-9

DISTRIBUTION OF ANNUAL CREDIT FLOWS FOR CROP LOANS BY FARM SIZE, BANDESA'S TRUST FUNDS, 1977-1983

Farm Size (Hectares)	1977 Number	1977 %[a]	1978 Number	1978 %	1979 Number	1979 %	1980 Number	1980 %	1981 Number	1981 %	1982 Number	1982 %	1983 Number	1983 %
							Loan Numbers							
.0- 2	3,544	25.3	2,657	24.4	3,100	24.7	4,567	28.1	7,300	34.5	3,854	25.1	5,258	30.2
2.1- 4	3,894	27.8	3,298	30.2	3,320	26.5	4,336	26.7	6,022	28.5	3,797	24.7	4,138	23.7
4.1- 7	2,615	18.7	2,016	18.5	2,255	18.0	2,863	17.6	2,534	12.0	2,778	18.1	2,734	15.7
7.1- 21	3,144	22.5	2,246	20.6	2,902	23.1	3,220	19.8	4,221	20.0	3,708	24.2	3,633	20.8
21.1- 50	546	3.9	430	3.9	591	4.7	776	4.8	663	3.1	888	5.8	1,216	7.0
50.1- 100	129	0.9	120	1.1	150	1.2	226	1.4	158	0.7	209	1.4	252	1.5
100.1- 200	47	0.3	35	0.3	39	0.3	63	0.4	53	0.3	56	0.4	80	0.5
200.1- 300	20	0.1	30	0.3	19	0.2	32	0.2	24	0.1	21	0.1	21	0.1
300.1-More	31	0.2	22	0.2	17	0.1	36	0.2	26	0.1	30	0.2	41	0.2
Not Specified	21	0.2	59	0.5	146	1.2	129	0.8	146	0.7	2	0.0	55	0.3
Total	13,991	100.0	10,913	100.0	12,539	100.0	16,248	100.0	21,147	100.0	15,343	100.0	17,428	100.0
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
							Loan Volume (Million Quetzales)							
.0- 2	1.4	10.5	1.1	7.1	1.4	7.3	2.4	11.3	5.8	18.0	2.2	6.9	3.4	11.2
2.1- 4	2.3	17.2	2.0	12.9	2.2	11.4	3.4	16.0	6.9	21.4	4.0	12.5	4.1	13.5
4.1- 7	2.4	17.9	1.8	11.6	2.3	11.9	3.4	16.0	3.7	11.5	4.5	14.1	4.2	13.9
7.1- 21	5.2	38.8	3.7	23.9	5.6	29.0	6.7	31.4	8.2	25.5	8.3	26.0	8.4	27.7
21.1- 50	1.0	7.5	1.0	6.5	1.4	7.3	2.0	9.4	1.8	5.6	3.3	10.3	3.3	10.9
50.1- 100	0.3	2.2	0.4	2.5	0.4	2.1	0.8	3.7	1.6	5.0	1.6	5.0	0.9	3.0
100.1- 200	0.2	1.5	0.2	1.3	0.1	0.5	0.5	2.3	0.2	0.6	0.4	1.3	0.5	1.6
200.1- 300	0.2	1.5	0.1	0.6	0.1	0.5	0.3	1.4	0.2	0.6	0.4	1.3	0.2	0.7
300.1-More	0.3	2.2	1.2	7.7	0.1	0.5	0.7	3.3	3.4	10.6	7.2	22.6	5.2	17.2
Not Specified	0.1	.7	4.0	25.8	5.7	29.5	1.1	5.2	0.4	1.2	.0	.0	0.1	0.3
Total	13.4	100.0	15.5	100.0	19.3	100.0	21.3	100.0	32.2	100.0	31.9	100.0	30.3	100.0

SOURCE: Unpublished data in BANDESA.

[a]Percentages may not add to 100 due to rounding.

Table V-10 reports the same data for loans made from BANDESA's own funds. Of course, lending was virtually nil in 1982 and 1983, but in prior years it is noteworthy that, in comparison with loans from trust funds, most lending was concentrated in the hands of small- and meduim-sized farmers, but with more emphasis on the medium-sized groups. Also, that there were a few large loans that accounted for a significant portion of the loan volume. Therefore, although most loans from this source of funds were directed to small- and medium-sized farmers, a few went into the hands of large farmers. It is very likely that most of the loans to large and many medium-sized farmers were persons of influence with the bank or government.

In conclusion, measured in terms of loan numbers, BANDESA has emphasized lending to small- and medium-sized farmers, both with its own funds and with trust funds. Measured in terms of loan volume, financing has been concentrated in medium-sized farmers. In comparison to loans for the Bank's own funds, trust fund loans have been more heavily concentrated with small farmers. A considerable number of loans made from the Bank's own funds were made to large and larger medium-sized farmers.

Distribution of Financing by Tenancy

As shown in Table V-11 more than one-half the borrowers receiving credit from trust funds are persons classified as poseedores or usufructuarios, those who have established the right to use the land, but who do not have a completed title. In 1983, 53.5 percent of the loan numbers and 35.7 percent of the loan volume went to this class of borrowers.

The second most important class of borrower was those who held outright title to the land. In 1983, they received 19.0 percent of the loans and 34.2 percent of the loan volume. Land reform beneficiaries received 18.4 percent of the loans and 13.3 percent of the amount lent. Finally, renters received 9.1 percent of the loans and 13.3 percent of the loan volume.

The distribution of credit among tenancy classes in 1983, was representative of that for most of the years between 1977 and 1983. There was some fluctuation, depending on the establishment of new trust funds that enabled more lending for one group or another in a particular year. There was one long-term trend, the gradual substitution of loans to poseedores and usufructuarios by loans to property owners.

It is noteworthy that owners received a disportionate share of the loan volume relative to their share of loan numbers. This reflects the fact that many of these were located in areas suitable to more capital-intensive agricultural activities, and the importance assigned to titles by the Bank in making capital-intensive loans. The disportionately small amounts going to poseedores and usufructuarios show that these persons were mostly small farmers who received annual operating capital loans for basic grains.

TABLE V-10

DISTRIBUTUION OF ANNUAL CREDIT FLOWS FOR CROP LOANS BY FARM SIZE, BANDESA'S BANK FUNDS, 1977-1983

Farm Size (Hectares)	1977		1978		1979		1980		1981		1982		1983	
	Number	%[a]	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
							Loan Numbers							
.0- 2	833	25.2	889	25.3	860	23.9	196	25.0	113	18.1	0	.0	0	.0
2.1- 4	986	29.8	1,069	30.4	1,035	28.7	304	38.7	159	25.5	0	.0	0	.0
4.1- 7	556	16.8	636	18.1	608	16.9	109	13.9	103	16.5	0	.0	1	5.3
7.1- 21	546	16.5	503	14.3	583	16.2	79	10.1	123	19.7	0	.0	2	10.5
21.1- 50	200	6.0	216	6.1	257	7.1	36	4.6	64	10.3	0	.0	4	21.0
50.1- 100	70	2.1	67	1.9	82	2.3	16	2.0	23	3.7	1	100.0	6	31.6
100.1- 200	48	1.4	40	1.1	63	1.8	12	1.5	7	1.2	0	.0	3	15.8
200.1- 300	12	0.4	8	0.2	21	0.6	8	1.0	9	1.4	0	.0	1	5.3
300.1-More	16	0.5	18	0.5	29	0.8	17	2.2	22	3.5	0	.0	2	10.5
Not Specified	44	1.3	74	2.1	62	1.7	8	1.0	0	.0	0	.0	0	.0
Total	3,311	100.0	3,520	100.0	3,600	100.0	785	100.0	623	100.0	1	100.0	19	100.0
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
							Loan Volume (Million Quetzales)							
.0- 2	0.3	4.0	0.4	4.8	0.4	4.3	0.1	2.0	0.2	2.7	.0	.0	.0	.0
2.1- 4	0.6	8.1	0.8	9.6	0.7	7.5	0.2	3.9	0.4	5.3	.0	.0	.0	.0
4.1- 7	0.6	8.1	0.8	9.6	0.8	8.6	0.1	2.0	0.4	5.3	.0	.0	.0	.0
7.1- 21	1.1	14.9	1.1	13.3	1.2	12.9	0.2	3.9	0.5	6.7	.0	.0	0.1	50.0
21.1- 50	0.7	9.5	0.7	8.4	1.0	10.8	0.4	7.8	0.5	6.7	.0	.0	.0	.0
50.1- 100	0.3	4.0	0.3	3.6	0.5	5.4	0.2	3.9	0.4	5.3	.0	.0	0.1	50.0
100.1- 200	0.4	5.4	0.3	3.6	0.6	6.5	0.3	5.9	0.2	2.7	.0	.0	.0	.0
200.1- 300	0.2	2.7	.0	.0	0.4	4.3	0.2	3.9	0.3	4.0	.0	.0	.0	.0
300.1-More	1.5	20.3	2.3	27.7	2.3	24.7	3.2	62.8	4.6	61.3	.0	.0	.0	.0
Not Specified	1.5	23.0	1.6	19.3	1.4	15.0	0.2	3.9	.0	.0	.0	.0	.0	.0
Total	7.4	100.0	8.3	100.0	9.3	100.0	5.1	100.0	7.5	100.0	.0	.0	0.2	100.0

SOURCE: Unpublished data in BANDESA.

[a]Percentage may not add to 100 due to rounding.

TABLE V-11

DISTRIBUTION OF LOANS BY TYPE OF TENANCY OF BORROWER, BANDESA'S TRUST FUNDS, 1977-1983

Ownership	1977		1978		1979		1980		1981		1982		1983	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
							Loan Numbers							
Owners	2,572	13.9	1,985	12.8	2,650	14.6	3,522	16.6	3,378	14.6	3,184	18.4	3,819	19.0
Renters	2,248	12.2	1,664	10.7	1,642	9.0	1,945	9.1	1,531	6.6	2,036	11.8	1,836	9.1
Land Reform Beneficiaries	2,314	12.5	2,033	13.0	2,535	14.0	2,703	12.7	9,232	39.9	3,279	19.0	3,704	18.4
Possessors and Those with Usufruct Rights	11,344	61.4	9,879	63.5	11,334	62.4	13,082	61.6	9,018	38.9	8,783	50.8	10,757	53.5
Total	18,478	100.0	15,561	100.0	18,161	100.0	21,252	100.0	23,159	100.0	17,282	100.0	20,116	100.0
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
							Loan Volume (Million Quetzales)							
Owners	6.3	29.3	11.7	45.3	16.8	46.1	9.4	28.4	7.6	18.8	13.3	34.3	13.4	34.2
Renters	2.5	11.6	1.8	7.0	2.0	5.5	3.3	10.0	3.3	8.1	5.5	14.2	5.2	13.3
Land Reform Beneficiaries	3.4	15.8	2.5	9.7	4.5	12.4	4.4	13.3	18.7	46.2	8.6	22.1	6.6	16.8
Possessors and Those with Usufruct Rights	9.3	43.3	9.8	38.0	13.1	36.0	16.0	48.3	10.9	26.9	11.4	29.4	14.0	35.7
Total	21.5	100.0	25.8	100.0	36.4	100.0	33.1	100.0	40.5	100.0	38.8	100.0	39.2	100.0

SOURCE: Unpublished data in BANDESA.

Loans made from the Bank's own funds were highly concentrated with owners. In 1983, as shown in Table V-12, 78.2 percent of loans and 85.7 percent of the loan volume went to this tenancy class. Between 1977 and 1981, when the Bank had more abundant loanable funds, there was considerable lending not only for owners, but also poseedores and usufructuarios. The importance of the latter two categories declined rapidly, particularly with respect to loan volume. Therefore, there was a clear tendency to increase lending to outright owners of land and to make loans that were of a large size to this group.

Credit to Cooperatives, Federations of Cooperatives and Other Farmer Associations

Since its establishment BANDESA has lent actively to cooperatives. Most of these loans have been made from trust funds that contain provisions for lending to cooperatives, federations of cooperatives or organized groups, however, prior to 1978, a considerable number of cooperative loans were also made from bank funds. Since that time, virtually all loans to cooperatives have come from trust fund sources. Over the 1971 to 1983 period, 72.8 percent of the loan numbers and 77.5 percent of the loan volume for cooperatives have come from trust funds.

The Bank has considered cooperative lending an important part of its mission. Due to its strong commitment to these organizations, in 1977 the Bank created a Cooperative Department to specifically address the agricultural financial needs of cooperatives and to provide technical assistance to them under the IDB 460/SF-GU Project. In 1982, this department was disbanded and cooperative lending was placed in the hands of the Monitoring Department. By this time it was clear that cooperative loans were particularly problematical for the Bank, mostly due to the high rates of delinquency.

Trends in Cooperative Lending

Table V-13 presents information on the annual flows of BANDESA credit to cooperatives and federations over the 1977-1983 period. Over these years, there are two distinct periods. The years of 1977-1979 reflect a continuation of a pattern established in 1974 to lend extensively to cooperatives. In these years, loans to cooperatives accounted for no less than 13 percent of the Bank's annual credit flows. After 1979, the Bank's lending activity to cooperatives declined; not only was there a tendency towards fewer loans, but also the amount lent corresponded to no more than 6 percent of a non-growing loan portfolio. This decline reflects BANDESA's growing concern about lending to cooperatives, principally due to problems in loan recovery.

Lending to Federations

The majority of cooperative loans were made to cooperatives, however, a significant number were made to federations that, in turn, relent funds to their member cooperatives. Between 1971 and 1983, 7 percent of the total loans to cooperatives were made to federations.

TABLE V-12

DISTRIBUTION OF LOANS BY TYPE OF TENANCY OF BORROWER, BANDESA'S BANK FUNDS, 1977-1983

Ownership	1977		1978		1979		1980		1981		1982		1983	
	Number	%	Number	%[a]	Number	%	Number	%	Number	%	Number	%	Number	%
							Loan Numbers							
Owners	1,295	36.6	--	--	1,384	35.7	397	44.3	218	31.6	19	95.0	43	78.2
Renters	154	4.4	--	--	206	5.3	28	3.1	246	35.6	--	--	4	7.3
Land Reform Beneficiaries	452	12.8	--	--	530	13.7	188	21.0	27	3.9	--	--	2	3.6
Possessors and Those with Usufruct Rights	1,632	46.2	--	--	1,752	45.3	283	31.6	200	28.9	1	5.0	6	10.9
Total	3,533	100.0	--	--	3,872	100.0	896	100.0	691	100.0	20	100.0	55	100.0
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
							Loan Volume (Million Quetzales)							
Owners	4.5	51.7	--	--	8.6	63.7	8.2	79.6	7.4	77.1	0.2	50.0	0.6	85.7
Renters	0.4	4.6	--	--	0.6	4.4	0.8	7.8	1.2	12.5	--	--	0.1	14.3
Land Reform Beneficiaries	0.4	4.6	--	--	1.1	8.2	0.3	2.9	0.3	3.1	--	--	.0	.0
Possessors and Those with Usufruct Rights	3.4	39.1	--	--	3.2	23.7	1.0	9.7	0.7	7.3	0.2	50.0	.0	.0
Total	8.7	100.0	--	--	13.5	100.0	10.3	100.0	9.6	100.0	0.4	100.0	0.7	100.0

SOURCE: Unpublished data in BANDESA.

[a]There are no data available.

TABLE V-13

ANNUAL CREDIT FLOWS TO COOPERATIVES AND COOPERATIVE FEDERATIONS
AS PERCENTAGE OF BANDESA'S CREDIT
(Million Quetzales)

Year	Cooperative Credit		Total BANDESA Credit		Cooperative Credit as Percentage of Total	
	Number	Amount	Number	Amount	Number	Amount
1977	34	3.9	20,164	24.0	0.2	16.3
1978	38	6.4	19,311	34.9	0.2	18.3
1979	20	7.2	22,032	54.3	0.1	13.3
1980	29	2.0	22,148	43.3	0.1	4.6
1981	23	2.6	23,850	50.1	0.1	5.2
1982	25	1.3	17,412	39.4	0.1	3.3
1983	33	2.4	20,171	39.9	0.2	6.0
Total	202	25.8	145,088	285.9	0.1	9.0

SOURCE: BANDESA, Memorias Anuales, y Estadísticas.

As shown in Table V-14, in September 1983, BANDESA held thirty-two outstanding loans to federations in its portfolio to nine different federations. Three federations, Guatemalan Agricultural Cooperatives (FEDECOAG), Credit Unions (FENACOAC), and Regional Cooperatives (FECOAR) were the largest recipients with seven, six and six loans respectively, which accounted for 59 percent of the number of loans and 58 percent of the loan volume. It is noteworthy that 76 percent of the original amount lent was outstanding, a symptom of the serious delinquency problems associated with these loans, a topic that will be addressed in detail in Chapter VII.

Loans to Organized Groups

In 1980 BANDESA began making loans to groups of farmers, other than those organized as cooperatives. In the following year, almost 11 percent of BANDESA's loans went to groups.

Foreign Assistance for Cooperative Lending

As is the case with small individual farmers, foreign donors have provided considerable support for cooperatives and federations. AID has provided considerable funding from both loan and grant funds. Over the 1977-1983 period, AID provided $13.9 million for cooperative development through four projects. Moreover, AID provided $2.2 million grant in support of credit union federations.[1]

IDB trust funds have also provided for cooperative lending. In particular, the IDB 460/SF-GU loan was intended for the development of credit unions, federations of credit unions and other types of farmers associations.

Summary and Conclusions

Between 1977 and 1983, the real annual flows of credit managed by BANDESA increased at an average of only 2.2 percent per year and the number of loans made remained about the same. This growth was considerably less than 11.6 average annual increase for the amount lent to the sector registered by the banking system, as reported in Chapter II. Correspondingly, the importance of BANDESA in lending to the sector declined. By 1983, the Bank (including loans from trust funds) only accounted for 17.8 percent of the amount lent by the banking system to the sector, whereas in 1978 the figure had been nearly 30 percent. The relative decline of BANDESA's importance in sector lending is due to not only the strong increases by other institutions, but also the sharp decreases in lending from the Bank's own funds, resulting from delinquency and operating losses that have consumed the institution's capital. Were it not for the increases in lending from trust funds, the decline would have been even more severe. In 1983, 99.7 and 98.3 percent of BANDESA's loans and amount lent respectively, came from trust funds.

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[1]Report submitted by Ing. Gilberto Santamaría to the AID Rural Development Office, Guatemala, June 1984.

TABLE V-14

OUTSTANDING CREDIT PORTFOLIO FOR FEDERATIONS OF COOPERATIVES, AS OF SEPTEMBER 31, 1983
(Million Quetzales)

Federation	Original Number of Loans	Amount Granted	Number of Outstanding Loans	Outstanding Amount
Federation of Guatemalan Agricultural Cooperatives (FEDECOAG)	7	2.6	7	2.5
Federation of Credit Unions (FENACOAC)	6	4.7	6	4.2
Federation of Regional Cooperatives (FECOAR)	6	5.9	6	5.5
Federation of Guatemalan Coffee Producers (FEDECOCAGUA)	2	1.4	6	1.2
Federation of Consumption Cooperatives (FEDECON)	3	0.3	3	0.2
Federation of Housing Cooperatives (FENACOVI)	4	1.2	4	1.1
Federation "El Quetzal" of Marketing Cooperatives (FECOMERQ)	2	0.9	2	0.8
Federation of Fishing Cooperatives (FEDEPESCA)	1	0.7	1	0.7
Federation of Cooperative Marketing Associations (CECOMERCA)	1	5.1	1	1.2
Total	32	22.8	32	17.4

SOURCE: BANDESA, Departmento de Seguimiento.

BANDESA finances four major lines of economic activities. Crops are the most important; in 1983 this category accounted for about four-fifths of both loan numbers and volume. Within this category, the export/industrial crops (coffee, sugar cane, cardomomo, etc.) received more than half the amount lent, basic grains almost two-fifths and most of the rest went for vegetables. Loans for the industrial/export crops are of larger size and made to growers of coffee, sugar, etc. in the mountainous and costal regions appropriate to their cultivation. Usually these borrowers have title to their land, and are medium-sized farmers. BANDESA lends for basic grains in most regions of the country, but especially in the densely-populated highlands, and mostly to small farmers, many of whom do not have full title to their land, but do have a claim to it. Such loans are typically made to cover annual operating expenses and are quite small. Vegetable production is concentrated near the major market, in the environs of Guatemala City.

Housing and livestock loans are the second and third most important categories of BANDESA financing. In both of these categories, credit is typically extended for larger loans for a medium term. Housing credit--originally designed to repair or reconstruct homes after the 1976 earthquake--is widely disbursed throughout the country and livestock lending is concentrated in the coastal regions. The fourth category is small industry. The few loans in this group are oriented to handcrafts, especially near Guatemala City.

BANDESA has actively lent to cooperatives or federations of co-operatives, mostly from trust funds, in order to try to enhance the cooperative movement in the nation. In 1983, the Bank made thirty-three such loans, which corresponded to 6 percent of the amount lent in the year. The relative importance of lending to cooperatives has declined in recent years as BANDESA is experiencing serious repayment problems with these organizations. While lending to cooperatives has declined, lending to other organized groups has increased.

It is clear that BANDESA is fulfilling an important social and economic objective in Guatemala, because it appears to be delivering credit, through small- to medium-sized loans, to large numbers of small and medium-sized farmers, many of whom do not have complete title to their land and most of whom, at least the small farmers, would not have access to credit from other banks. Loans are made through the extensive network of BANDESA agencies and caja rurales throughout the country, but they are concentrated in both the densely populated regions which consist of an economically marginal rural population as well as the rural areas that lend themselves to the production of export/industrial crops. In this sense, BANDESA serves several important development objectives that directly attack poverty, impact on income distribution and provide products for export and industrial use, as well as domestic consumption.

VI

BANDESA CREDIT DELIVERY SYSTEM

Introduction

This chapter presents an overview and analysis of the BANDESA credit delivery system--defined as these conditions for credit and the sets of procedures that are followed by the Bank in making, servicing, and collecting loans--as it impacts on both the Bank and its borrowers. Emphasis is placed on interest rates charged on loans and the efficiency of the delivery system for both lenders and borrowers. Although time and funds were not available to do the in-depth studies that the subject warrants, sufficient information was obtained to permit the drawing of a number of general conclusions.

An analysis of the credit delivery system is very important on two major accounts. First, the structure and components of the delivery system reflect the behavior and philosophy of BANDESA in its lending operations with respect to cost efficiency, loan repayment and technical assistance, but within the norms established by the Bank's legal structure as well as the rules imposed by the Superintendency of Banking. Thus, an analysis of the credit delivery system aids in an understanding of BANDESA behavior.

Second, the credit delivery system has imbodied costs for both the Bank and its borrowers. Since the Bank can dictate the system used, it is assumed that it has established a system that will be cost efficient with respect to Bank goals. A borrower, on the other hand, must accept the conditions of the credit delivery system as they are imposed by the Bank. These conditions will influence borrower behavior. For example, the out-of-pocket and time costs--borrower transactions costs--incurred by the borrower in the process of obtaining, implementing and repaying a loan represent part of his borrowing costs and must be summed with interest costs to arrive at the true cost of borrowing.

Loan interest rates are an important part of the credit delivery system since they are not only a cost for the borrower but a source of income to the Bank. As noted in Chapter III, the level of the real interest rate will have an important influence on both lender and borrower behavior. For example, loan rates were shown to have important impacts on savings mobilization and the viability of financial institution. Moreover, if loan rates are concessionary, a lender may decide to use a credit delivery system that imbodies high borrower transactions costs as an additional price rationing mechanism. On the borrower's side the level of real interest rates has direct impacts on his uses of credit with consequences for resource allocation.

The present analysis of the BANDESA credit delivery system is organized in four parts: (a) interest rates, (b) the delivery system for loans made to individuals, (c) the delivery system for loans made to organized groups, and (d) summary and conclusions. In the presentation, reference will be made to the system used for lending from the Bank's own funds. Emphasis will be placed, however, on loans made from trust funds.

Interest Rates

Structure

BANDESA employs a variety of loan interest rates, depending on the source of funds and purpose of loan. For loans from the Bank's own funds the standard rates are 12 percent, the current maximum authorized by the Monetary Board, for regular loans to large farmers. Loans made to the Bank's target groups--small- and medium-sized farmers--are made at 9 percent. As explained in Chapter III, BANDESA has access to rediscounts from the Bank of Guatemala refinancing lines. Interest rates to the final borrower on these refinanced loans are normally 12 percent, but can be lower for special lines, such as those designated for basic grains and housing. BANDESA, however, has not used the rediscounts very frequently.

Interest rates charged by BANDESA on loans made from trust funds vary from 0 to 8 percent, depending on the conditions specified in the trust fund agreement. The typical plan, however, is for the final borrower to pay 8 percent. The lower rates are most often for loans to cooperatives. For example, BANDESA lends to a federation at 2 percent, the federation onlends to a cooperative and the cooperative extends credit to its membership. The low 2 percent BANDESA rate is designed to allow the federation and the cooperative to both obtain a sufficient spread and ultimately lend to the final borrower at 8 percent. The reconstruction loans for housing are even lower. When BANDESA lends to a federation, the Bank charges 0 percent and when it lends to a cooperative it charges 2 percent. In both cases the final borrower pays 4 percent and the intermediaries receive a 2 percent spread.

Penalty interest rates are charged of borrowers when a payment is received late or when the repayment period is extended. There is a monthly 2 percent commission on any unpaid balance and a 9 or 12 percent interest rate is also charged on past due interest payments. For loans that are extended, there is a lump-sum tax that is paid in government stamps.

Analysis

The BANDESA interest rate structure is quite rigid, especially for the rates on trust fund loans, and the rates are not modified to take account of inflation. As such, the real interest rate on BANDESA loans will fluctuate and may even be quite negative. Indeed, in four of the seven years between 1977 and 1983, loans with nominal rates of

8 percent or less would have had negative real rates. Fluctuations in the real rate represent changes in the interest costs of borrowing, and, as such, will cause borrowers to want to use credit in different amounts and for different purposes, depending on the real rate. This will have a destabilizing effect on agricultural production and resource allocation. Moreover, if real rates are negative, when the loan is repaid to either the Bank or a trust fund, depending on the source of funds lent, the Bank will have decreased its future real lending capacity. It is clear that the Bank should try to make adjustments in its rates to take account of inflation.

The BANDESA interest rate structure is fundamentally concessionary especially for loans made to small- and medium-sized farmers from either trust funds or the Bank's own funds. As noted in Chapter III, there is evidence that even loans at 12 percent are concessionary given the opportunity cost of financial resources in the economy.

The concessionary rates, while designed to provide income transfers to the small- and medium-sized borrowers, create conditions which contribute to the misallocation of resources and the use of the credit for political purposes (in this case to appeal to small- and medium-sized farmers). It is certain that many farmers, especially in the medium-sized class prefer to work with BANDESA, rather than commercial banks, because of the lower interest rates. Indeed, because of the subsidy, it would not be surprising if larger farmers try to qualify as medium-sized farmers. Therefore, it is very likely that BANDESA may be serving some farmers outside its target group, and, moreover, is serving target group farmers who could qualify for loans from a commercial bank.

With respect to Bank funds, concessionary loan rates place limits on the institution's ability to mobilize savings, because they implicitly place an upper limit on savings interest rates. In the case of trust funds, they limit the amount of commission that can be paid to BANDESA, since the commission should not exceed the interest income. In this regard, trust funds that are used to lend to cooperatives are losing money. If BANDESA is lending at 2 percent to a federation and a commission of 5 or 7 percent on the oustanding loan is being paid to the Bank from the fund, then there is a net loss to the trust fund.

With loans made to cooperatives the designed spreads for each intermediary appear to be insufficient. It is not unusual for a final borrower, who is a member of a cooperative, to pay a loan rate well in excess of 8 percent for his loan from the cooperative. On the one hand, this is hard evidence that the borrower is willing to pay this rate and it can be used to refute the arguments favoring subsidized rates. On the other hand, this suggests that the institutions--the federation and/or the cooperative--that are between BANDESA and the lender deem it necessary to add spreads that are larger than envisioned by project designers. Whether this represents inefficiency on the part of these intermediaries or simply reflects the true costs of onlending and administering these funds is a subject for an empirical study, but never-the-less it occurs. A side effect is that the cooperatives who have this credit complain because while they are charging, say 13 percent, BANDESA is willing to make direct loans to its members at 8 percent. The cooperatives believe that this is unfair competition. In reality, it may simply demonstrate the degree of subsidization in BANDESA loans.

Credit Delivery Systems: Loans to Individuals

BANDESA has developed a standardized credit delivery system that it uses for all loans, whether made from bank or any of its twenty-two trust fund sources. There is some variation in the amount of paperwork required and the steps undertaken, depending on whether the loan is for short-term agriculture, housing, or other longer-term investments such as livestock. BANDESA has a loan procedures manual that specifies eight major stages in the credit delivery process. Each is summarized below.

Stage 1: Reception of Loan Application

The prospective borrower fills out (or assists a BANDESA representative in filling out) a loan application form and files it along with the required documents with a credit agent or office representative at a BANDESA agency or caja rural. The required documents are two: (a) legalized paper showing ownership of the farm or the right to cultivate the land as a poseedor, usufructuario, beneficiary of land reform, or renter, and (b) personal identity document (cédula de vecindad). In addition, a cattle brand certificate is required for loans involving cattle. Most farmers already have these documents in their possession, but if they don't they can be obtained at the county seat, usually in one day at modest costs. The charge for a land document is Q.25 and for a personal identity document Q.35.

The loan applications are standardized (see Appendix A) with one exception. Previous borrowers who have demonstrated that they can meet repayment obligations on time (called A or B clients) are given a preferred status, and only have to fill out a much abbreviated form that combines the loan application and credit planning form (see Appendix B). Once a loan application is made along with the proper documentation, it is reviewed and checked for pending obligations from the following banks or credit programs: Popular de Columbia; de Comerico y Industria S.A.; INFOM; BAN: or SCICAS. If there is no outstanding obligation then a visit to the farm is arranged.

Stage 2: Credit Planning

A credit agent visits the farm (this step is usually waived for A or B clients) to make an on-site inspection and draw up an investment or work plan with the farmer to check the proposed use of credit and its efficiency. The standard plan consists of a financial statement, a farm plan showing need for credit, a statement of collateral, and an ammortization plan. Livestock, investment, and housing loans require more detailed information (see Appendix C).

Loans are designed to cover the purchases of inputs or investments. There is no direct payment for family consumption, but an allowance may be made for family labor, which amounts to the same thing.

Stage 3: Analysis of Proposed Loan

The credit agent or a credit analyst reviews the application and recommends which line of credit should be used. Depending on loan size the final approval takes place at the agency, district or central office level. As of June 1984, the review and loan approval levels were as follows: a credit agent in charge of a *caja rural* up to Q3,000; a head of an agency up to Q8,000; and a District Rural Credit Commission (consisting of the director of the district, the regional supervisor and three heads of agencies) up to Q15,000. These approvals are made without passing the paperwork to the head office. Larger loans are approved within the head office. There the approval authority is designated as follows: the sub-director of credit up to Q20,000; the director general up to Q25,000; the Credit Committee (see Chapter IV) up to Q150,000; and the Board of Directors any amount in excess of Q150,000. Factors considered in deciding whether or not to approve a loan are: previous experience of prospective borrower with Bank, references from other credit institutions, financial situation of prospective client relative to credit needs, amount of credit requested, the profitability of the proposed project, and collateral and margin of coverage. In cases where higher authorities must approve a loan, the recommendations of the lesser authorities are passed forward.

Stage 4: Approval or Disapproval of Loan

The loan is approved or disapproved according to the above analysis and the availability of funding. An example of loan approval form is presented in Appendix D.

Loan collateral varies, depending on the purpose of the loan. Short-term crop loans are typically guaranteed with nothing but the future crop. Investment loans require a guarantee of land title plus the goods purchased with the credit.

Stage 5: Preparation of Legal Loan Documents

The Bank requires a legal document (Esrictura Publica de Legalizaciõn de Prestamo) specifying the terms and conditions of the loan that is registered with the public authorities. This document is usually prepared by a lawyer. For this service the borrower pays a fee, which is variable, but typically costs about Q20.00 plus legal stamps. The lawyer may add an additional charge that corresponds to a fraction of a percent of the amount borrowed. For example, one BANDESA agent said a loan of Q7,200 would cost the borrower about Q30.00.

Stage 6: Loan Disbursement

Loan disbursements are to be made in accordance with the dates programmed in the credit documents by a cashier at a bank office. Disbursements are made both in-kind and in cash. Where feasible, in-kind payments are made, cash being used mostly to pay hired and family labor. For in-kind purchases the borrower must provide the Bank with a pro forma invoice of the cost of the item from the supplier, and, upon the borrower's receipt of the item, the Bank reimburses the supplier. This procedure was very common in the purchase of fertilizers, when BANDESA had its Input Division. When there are multiple disbursements, successive disbursements depend upon the approval of a credit agent as described in the next stage.

Stage 7: Loan Supervison

The credit agent is expected to visit the client during the period the credit is in effect. The principal objective of this visit is to see that the projects being financed are being undertaken in accordance with the credit plan. In case of multiple disbursements, the credit agent must recommend approval for each successive disbursement after the first, based on a farm visit. At this time he fills out a farm visit form (see Appendix E). If, during the use of credit, some disaster occurs --say an act of God like hail, drought, flood, etc. that destroys a financed crop--the agent can recommend and plan an extension or novation of the loan, utilizing the specific form (see Appendix F).

Stage 8: Loan Recovery

Most loans repayment are scheduled in equal payments for each semester. In the case of some projects, grace periods of up to three years are forseen. Loan repayments generally occur at caja rurales or agencies. The borrower makes the payments directly to a cashier.

If a loan is not paid on time, a sixty day grace period is automatically provided. During these sixty days the credit agent visits the farm and recommends action to be taken. There are four possbilities. First, is a loan extension. If, for example, the farmer was unable to sell his products due to bad markets a term extension is common. Second, is novation, where the existing credit obligation is cancelled and a new loan obligation is created. This is used most commonly when the farmer is insolvent because of natural disasters. Third, is an extension of term with debt recognition. This is used, for example, when a borrower is not going to continue farming or changes occupation (see Appendix G). Fourth, and most serious, is to classify the debt for administrative collection or legal action. This is employed if the borrower does not pay on time because of causes attributable to his negligence or other causes.

Technical Assistance

BANDESA agents are not required nor expected to provide much technical assistance to their clients except in the farm planning stage. Never-the-less most do, not only in this stage, but also at the time of farm visits. The formal arrangement for technical assistance is that it is to be provided by the National Agricultural Extension Service (DIGESA). BANDESA is supposed to provide DIGESA with information about each client, purpose of loan, etc. in order that an extension agent can follow up.

Analysis

BANDESA has clearly demonstrated a desire to streamline procedures in its credit delivery system by means of adopting standardized procedures and paperwork for loans, no matter the source of funds; requiring less paperwork of established clients with a good repayment record; and allowing considerable decentralized decision making for granting and administering small loans. In part, this emphasis may result from concerns over cost efficiency in the last few years when the Bank has suffered large operations losses that have not been reimbursed through government subsidy. Never-the-less, the end results have been to make the system more agile and less costly for both the Bank and its borrowers.

BANDESA paperwork appears to be excessive and probably could be reduced without any loss in useful information. Compared to agricultural development banks in other countries, however, it is not excessive. The innovation to decrease paperwork required for proven past clients is excellent and reduces bank and borrower costs for these loans. It also serves as an additional incentive for borrowers to repay on time. In a sense, this innovation serves as an open line of credit to a borrower, which can be of considerable value to him for future planning.

Decentralized decision making is another strong feature since it reduces the high costs of multiple reviews of small loan applications at different levels in the Bank's hierarchy and speeds up the time of credit delivery, thus avoiding costly delays for the borrower. In June 1984, the size for limits for loan review and approval were raised substantially. By the new standards, 99 percent of the loans from trust funds made in 1983 would have been subject for approval by agencies or cajas rurales. This means that loans can be made and disbursements made within a period of 10 days after an application is submitted. Most, however, take two weeks or a little longer. The key to the time involved is the rapidity with which the farm plan is prepared. Fortunately, this is typically done only a few days after the loan application is filed.

When loan applications go to the head office for review and approval, the time frame is much longer, oftentimes taking months. One reason is the large number of steps that the paperwork must undergo. To illustrate this cumbersome process, an informal in-house study showed that, for these loans, in the loan application review process in the head office, the paperwork passed through more than 110 hands.

The credit delivery system does not appear to involve onerous transactions costs for most borrowers. It would appear that a typical borrower would spend less than Q40.00 in out-of-pocket costs, most of which is for the lawyer's fee to prepare the loan document, to obtain a loan. In addition, there would be time costs involved in traveling to the bank office or to obtain documents. It is useful to compare the magnitude of these costs with those of other countries. A study conducted by one of the authors in Bolivia showed borrower transactions costs for small farmer loans for the Bolivian Agricultural Bank to be more than twice as high as they appear to be in Guatemala.[1]

Since borrower transactions costs are somewhat fixed, they will be smaller as a percentage of the amount borrowed, the larger the loan. For example, for a loan of Q8,000, the above-mentioned out-of-pocket and time costs would represent less than 1 percent of the loan. As such, they probably don't serve much as a credit rationing mechanism. For farmers with small loans, however, they represent a much larger cost. For example, transactions costs for a loan of Q1,000 could be equivalent to as much as 4 to 8 percent of the amount borrowed. For borrowers seeking smaller loans these costs are likely to serve more in a credit rationing capacity. The expected result would be to discourage borrowing from BANDESA for those farmers wanting small loans. This effect, however, does not appear to have discouraged farmers seeking small loans from the Bank; in 1983, more than 54 percent of borrowers of loans from trust funds had loans for less than Q1,000.

The credit delivery system appears to be very successful in getting credit in the hands of its target clientele. In 1983, BANDESA made over 20,000 loans from its trust fund sources. This places a heavy burden, however, on its credit agents. A 1984 survey of thirty-nine agents showed that the median case load was 400 loans per agent, which is a very large number, considering that a large portion of these loans were made in the year.

The same survey was used to measure the time a BANDESA credit agent typically spent in administering a loan. The results are reported in Table VI-1. For short-term crop loans, of Q5,000 or less, the agents estimated that they only spent, on the average, a total of 6.62 hours per loan over the whole life of the loan. Of this total, 37.2 percent was in travel time and 22.7 was in preparation of the farm investment plans. What is most striking, given the serious delinquency problem that BANDESA faces, is the small amount of time, 5.4 percent, that is spent in loan collection. This raises the question whether the

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[1] Jerry R. Ladman, "Loan-Transactions Costs, Credit Rationing and Market Structure: The Case of Bolivia," Undermining Rural Development With Cheap Credit, eds., Dale W Adams, Douglas H. Graham and J.D. Von Pischke (Boulder, Colorado: Westview Press, 1984), p. 115.

TABLE VI-1

BANDESA AGENT TRANSACTION COSTS

Time in Hours by Type of Loan

	Short-term Crop				Investment				Artisanry			
	≤Q5000 Hours		>Q5000 Hours		≤Q5000 Hours		>Q5000 Hours		≤Q5000 Hours	%	>Q5000 Hours	%
Reception of Applications	0.33	5.0	0.55	7.5	0.50	6.9	1.07	14.4	0.50	8.2	0.70	8.8
Preparation of Investment Plans	1.50	22.7	1.75	23.9	1.50	20.7	1.75	23.6	0.75	12.3	1.50	19.0
Loan Disbursements	1.00	15.1	1.3	17.8	1.07	14.8	0.50	6.7	0.92	15.0	1.26	15.9
Technical Assistance	0.75	11.3	0.50	6.8	0.75	10.4	0.75	10.1	0.77	12.6	0.87	11.0
Loan Collection	0.36	5.4	0.50	6.8	0.50	6.9	0.40	5.4	0.47	7.7	0.37	4.7
Other	0.23	3.5	0.25	3.4	0.45	6.2	0.50	6.7	0.25	4.1	0.75	9.5
Travel Time[a]	2.46	37.2	2.46	23.6	2.46	34.0	2.46	33.2	2.46	40.2	2.46	31.1
Total	6.62	100.0	7.31	100.0	7.23	100.0	7.42	100.0	6.12	100.0	7.91	100.0

TABLE VI-1 cont.

BANDESA AGENT TRANSACTION COSTS

Time in Hours by Type of Loan

	Livestock				Housing				Cooperatives	
	≤ Q5000 Hours		> Q5000 Hours		≤ Q5000 Hours		> Q5000 Hours		Hours	%
Reception of Applications	0.75	7.6	0.75	6.6	0.50	7.5	0.75	10.5	1.50	12.6
Preparation of Investment Plans	2.50	25.2	3.50	31.0	1.50	22.6	1.45	20.3	3.00	25.1
Loan Disbursements	1.37	13.8	1.50	13.3	0.57	8.6	0.75	10.5	1.50	12.6
Technical Assistance	1.05	10.6	1.25	11.1	0.57	8.6	0.66	9.2	1.50	12.6
Loan Collection	0.75	7.6	0.62	5.5	0.64	9.6	0.47	6.6	0.75	6.3
Other	1.05	10.6	1.25	11.1	0.40	6.0	0.62	8.7	1.22	10.2
Travel Time[a]	2.46	24.8	2.46	21.8	2.46	37.0	2.46	34.4	2.46	20.6
Total	9.93	100.0	11.33	100.0	6.64	100.0	7.16	100.0	11.93	100.0

SOURCE: Sample survey of BANDESA credit agents.

[a]Average travel time x average number of trips as determined by survey.

delivery system gives proper emphasis to loan recovery. These figures suggest that it is basically a lending and disbursing process and not repayment oriented.

For short-term crop loans that were greater than Q5,000, the median total time spent by a bank agent rose to 7.31 hours, about a 10 percent increase over the smaller loans. The additional time was mostly spent in the preparation of investment plans.

The time spent for loans for other purposes was similar to that for short-term crop loans, except in the case of livestock. Bank agents spent about 50 percent more time on livestock loans than for the others. Much of the additional time was spent in preparing the more complicated investment plans.

The arrangement with DIGESA for technical assistance appears to be problematical in that many borrowers do not recieve this service. The survey showed, however, that the bank agents regularly offer information on cultural practices, farm management and marketing to about 75 percent of the borrowers.

Credit Delivery Systems: Loans to Cooperatives and Other Organized Groups

The same basic stages are undertaken for loans to cooperatives and other organized groups as are employed for loans to individuals. There are, however, two major differences that have important consequences.

First, considerably more documentation is required which places an extreme burden on the cooperative/group to prepare. The end result is that the loan application and credit planning process gets strung out over a long period of time. This requires the cooperative/group to get a very early start in making its plans for credit. Never-the-less, the credit often arrives much later than originally planned.

The required documents are: (a) certificate of land tenency for each member of the cooperative/group that will receive credit; (b) copy of the cooperative/group's statutes; (c) certificate of the cooperative/group's act of organization; (d) certificate of the act authorizing the cooperative/group's board of directors to apply for credit; (e) certificate of the act authorizing the cooperative/group's board of directors to make decisions; (f) certificate of the act authorizing the cooperative/group's president or representative to have legal power for credit contracts; (g) income statements and balance sheets for the cooperative/group for the past three years, and balance sheets for the last three months prior to applying for credit, all certified by an authorized accountant; (h) complete list of members who will get credit along with their personal identity card numbers, form of land tenency, size of farm, and their detailed plans for credit use including projected; (i) in the case of loans of more than Q100,000, a technical economic study of the proposed project, as prescribed by the Bank; (j) copy of the cooperative/group's internal rules; (k) in the case of cattle loans, a certificate of cattle brands; (l) copy of loan contracts that the cooperative/group will use with its members; (m) a legal loan document prepared by a lawyer (Escritura pública de Mandato); (n) pro-forma invoices for capital goods to be purchased with credit; (o) budgets for any constructions to be undertaken with credit; and (p) in the case of poultry or swine loans, the certificate of authorization from the public health authorities.

Second, the proposed loans are typically of sufficient size that they are not eligible for final review of the agency level and are sent to the head office for review. Here, they often encounter time-consuming delays, another factor which causes the credit to be disbursed much later than planned.

Analysis

BANDESA loans to cooperative/groups require considerable paperwork and documentation. Most of the burden is placed on the cooperative and not on the Bank. As shown in Table VI-1 the bank agents typically spent only 12 hours in administering this type of loan. This is only twice the amount of time spent on an individual loan. The procedures and required documents for loans to cooperatives and groups give rise to very high transactions costs for the cooperative, especially to the leadership that carries the burden of preparing the paperwork. Undoubtedly these serve as an effective credit rationing mechanism. The requirement to supply all of these documents is the number one complaint of most all cooperatives. The documentation appears to be excessive and means should be sought to reduce it. Moreover, it does not appear to be effective in preventing delinquency. As will be shown in the following chapter, loans to cooperatives experience very high delinquency rates.

Summary and Conclusions

Two major components of the BANDESA credit delivery system were examined in this chapter: the interest rate structure and the procedures and documentation that are required in making, implementing and repaying of loans.

The interest rate structure was found to be rigid and concessionary. As a consequence, real interest rates over the 1977-1983 period fluctuated and often were negative. It was concluded that these conditions had undesirable impacts on credit use, resource allocation and the long-run financial viability of BANDESA.

The implicit income transfers associated with the concessionary aspect of BANDESA's interest rates undoubtedly attract many borrowers, especially medium-sized farmers, to the Bank who otherwise would be eligible for credit from other sources, such as commercial banks. Furthermore, the transfers may contribute to the use of BANDESA credit by the government for political purposes, especially to gain the support of small-farmers. Concessionary rates also place implicit ceilings on interest rates for savings deposits, and, therefore, work against mobilizing savings.

The interest rate structure for BANDESA loans to cooperatives is inadequate. The interest income to the BANDESA-administered trust funds are lower than the commissions paid from the trust fund to BANDESA. Furthermore, the cooperatives or federations argue that the spread they receive as an intermediary is insufficient to cover their costs. As a result, cooperatives often increase the spread and charge the final member borrowers an interest rate that exceeds that for BANDESA loans. This creates discontent because cooperative members can obtain BANDESA loans as individual borrowers at lower rates.

It is clear that the BANDESA interest rate structure should be revised. First, as stated in Chapter III, there are many valid arguments for raising loan rates to levels that not only get rid of the concessionary aspect, but also are adjusted for inflation. Were this to occur, the role of BANDESA as a financial intermediary would be improved and economic resources would be allocated more appropriately. Second, particular attention needs to be directed to the interest rate structure for BANDESA loans to cooperatives. This merits an in-depth study.

The BANDESA credit delivery system has been improved by three recent creative innovations by the Bank: (a) adopting standardized procedures and paperwork for loans: (b) decentralizing decision making for granting and administering almost all small loans; and (c) providing continued access to credit for past clients who have demonstrated that they repay their loans on time. The benefits of the first two are highlighted in the following paragraphs. The third is particularly important in rewarding good clients by providing them access to future credit at lower transactions costs.

The credit delivery system appears to be very effective in granting loans, and disbursing credit to individual small- and medium-sized farmers. In 1983, more than 20,000 loans were made to these target groups. The procedures, paperwork and documentation that BANDESA employs in its credit delivery, are routine and do not appear to be excessively costly to either the borrower or the Bank. On a comparative basis with experience in many other countries, the system appears to be reasonably cost efficient for both the Bank and its borrowers. This is not to suggest that, BANDESA should not continue to see ways to reduce lender and borrower transactions costs by simplifying the credit delivery system. One document is worthy of immediate attention. From the perspective of the borrower, the legal loan document that is prepared by a lawyer is very expensive. A near-term goal should be to develop a more simplified and less costly document.

There are few delays in disbursing credit for loans to small farmers; with decentralization, the loan applications are processed rapidly. In contrast, for large loans, including those to cooperatives, the process can drag on for months before a decision on a loan application is reached and credit is disbursed, because the paperwork is processed in the head office, where it must work its way through the bureaucracy.

The credit delivery systems for cooperatives and organized groups is another story. The system is heavily encumbered by the need for the cooperative/group to present many documents. The end result is that the cooperative/group needs to invest considerable time in preparing the paperwork, which not only is costly for them, in terms of time, but also leads to delays in their access to credit. Furthermore, these delays are compounded by delays in the loan approval process because these loans are processed in the head office.

Credit agents have a heavy case load. Each credit agent administers, on the average, about 400 loans per year, of which a large portion are granted in the year. Clearly this does not allow much time per client. Indeed, a study showed an agent spending less than seven hours per year on a typical short-term crop loan. The most striking feature, however, is the relatively small amount of effort of the credit agents devoted to loan collection. This is somewhat curious given the high rates of loan delinquency, the subject of the following chapter, and probably demonstrates that BANDESA has placed much more emphasis on making and disbursing loans rather than collecting them. This may reflect its priorities as it views its mission in sectoral development.

Finally, there appear to be problems with technical assistance. The arrangement with DIGESA to provide technical advice is not working as well as it was designed. This is not surprising, because similar arrangements in other countries experience the same problem. BANDESA agents are picking up some of the slack by regularly offering advice to borrowers.

APPENDIX VI-A

BANDESA LOAN

APPLICATION FORM

STANDARD LOAN

APPLICATION FORM

F/0401-001

BANCO NACIONAL DE DESARROLLO AGRICOLA
Guatemala, C.A.

No. ____________
Usuario clase: ________

SOLICITUD DE CREDITO

Agencia: ____________________ Fecha: (Día) (Mes) (Año)

I DATOS DEL SOLICITANTE:

Nombre del solicitante o razón social: ____________________

Dirección: ____________________ Teléfono: __________

A. PERSONAS INDIVIDUALES: ____________________

Cédula de Vecindad No. Orden: ________ No. Registro __________ Extendida en: __________

Estado civil: ________ Nacionalidad: __________ Edad: _____ Profesión u oficio: __________

B. GRUPOS ORGANIZADOS:

Fecha de aprobación de su personalidad jurídica: ____________________

Inscrita en INACOP con el No. _____ Folio _____ Libro _____ Fecha __________

Federada o afiliada a: ____________________ No. federada __________

Número de asociados: __________ Activos: __________

Actividad principal: ____________________

Nombre del representante legal: ____________________

Cédula de Vecindad No. Orden: ________ No. Registro __________ Extendida en: __________

Dirección del representante legal: ____________________ Teléfono: __________

II DATOS LUGAR DE INVERSION:

Extensión en hectáreas: __________ Area: a cultivar: ________ Has. a financiar ________ Has.

Aldea o parcelamiento: ____________________

Municipio: ____________________ Departamento: __________

Tenencia de la Tierra: Propietarios ○ Arrendatarios ○ Poseedores ○ Beneficiarios Reforma Agraria ○ Usufructuarios ○ Otros ○

III DATOS DEL PRESTAMO

Monto solicitado Q. __________ Destino: ____________________

____

____

Garantía propuestas: ____________________

____

____

Plazo y forma de pago: ____________________

____

IV ANTECEDENTES CREDITICIOS:

Ha obtenido préstamos anteriormente? SI ○ NO ○

Indique el nombre de la Institución bancaria, casa comercial, persona natural, etc. __________

____

Saldo adeudado a la fecha:	Q. __________	Fecha de vencimiento:	__________
" "	Q. __________	" "	__________
" "	Q. __________	" "	__________
" "	Q. __________	" "	__________

V DOCUMENTOS QUE ACOMPAÑA A SU SOLICITUD: ____________________

____

____

____

____

Solicitante o representante legal:	Recibe la solicitud:
(Firma e Impresión Digital)	(Firma y sello)

LOAN APPLICATION FORM

FOR HOUSING LOANS

BANCO NACIONAL DE DESARROLLO AGRICOLA —BANDESA— F/VI-1-41
UNIDAD EJECUTORA DE VIVIENDA
GUATEMALA, C. A.

SOLICITUD DE PRESTAMOS PROGRAMAS DE RECONSTRUCCION

Nombre del(los) Solicitante(s): ______________________________
(Nombres y apellidos completos)
____

Dirección actual: ______________________________

Dirección al 4-Feb-1976: ______________________________

Cédula(s) de Vecindad No. Orden __________ No. Registro: __________ Extendida(s) en: ______________________________ Edad(es) __________

Ingresos: Mensual ☐ Trimestral ☐ Semestral ☐ Anual ☐ Q. __________

Estado Civil: __________ Profesión u oficio: __________

Cantidad máxima que puede pagar: Mensual ☐ Trimestral ☐ Semestral ☐ Anual ☐ Q. __________

Nombre y dirección del lugar de Trabajo: ______________________________
____

Tiene Préstamos de Reconstrucción en BANVI ☐ CORFINA ☐ C.H. N. ☐ BCO. INMOBILIARIO ☐
COOPERATIVAS: ☐ ______________________________
(Nombre)

Tenencia de Tierra: Propietario ☐ Arrendatario ☐ Usufructuario ☐ Poseedor ☐
Beneficiario Reforma Agraria ☐ Otros ☐ ______________________________
(Especifique)

Para vivienda familiar situada en: ______________________________

Para rehabilitar unidades Familiares productivas, localizada en: ______________________________
______________________________ Que se dedica a: ______________________________
______________________________ Desde: ______________________________

DESTINO Y MONTO DEL PRESTAMO:

VIVIENDA:		REHABILITACION DE:	
Construcción	Q. ______	Pequeña Artesanía Familiar	Q. ______
Reconstrucción	Q. ______	Pequeña Industria Familiar	Q. ______
Reparación	Q. ______	Pequeño Comercio Familiar	Q. ______
Compra Terreno	Q. ______	Reposición y Reparación de Pequeños Capitales Agrícolas y/o Pecuarios	Q. ______
Compra casa Prefabricada	Q. ______		
Monto Solicitado:	Q. ______	Monto Solicitado:	Q. ______

G A R A N T I A S:

I. Hipotecaria: Finca __________ No. __________ Folio No. __________
Rústica - Urbana
Libro No. __________ de: ______________________________

II. Prendaria sobre: ______________________________
____

III. Fiduciaria: Nombre Fiador: ______________________________
Cédula de Vecindad; No. de Orden: __________ No. de Registro: __________ Extendida en: ______________________________ Ocupación: __________
Estado Civil: __________ Parentesco con el Solicitante __________
Dirección: ______________________________

OBSERVACIONES: ______________________________
____
____

Declaro y juro que los datos consignados en este formulario son correctos y completos y que he confeccionado esta declaración como fiel expresión de la verdad a mi leal saber y entender, quedando sujeto a las sanciones establecidas en el Artículo 459 del Decreto No. 17-73 del Congreso de la República, por cualquier inexactitud o falsedad. Manifestando que la vivienda y/o Pequeño Negocio de mi propiedad que habitaba el 4 de febrero de 1976, fue afectada(o) por el terremoto de esa fecha y los fenómenos naturales derivados de aquel.

__________________ __________________
Firma del Solicitante o huella digital Firma del Fiador o huella digital

____
Lugar y Fecha

APPENDIX VI-B

LOAN APPLICATION FORM

FOR PREFERRED CLIENTS (CLASSES A & B)

F/0402-061

BANCO NACIONAL DE DESARROLLO AGRICOLA.
Guatemala C.A.

RECEPCION No:

SOLICITUD Y PLAN DE CREDITO
USUARIOS A Y B

FECHA: Dia / Mes / Año

No DE DISTRITO: | NOMBRE DE LA AGENCIA | No. DE LA AGENCIA:

PERIODO QUE CUBRE EL PLAN: 19 A 19

NOMBRE DEL SOLICITANTE: (PRIMER APELLIDO) (SEGUNDO APELLIDO) (NOMBRES)

EDAD: ESTADO CIVIL:

CEDULA DE VECINDAD: No DE ORDEN No. DE REGISTRO: EXTENDIDA EN:

DIRECCION:

PERSONAS QUE DEPENDEN DEL SOLICITANTE: HIJOS HIJAS OTROS
EDADES EDADES EDADES

ENSION Y LOCALIZACION DE LA FINCA O PARCELA.
NOMBRE:
No DE HAS
ALDEA:
MUNICIPIO:
DEPARTAMENTO:

TENENCIA DE LA TIERRA:
PROPIETARIO:
BENEF DE REFORMA AGRARIA
USUFRUCTUARIO
POSEEDOR
ARRENDATARIOS
OTROS

ACION DEL ARRENDAMIENTO: DE 19 HASTA 19

PROGRAMA AGRICOLA Y FINANCIAMIENTO.

CULTIVO	HAS.	PRODUC. TOTAL	PRECIO UNITARIO	VALOR PRODUCCION	GASTOS	BENEFICIO	FINANCIAMIENTO NECESARIO
ESARROLLO:							
EFECTUAR:							
TOTAL:							

GARANTIAS PRENDARIAS

CONSTITUIDAS POR	UNIDADES	VALOR UNITARIO	VALOR TOTAL	CONSTITUIDAS POR:	UNIDADES	VALOR UNITARIO	VALOR TOTAL.

OTRAS GARANTIAS:

PLAN DE AMORTIZACIONES

CREDITO No.	FECHA DE PAGO Y MONTOS			CREDITO No.	FECHA DE PAGO Y MONTOS		

OBSERVACIONES.

FIRMA O IMPRESION DIGITAL DEL SOLICITANTE:

MONTO SOLICITADO Q.

MONTO CONCEDIDO Q.

NOMBRE Y FIRMA DEL EMPLEADO QUE PREPARA LA SOLICITUD Y PLAN DE CREDITO:

FIRMA Y SELLO DEL JEFE DE AGENCIA QUE REVISA Y AUTORIZA LA CONCESION DEL PRESTAMO

APPENDIX VI-C

BANDESA INVESTMENT OR WORK PLAN FORMS

FORMS FOR
SHORT-TERM CREDIT

P/VI-1-11

BANCO NACIONAL DE DESARROLLO AGRICOLA
GUATEMALA, C. A.

PLAN DE CREDITO A CORTO PLAZO

Agencia No.______de______________________
Región No._______________________________

Período que cubre el plan: De________________19____ a________________19____

Nombre del solicitante:	Edad	Estado Civil	Cédula de Vecindad: No. Orden / Registro

Familia que depende del solicitante:

Edades:	Hijos:	Hijas:	Otros:

Area y Localización de la finca:______________ No. Has.

______________ Finca o Parcela ______________ Aldea

______________ Municipio ______________ Departamento

Tenencia de Tierra:

(Prop. Benef. de Ref. Agraria Usufructuario Poseedor Arrendatario Otras)

Domicilio:

Duración del Arrendamiento: De 19 hasta 19

I - ESTADO FINANCIERO

A) LO QUE POSEE	UNIDADES	VALOR	B) LO QUE ADEUDA	CANTIDAD
Terrenos y mejoras			Al BANDESA	
Casas				
Cultivos en desarrollo:				
Ganado:				
			A otros Bancos	
Equipo agrícola				
Bienes personales				
Dinero en efectivo			Otras Deudas	
Otros				
Total:			Total:	

II - PROGRAMA AGRICOLA Y FINANCIAMIENTO

A	B	C	D	E	F	G	H
CULTIVOS	Has.	PRODUCCION TOTAL	PRECIO UNITARIO	VALOR PRODUCCION (CXD)	GASTOS	BENEFICIO (E-F)	CREDITO NECESARIO
En desarrollo:							
A efectuar:							
Total:							

III - DISTRIBUCION DEL CREDITO

Clase de Cultivo	INSUMOS: Semilla	Fert.	Insect.	Fung.	Aplicación Insumos	Prep. Tierra	Siembra	Limpias	Cosecha	Transp.	Otros	TOTAL
Total:												

IV - GARANTIAS

CLASE	UNIDADES	VALOR UNITARIO	VALOR TOTAL	CLASE	UNIDADES	VALOR UNITARIO	VALOR TOTAL

Otras Garantías: ______________________________

V - RESUMEN FINANCIERO

A) INGRESOS	MONTO	B) GASTOS	MONTO
Venta de cosechas		De cultivos (Tabla II)	
Préstamo de BANDESA		A BANDESA:	
Otros ingresos		Por capital préstamo	
		Por intereses	
		Otros gastos	
Total:		Total:	
		Saldo Neto (Ingresos menos Gastos)	

VI - PLAN DE AMORTIZACIONES

Crédito No.	Fecha de Pago y Montos			Crédito No.	Fecha de Pago y Montos		

Fecha

Firma o Impresión digital del agricultor

Firma y Sello
Promotor Agrícola o Agente de Crédito

RECOMENDACION DEL CREDITO

(La siguiente información será llenada exclusivamente por el Promotor Agrícola o el Agente de Crédito).

DATOS DE LA FINCA:

(Referir en forma breve, su accesibilidad, clima, topografía, suelos, fuentes de agua, etc.)

INVESTIGACION DEL SOLICITANTE:

(Referir en forma breve, antecedentes, comportamiento dentro de la comunidad, responsabilidad, capacidad y potencialidad de trabajo, etc. y si procede o no la concesión del préstamo solicitado).

Nombre del Promotor Agrícola o Agente de Crédito

Firma y Sello

FORMS FOR INVESTMENT AND LIVESTOCK LOANS

F/V-2-1-2

BANCO NACIONAL DE DESARROLLO AGRICOLA

GUATEMALA, C. A.

PLAN DE TRABAJO

Agencia No. ______________________

Nombre.......................... Región No..........

Periodo cubierto por plan: Desde .... 19 ...... hasta .... 19 .....

NOMBRE DEL SOLICITANTE	EDAD	NOMBRE DE LA CONYUGE	EDAD

EDADES de:	HIJOS	HIJAS	OTROS	EXTENSION TERRENO QUE POSEEN		EXTENSION TERRENO CULTIVABLE	
				Propio	Arrendado	Propio	Arrendado

Dirección: ....

Duración del arrendamiento de: .... 19 ...... hasta .... 19 .....

I.— ESTADO FINANCIERO A/ .... de 19 ....

A) LO QUE POSEE	Unidades	Valor	B) LO QUE ADEUDA	Cantidad
1—Terrenos, edificios y mejoras			Deudas sobre propiedad inmueble:	
			a) BANDESA	
2—Para la venta inmediata				
a) Cosechas			b) Otros	
b) Animales				
3—Cultivos en desarrollo				
			Deudas garantizadas:	
4—Animales				
Aves				
Cerdos				
Bovinos				
Equinos				
Otros				
			Deudas no garantizadas:	
5—Semillas, productos, etc.				
Disponibles				
6—Equipo agrícola				
7—Bienes personales				
8—Dinero en efectivo				
9—Otros: Valor				
TOTAL	XXX		TOTAL ADEUDADO	

II. — PROGRAMA AGRICOLA

CLASE DE CULTIVO	Extensión Has.	Rendimiento Total (Cantidad)	USO		Precio por Unidad (Qs.)	Valor Total Estimado (Qs.)	PRODUCCION FINAL	
			Doméstico (Cantidad)	Venta (Cantidad)			Producido (Cantidad)	Valor (Qs.)
TOTAL		XXX	XXX	XXX	XXX		XXXX	

III. — PROGRAMA GANADERO

Clase de Animales	NUMERO			Producción Total (Cant.)	USO		Ingreso Total Estimado (Qs.)	Producción Final	
	Que Posee (Cant.)	Por Adquirirse (Cant.)	Total (Cant.)		Doméstico (Cant.)	Venta (Cant.)		Producido (Qs.)	Valor (Qs.)
TOTAL				XXX	XXX	XXX		XXXX	

IV. — PRACTICAS Y MEJORAS

PRACTICAS MEJORADAS FAMILIARES, DE CULTIVOS Y PECUARIAS	Epoca en que se efectuará	A pagarse con dinero de:	Logros Obtenidos (Fecha)

IV. —PRACTICAS Y MEJORAS (Cont.)

V — GASTOS DE CULTIVOS ANUALES

CLASE DE CULTIVO		Prep. Tierra	Semilla	Siembra	Limpia	Insec.	Cosecha	Otros	Otros	Otros	Otros	Total Gastos	Préstamo TOTAL
	G												XXX
	P											XXX	
	G												XXX
	P											XXX	
	G												XXX
	P											XXX	
	G												XXX
	P											XXX	
	G												XXX
	P											XXX	
	G												XXX
	P											XXX	
	G												XXX
	P											XXX	
	G												XXX
	P											XXX	
	G												XXX
	P											XXX	
	G												XXX
	P											XXX	
	G												XXX
	P											XXX	
											TOTALES		

VI — GASTOS DE HABILITACION DE TIERRAS Y SIEMBRA DE CULTIVOS PERMANENTES Y SEMI PERMANENTES.

C L A S E		Habilit. Tierra	Prep. Tierra	Semilla	Siembra	Limpia	Insect.	Cosecha	Otros	Otros	Total Gastos	Préstamo Para Refacción	Préstamo Para M. Perm.
	G											XXX	XXX
	P										XXX		
	G											XXX	XXX
	P										XXX		
	G											XXX	XXX
	P										XXX		
	G											XXX	XXX
	P										XXX		
	G											XXX	XXX
	P										XXX		
											TOTALES		

VII.—GASTOS

A. ANUALES	TOTAL	Prestado
Gastos Cultivos (Tabla V)		
Ganaderos		
Imprevistos		
Arrendamiento		
Otros		
Gastos familiares		
Intereses		
TOTAL		

B. Inversiones de Capital	Total Gastos	MONTO PRESTADO	
		Refacción	M. Perm.
Gastos Cultivos Per. y Semi. Perm. (Tabla VI)			
Otros			
TOTAL			

VIII.—RESUMEN FINANCIERO

A. INGRESOS	Monto
Venta Cosechas	
Venta Animales y productos	
Otros ingresos	
Destino:	
a) Avío Q.	
b) Refacción Q.	
c) M. Perm. Q.	
Préstamo Total (a+b+c)	
TOTAL INGRESOS	

B. EGRESOS	Monto
Gastos Anuales (Tabla VII-A)	
Inversiones de Capital (Tabla VII-B)	
Deudas a pagarse A De Fecha	
TOTAL EGRESOS	
Saldo Neto (Ingresos menos gastos)	

IX.—RESUMEN DE AMORTIZACIONES DE DEUDAS

Acreedor	Monto a pagar por año y Fecha en que se efectuará el Pago									Monto Total
TOTAL										

Declaro que estoy de acuerdo con este plan de trabajo y me comprometo a seguirlo en todas sus partes, aceptando todas las obligaciones que de él se deriven.

Fecha

Firma Agricultor

Firma Agente

CUADRO POBLACIONAL DE GANADO

PRIMER AÑO	Toros	Vacas	Terneras	Vaquillas 1 Año	Vaquillas 2 Años	Terneros	Toretes 1 Año	Toretes 2 Años	TOTAL
Compras									
Menos Reclasificación									
Resta									
Más Reclasificación									
Sumas									
Más Nacimientos									
Sumas									
Menos Muertes o Pérdidas									
Resta									
Menos Ventas									
Pasan al 2o. Año:									
SEGUNDO AÑO Vienen Existencias									
Menos Reclasificación									
Resta									
Más Reclasificación									
Sumas									
Más Nacimientos									
Sumas									
Menos Muertes o Pérdidas									
Resta									
Menos Ventas									
Pasan al 3er. Año									
TERCER AÑO Vienen Existencias									
Menos Reclasificación									
Resta									
Más Reclasificación									
Sumas									
Más Nacimientos									
Sumas									
Menos Muertes o Pérdidas									
Resta									
Menos Ventas									
Pasan al 4o. Año									
CUARTO AÑO Vienen Existencias									
Menos Reclasificación									
Resta									
Más Reclasificación									
Sumas									
Más Nacimientos									
Sumas									
Menos Muertes o Pérdidas									
Resta									
Menos Ventas									
Pasan al 5o. Año									
QUINTO AÑO Vienen Existencias									
Menos Reclasificación									
Resta									
Más Reclasificación									
Sumas									
Más Nacimientos									
Sumas									
Menos Muertes o Pérdidas									
Resta									
Menos Ventas									
Pasan al 6o. Año									

	Toros	Vacas	Terneras	Vaquillas 1 Año	Vaquillas 2 Años	Terneros	Toretes 1 Año	Toretes 2 Años	TOTAL
SEXTO AÑO Vienen Existencias									
Menos Reclasificación									
Resta									
Más Reclasificación									
Sumas									
Más Nacimientos									
Sumas									
Menos Muertes o Perdidas									
Resta									
Menos Ventas									
Pasan al 7o. Año									
SEPTIMO AÑO Vienen Existencias									
Menos Reclasificación									
Resta									
Más Reclasificación									
Sumas									
Más Nacimientos									
Sumas									
Menos Muertes o Pérdidas									
Resta									
Menos Ventas									
Pasan al 8o. Año									
OCTAVO AÑO Vienen Existencias									
Menos Reclasificación									
Resta									
Más Reclasificación									
Sumas									
Más Nacimientos									
Sumas									
Menos Muertes o Pérdidas									
Resta									
Menos Ventas									
Pasan al 9o. Año									
NOVENO AÑO Vienen Existencias									
Menos Reclasificación									
Resta									
Más Reclasificación									
Sumas									
Más Nacimientos									
Sumas									
Menos Muertes o Pérdidas									
Resta									
Menos Ventas									
Pasan al 10o. Año									
DECIMO AÑO Vienen Existencias									
Menos Reclasificación									
Resta									
Más Reclasificación									
Sumas									
Más Nacimientos									
Sumas									
Menos Muertes o Pérdidas									
Resta									
Menos Ventas									
RESULTADO FINAL									

NOTA: Las bases de cálculo de este cuadro son: Nacimientos: 60%, Muertes Terneros de menos de un año 10%. Animales de edad mayor: 2%.

SUPERVISOR-VALUADOR

FORMS FOR HOUSING LOANS

BANCO NACIONAL DE DESARROLLO AGRICOLA —BANDESA— F-VI-1-45

UNIDAD EJECUTORA DE VIVIENDA

GUATEMALA, C. A.

PLAN DE INVERSION DE CREDITO

REGION No. ____________ LUGAR Y FECHA: ____________

AGENCIA No. ____________ EN: ____________

NOMBRE DEL(LOS) SOLICITANTE(S): ____________

FAMILIA QUE DEPENDE DEL SOLICITANTE Y QUE SE BENEFICIARA CON EL CREDITO.

Edades	Hijos	Hijas	Otros

(Especificar si aportan ingresos al hogar, cantidad) Q. ____________

Concepto: ____________

ESTADO DE INGRESOS Y EGRESOS:

I. Del Solicitante:

a) Ingresos: (Especificar brevemente el concepto y valor).

1 ____________ Q. ____________
2 ____________ Q. ____________
3 ____________ Q. ____________
4 ____________ Q. ____________
5 ____________ Q. ____________
6 ____________ Q. ____________
Suma Q. ____________

b) Egresos: (Especificar; Ej.: Gastos Familiares, pago préstamos BANDESA, Otros Bancos, otros).

1 ____________ Q. ____________
2 ____________ Q. ____________
3 ____________ Q. ____________
4 ____________ Q. ____________
5 ____________ Q. ____________
Suma Q. ____________
Diferencia Q. ____________

ESTADO PATRIMONIAL

II. a) Bienes que posee: (Especificar terrenos, casa, cultivos, ganado, equipo industrial, etc., valor estimado).

1 ____________ Q. ____________
2 ____________ Q. ____________
3 ____________ Q. ____________
4 ____________ Q. ____________
5 ____________ Q. ____________
Total: Q. ____________

b) Lo que Adeuda: (Especificar deudas Bancarias, particulares, otros).

1 ____________ Q. ____________
2 ____________ Q. ____________
3 ____________ Q. ____________
4 ____________ Q. ____________
5 ____________ Q. ____________
Total: Q. ____________

III. Distribución del Crédito para Vivienda:

Lámina	Cemento	Hierro	Arena y Cal	Ladrillo Block	Madera	Mano de Obra	Sub-Total
Q.	Q.	Q.	Q.	Q.	Q.	Q.	Q.
Q.	Q.	Q.	Q.	Q.	Q.	Q.	Q.

Total: Q. ____________

IV. Distribución del Crédito para Rehabilitación:

							Sub-Total
Q.	Q.	Q.	Q.	Q.	Q.	Q.	Q.
Q.	Q.	Q.	Q.	Q.	Q.	Q.	Q.

Total: Q. ____________

V. Del Fiador:

a) Ingresos: (Especificar brevemente el concepto y valor)		b) Egresos: (Especificar la clase de gastos).	
1 ____	Q. ____	1 ____	Q. ____
2 ____	Q. ____	2 ____	Q. ____
3 ____	Q. ____	3 ____	Q. ____
4 ____	Q. ____	4 ____	Q. ____
5 ____	Q. ____	5 ____	Q. ____
Suma	Q. ____	Suma	Q. ____
		Diferencia	Q. ____

VI. PLAZO: ____ Meses. Del ____ al ____ de 19 ____

VII. PLAN DE AMORTIZACIONES: ____ Pagos: Mensuales ☐ Trimestrales ☐ Semestrales ☐ Anuales ☐ De Q. ____ cada uno.

La información consignada en este formulario es cierta, ratificándola con nuestra firma y/o huella digital.

____ Firma o huella digital del Deudor

____ Firma o huella digital del Fiador

VIII. RECOMENDACION DEL CREDITO:

(Referir en forma breve, comportamiento del solicitante dentro de la comunidad, responsabilidad y potencialidad de trabajo; y si procede o no la concesión del Préstamo).

____

____

____

____

____

____

IX. Dirección del Lugar de Inversión: ____

____

(Especificar claramente nombre Aldea, Cantón, Caserío, Municipio, Departamento y Colindancias).

X. Dibujar la localización del terreno.

Especificar claramente la forma de llegar al lugar de inversión y localización del usuario.

____

____

____

XI. Indicar si el solicitante participará en algún Programa de Reconstrucción de Vivienda con asistencia nacional o internacional: ____

____ NOMBRE DE LA PERSONA QUE PLANIFICO

____ FIRMA Y SELLO

APPENDIX VI-D

SUMMARY AND RECOMMENDATION OF CREDIT AND APPROVAL RESOLUTION

BANCO NACIONAL DE DESARROLLO AGRICOLA F/0480-012
Guatemala, C. A.

Agencia No.________, Lugar________________

RESUMEN Y RECOMENDACION DE CREDITO

I. DATOS DEL SOLICITANTE:______________________________
Nombres 1er. Apellido 2do. Apellido

Edad:______años, Estado Civil:__________; Cédula de Vecindad No.__________, extendida en__________
Orden Registro

__________________, Fecha__________________, Domicilio:__________________

II. DATOS SOBRE LA FINCA: Tenencia de la tierra:__________________

Extensión total:______________________________
Hectáreas

Localización:__________________, __________________
Parcela No. o Finca Parcelamiento o Aldea

____
Municipio Departamento

III. DESTINO DEL CREDITO:

AVIO

USO	Unidad	A prestarse	
Sub-Total			

USO	Unidad	A prestarse	
vienen:			
Total:			

REFACCION

USO	Unidad	A prestarse	
Sub-Total			

USO	Unidad	A prestarse	
vienen:			
Total:			

MEJORAS PERMANENTES

USO	Unidad	A prestarse	
Sub-Total			

USO	Unidad	A prestarse	
vienen:			
Total:			

GRAN TOTAL: Q.__________

IV PLAN DE AMORTIZACION

Fecha de pago del plazo	Crédito Actual	CREDITOS ANTERIORES No.____	No.____	No.____	No____	No.____	TOTAL
Totales:							

V DETALLE DE GARANTIAS

A - COSECHAS:

CLASE	Extensión Mnz.	Extensión Cds.	Producción	Valor
DE CULTIVOS EN DESARROLLO:				
DE CULTIVOS POR EFECTUARSE:				
TOTAL				

B - PECUARIA:

CLASE	EDAD	RAZA	COLOR	VALOR
Que posee:				
Por adquirirse:				
TOTAL				

C - EQUIPO AGRICOLA, MAQUINARIA Y OTROS BIENES MUEBLES:

CLASE	MARCA	No. DE SERIE	MODELO	VALOR
Que posee:				
Por adquirirse:				
TOTAL				

D - OTRAS GARANTIAS:

Hipotecarias (Descripción)	Valor
Fiduciarias (Descripción)	

VI. OTROS DATOS:

¿Vive el Solicitante en la finca? ______ SI , ______ NO Años de experiencia Agrícola del Solicitante: ____________

____

Tipo de vivienda: ______________________________

____

Observaciones y conducta del solicitante: ______________

____

____

____

____

____

____

____

Certificaciones sobre tenencia de la tierra. ______________

____

____

____

____

____

OBSERVACIONES GENERALES: ______________________

____

____

____

____

____

____

____

____

____

____

____

____

Fecha: ______________________ Firma: ______________________

APPENDIX VI-E

BANDESA SUPERVISION

REPORT FORM

BANCO NACIONAL DE DESARROLLO AGRICOLA
Guatemala, C. A.

F/0401-004

INFORME DE SUPERVISION DE CREDITOS Y CONTROL DE DESEMBOLSOS

PRESTAMO No.: ______________________ FECHA: ______________________

Nombre del usuario: ______________________

Dirección: ______________________

Monto del préstamo Q. __________ Fecha de vencimiento __________ Número de hectáreas financiadas __________

Monto desembolsado Q. __________ Destino: ______________________

______________________ Margen por girar __________

Fecha de la última entrega: __________ Por un monto de Q. __________ Para las actividades: __________

____

Fecha de la próxima entrega: __________ Por un monto de Q. __________ Para las actividades: __________

____

Recomendaciones al usuario en la visita anterior: ______________________

____

Evaluación de las recomendaciones de la visita anterior: ______________________

____

Uso de la última entrega y evaluación actual del proyecto: ______________________

____

____

Se preve cambio en la fecha de vencimiento, por las siguientes razones: ______________________

____

La venta de los productos se hará a: ______________________

Fecha aproximada de la venta: ______________________

Recomendaciones al usuario en esta visita: ______________________

____

____

Se recomienda una próxima entrega por Q. __________ Para las actividades: __________

____

____

Fecha de la visita: ______________________

OBSERVACIONES: ______________________

____

USUARIO:	AGENTE DE CREDITO O TECNICO	Vo.Bo. JEFE DE AGENCIA
Firma o impresión digital	Firma y sello	Firma y sello

Original: Expediente

APPENDIX VI-F

BANDESA FORMS FOR TERM EXTENSION

BANCO NACIONAL DE DESARROLLO AGRICOLA
Guatemala, C.A.

No. ______________________

RESOLUCION PARA APROBACION DE PRORROGAS DE PRESTAMOS

El Jefe de la Agencia No. ______ del Banco Nacional de Desarrollo Agrícola, localizada en ______________________ ____________, con base en las facultades que le confiere el Reglamento respectivo,

R E S U E L V E :

ACCEDER a lo solicitado por el (los) señor (es) ____ ____, autorizándole (s) una PRORROGA de __________ meses, con vencimiento el día ________ de ______________________ de 19 ___, para cancelar la Obligación No. ___ ____________________ que contratara (n) con ________________________ BANDESA/SCICAS línea de fondos ______ ____________________, cuyo saldo al ________________________ ULTIMO BALANCE es de Q. ____________________.

OTRAS CONDICIONES:

a) Las cláusulas contenidas en el contrato original, mantienen su vigencia hasta la total cancelación de la obligación arriba mencionada.

b) Deberá (n) constituir nuevas garantías para garantizar esta operación, si las gravadas originalmente se encuentran deterioradas y/o depreciadas.

Esta Resolución debe legalizarse, para lo cual tiene una vigencia de ________ días calendario, que se computarán a partir de la fecha de su notificación.

En ______________________________ a los ______________________ días del mes de ____________ ____________________ de mil novecientos ________________________.

Jefe de Agencia

Original: Expediente. Copia amarilla: Interesado. Copia celeste: Correlativo.

BANCO NACIONAL DE DESARROLLO AGRICOLA
GUATEMALA, C. A.

F/0206-013

DOCUMENTO PRIVADO DE PRORROGA

En la ciudad de ____________________, municipio de ____________________, departamento de ____________________, a __________ de __________ __________ de mil novecientos ____________________, el Jefe de la Agencia No. __________ del Banco Nacional de Desarrollo Agrícola, situada en ____________________, señor ____________________, de __________ años de edad, __________ (Estado Civil), __________ (Profesión u Oficio), __________ (Nacionalidad), residente en ____________________ ____________________, por una parte y por la otra, el (los) señor (es) ____________________ ____________________, de __________ años de edad, __________ (Estado Civil), __________ (Profesión u Oficio) __________, __________ (Nacionalidad), residente (s) en ____________________ ____________________, con Cédula (s) de Vecindad Número(s) de Orden __________ y de Registro __________, extendida (s) en __________ __________, en su calidad de deudor (es) y el señor __________ __________, de __________ años de edad, __________ (Estado Civil) __________, __________ (Profesión u Oficio), __________ (Nacionalidad), residente en ____________________ con Cédula de Vecindad Número de Orden __________ y de Registro __________, extendida en ____________________, en su calidad de fiador, encontrándose en el libre ejercicio de sus derechos civiles, otorgan CONTRATO DE PRORROGA, el que se contiene en las siguientes cláusulas: PRIMERA: Conforme contrato contenido en documento privado suscrito en ____________________, municipio de __________, departamento de __________, con fecha __________ __________, con firmas legalizadas (reconocidas) por __________ ____________________, __________ (BANDESA / SCICAS) concedió al (los) señor (es) ____________________, un crédito con garantía __________ por valor de __________ __________ (Q.), identificado como Obligación Número __________ __________, cuyo saldo a la fecha es de __________ __________ (Q.). SEGUNDA: Por resolución Número __________ __________, de fecha __________, de la __________ __________, se concede al (los) señor (es) ____________________ ____________________ una PRORROGA de __________ meses, que vence el día __________ de __________ de mil novecientos __________, para la total cancelación del crédito de referencia. TERCERA: El contrato original (del cual éste forma parte), queda vigente en todas y cada una de sus cláusulas, así como las garantías constituídas en el mismo, hasta la total cancelación de la Obligación identificada.

CUARTA: ____________________
(Describir las nuevas garantías que sean propuestas)
____

QUINTA: Presentes los señores ____, en su calidad de ____________________ otorgan su total consentimiento para la validez del presente acto. Leído lo escrito y bien impuestos de su contenido, objeto y validez, lo aceptan, ratifican y firman los que pueden hacerlo, los que no, dejan impresa su huella digital y firma (n) el (los) testigo(s), hábil (es) por la ley y civilmente capaz (ces), señor (es) ____

quién (es) se identifican con su (s) Cédula (s) de Vecindad número (s) de Orden ____________________________ y de Registro ____________________________________.

(POR BANDESA)	(FIADOR)
(DEUDOR)	(TESTIGO)
(DEUDOR)	(TESTIGO)

AUTENTICA: En la ciudad de ________________________, municipio de ________________________ departamento de ________________________, a ____________________ de __________________ __________________ de mil novecientos ____________________, el Infrascrito __________________ da fé: Que las firmas anteriores son auténticas, por haber sido puestas a mi presencia el día de hoy, por los señores ____ quienes se identifican con sus Cédulas de Vecindad Números de Orden y Registro, en su orden respectivamente ____ y firman conmigo la presente acta.

(POR BANDESA)	(FIADOR)
(DEUDOR)	(TESTIGO)
(DEUDOR)	(TESTIGO)

ANTE MI:

ALCALDIA MUNICIPAL San Mateo QUETZALTENANGO

APPENDIX VI-G

BANDESA FORM FOR DEBT RECOGNITION

BANCO NACIONAL DE DESARROLLO AGRICOLA
"BANDESA"

DOCUMENTO PRIVADO DE RECONOCIMIENTO DE DEUDA

.... de ...... años de edad
(Nombre completo del Deudor)

................................, ..., ... domiciliado en
(Estado civil) (Profesión u oficio) (Nacionalidad)

.... Municipio de ....

Departamento de .... con Cédula de Vecindad

números .... de orden y .... de registro, extendida en

.... y ....
(Nombre completo del Deudor)

de .... años de edad, ..., ...,
(Estado civil) (Profesión u oficio)

................................, domiciliado en ....
(Nacionalidad)

Departamento de .... con Cédula de Vecindad

números .... de orden y .... de registro, extendida en

.... hago (hacemos) constar:

PRIMERO: Por Resolución No. .... de fecha ....

dictada por ...., el

Banco Nacional de Desarrollo Agrícola -BANDESA- me (nos) concedió el (los) crédito (s) No.(s)

.... formalizado (s) en contrato(s) de fecha (s)

.... cuyo (s) monto (s) en la actualidad

asciende (n) a la suma de ....
(Cantidad en letras)

(Q. ....) por concepto de capital más ....
(Cantidad en letras)

.... (Q. ....) de intereses hasta la fecha, lo que hace un

total de ....
(Cantidad en letras)

(Q. ....)

SEGUNDO: En vista de que por Resolución No. .... de fecha

.... dictada por ....

el Banco Nacional de Desarrollo Agrícola -BANDESA- me(nos) concedió un plazo para la cancelación de la (s) referida (s) deuda (s), por este medio reconozco (reconocemos) adeudar al

Banco Nacional de Desarrollo Agrícola -BANDESA- la suma de ....

....

(Q. ....) que pagaré (mos) dentro del plazo de .... años que

vencen el .... por medio de ....
(Número de Amortizaciones)

amortizaciones anuales y consecutivas así: ....

....

....

Sobre los saldos deudores reconozco (reconocemos) el interés del ....

(%) anual que pagaré (mos) ....

Todo pago se hará sin necesidad de cobro ni requerimiento en las Cajas del Banco Nacional de Desarrollo Agrícola -BANDESA- o en cualquiera de sus Sucursales o Agencias o a las personas naturales o jurídicas que éste designe, y en caso de que los intereses no se paguen en las fechas establecidas, el Banco podrá capitalizarlos semestralmente.

TERCERO: Para los efectos de esta obligación renuncio (amos) al fuero de mi (nuestro) domicilio sometiéndome (nos) a los Tribunales que el Banco Nacional de Desarrollo Agrícola -BANDESA- elija, señalo (amos) para recibir notificaciones ______________________________ aceptando como buenas las que allí se me (nos) hagan mientras no indique (mos) al Banco otro lugar para el efecto; acepto (amos) como buenas y exactas las cuentas que el Banco Nacional de Desarrollo Agrícola -BANDESA- formule acerca de este negocio y como líquido y ejecutivo el saldo que reclame; acepto (amos) igualmente que esta obligación pueda cederse o negociarse sin aviso previo ni posterior, y que su plazo pueda darse por vencido si deja de pagarse puntualmente alguna amortización de capital o vencimiento de intereses.

______________________________ de ______________
(Nombre completo del fiador)

años de edad ______________, ______________, ______________
(Estado civil) (Profesión u oficio) (Nacionalidad)

domiciliado en ______________________ Municipio de ______________

______________ Departamento de ______________________ con Cédula de Vecindad números ______________ de orden y ______________ de registro, extendida en ______________________ me constituyo fiador solidariamente mancomunado de ______________________________ por las obligaciones que contrae (n) en este documento y acepto para mí todas sus condiciones. Esta fianza estará vigente mientras no esté totalmente cancelada la obligación del (los) deudor (es).

Para constancia de lo expuesto firmamos el presente en ______________________

a ______________ de ______________ de mil novecientos setenta y ______________.

______________________ ______________________
(Deudor) (Deudor)

______________________ ______________________
(Fiador) (Testigo)

AUTENTICA: En ______________________________ Jurisdicción Municipal de ______________________ a los ______________________ días del mes de ______________ de mil novecientos ______________ el infrascrito ______________________________ da fe de que las firmas anteriores son auténticas por haber sido puestas el día de hoy en mi presencia por los señores: ______________________________

____

____

quienes se identifican con sus respectivas Cédulas de Vecindad números de Orden y Registro, respectivamente así: ______________________________

____

____

firmando los señores: ______________________________

____

____

Documento que consta de ______________ hojas que sello y firmo.

______________________ ______________________
(Deudor) (Deudor)

______________________ ______________________
(Fiador) (Testigo)

ANTE MI: ______________________

VII

DELINQUENCY

Introduction

BANDESA has a delinquency problem that is much more serious than appears upon reading the Bank's delinquency reports because of the manner in which the delinquency figures are defined. The consequences of this delinquency are grave for BANDESA because of losses in interest income, losses of capital and higher administrative costs. These will be topics covered in the following chapter on financial analysis. The present chapter concentrates on the extent of delinquency, its pattern and trends. The chapter is divided into five sections: (a) BANDESA delinquency measures, (b) the trends of delinquency over the 1977-1983 period, (c) analysis of 1983 delinquency and problems with BANDESA delinquency measures, (d) delinquency in cooperative lending and (e) conclusions.

BANDESA Delinquency Measures

For accounting and reporting purposes BANDESA divides its portfolio into two categories: (a) non-past due and (b) past due portfolio. The non-past due portfolio, synonomous with non-delinquent, includes: (a) outstanding loans without any past-due installments, (b) outstanding loans whose final installment is not yet due, but which have one or more past due installments, and (c) loans whose last installment was past due, but for which an extended term or refinanced loan was negotiated. The past due category, synonomous with delinquent, is for those loans with the final installment past due. Past due loans are placed in an administrative collection category--where the Bank is trying to recover the loan, without resorting to legal means, or to the legal collection category--where the matter has been placed in the hands of legal offices.

1977-1983 Trends

Bank Funds

As shown in Tables VII-1 and 2, at the end of 1983, 72.8 percent of the number of loans and 36.4 percent of the loan volume from the Bank's funds were in the past due category. The 1983 figures were representative of those for years between 1977 and 1983. Over the period, the percentage of numbers of past due loans ranged from 58.6 to 81.8, and the percentage of loan volume past due varied from 35.2 to 41.2. Therefore, over the period the delinquency problem has been severe, although it has varied some in magnitude.

TABLE VII-1

NUMBER OF PAST DUE AND NON-PAST DUE LOANS BY SOURCE OF BANK FUNDS, 1977-1983

Fund	1977 Number	1977 %	1978 Number	1978 %	1979 Number	1979 %	1980 Number	1980 %	1981 Number	1981 %	1982 Number	1982 %	1983 Number	1983 %
BANDESA	7,597	100.0	8,251	100.0	8,727	100.0	6,456	100.0	5,835	100.0	3,812	100.0	6,903	100.0
Non-Past Due	3,979	52.4	4,507	54.6	4,787	54.8	2,236	34.6	1,945	33.3	1,058	27.7	2,325	33.7
Past Due	3,618	47.6	3,744	45.4	3,940	45.2	4,220	65.4	3,890	66.7	2,754	72.3	4,578	66.3
INFOP	28	100.0	24	100.0	22	100.0	17	100.0	16	100.0	15	100.0	14	100.0
Non-Past Due	8	28.6	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Past Due	20	71.4	24	100.0	22	100.0	17	100.0	16	100.0	15	100.0	14	100.0
BNA	3,966	100.0	3,966	100.0	3,058	100.0	2,980	100.0	2,883	100.0	2,802	100.0	2,119	100.0
Non-Past Due	52	1.3	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Past Due	3,914	98.7	3,966	100.0	3,058	100.0	2,980	100.0	2,883	100.0	2,802	100.0	2,119	100.0
Guaranteed Fund	163	100.0	174	100.0	176	100.0	179	100.0	182	100.0	183	100.0	178	100.0
Non-Past Due	163	100.0	174	100.0	175	99.4	179	100.0	181	99.4	181	98.9	177	99.4
Past Due	0	0.0	0	0.0	1	0.6	0	0.0	1	0.6	2	1.1	1	0.6
Total	11,754	100.0	12,415	100.0	11,983	100.0	9,632	100.0	8,916	100.0	6,812	100.0	9,214	100.0
Non-Past Due	4,202	35.7	4,681	37.7	4,962	41.4	2,415	25.1	2,126	23.8	1,239	18.2	2,502	27.2
Past Due	7,552	64.3	7,734	62.3	7,021	58.6	7,217	74.9	6,790	76.2	5,573	81.8	6,712	72.8

SOURCE: BANDESA, Departamento de Cartera y Cobros, Sección de Cuentas Corrientes.

TABLE VII-2

AMOUNT OF PAST DUE AND NON-PAST DUE LOANS BY SOURCE OF BANK FUNDS, 1977-1983
(Million Quetzales)

Fund	1977		1978		1979		1980		1981		1982		1983	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
BANDESA	21.0	100.0	21.2	100.0	22.5	100.0	28.1	100.0	30.1	100.0	25.0	100.0	35.1	100.0
Non-Past Due	12.6	60.0	13.7	64.6	15.1	67.1	20.2	71.9	18.4	61.1	15.2	60.8	22.7	64.7
Past Due	8.4	40.0	7.5	35.4	7.4	32.9	7.9	28.1	11.7	38.9	9.8	39.2	12.4	35.3
INFOP	0.6	100.0	0.6	100.0	0.5	100.0	0.5	100.0	0.4	100.0	0.4	100.0	0.4	100.0
Non-Past Due	0.2	33.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Past Due	0.4	66.7	0.6	100.0	0.5	100.0	0.5	100.0	0.4	100.0	0.4	100.0	0.4	100.0
BNA	0.9	100.0	0.8	100.0	0.8	100.0	0.7	100.0	0.7	100.0	0.7	100.0	0.7	100.0
Non-Past Due	0.1	11.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Past Due	0.8	88.9	0.8	100.0	0.8	100.0	0.7	100.0	0.7	100.0	0.7	100.0	0.7	100.0
Guaranteed Fund	0.8	100.0	0.9	100.0	0.9	100.0	0.9	100.0	0.9	100.0	0.8	100.0	0.9	100.0
Non-Past Due	0.8	100.0	0.9	100.0	0.9	100.0	0.9	100.0	0.9	100.0	0.8	100.0	0.9	100.0
Past Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	23.3	100.0	23.5	100.0	24.7	100.0	30.2	100.0	32.1	100.0	26.9	100.0	37.1	100.0
Non-Past Due	13.7	58.8	14.6	62.1	16.0	64.8	21.1	69.9	19.3	60.1	16.0	59.5	23.6	63.6
Past Due	9.6	41.2	8.9	37.9	8.7	35.2	9.1	30.1	12.8	39.9	10.9	40.5	13.5	36.4

SOURCE: BANDESA, Departamento de Cartera y Cobres, Sección de Cuentas Corrientes.

It is useful to examine the extent of delinquency within the various sources of bank funds. Seventy-five percent of the loans and 95 percent of the loan volume in the portfolio correspond to BANDESA funds. The delinquency rates for this source are only slightly less than those for the total. When the Bank was established it inherited portfolios from BNA and INFOP. Since 1977 almost of all loans from these two sources have been past due. Indeed, the only source of funds without a delinquency problem is the Guarantee Funds from the Bank of Guatemala. It should be noted, however, that these funds seldom go in arrears because there is guaranteed repayment, should the borrower default.

Trust Funds

As reported in Tables VII-3 and 4, at the end of 1983, 24.2 percent of the number of loans and 16.8 percent of the loan volume in the trust fund portfolio were past due. The 1983 figures are relatively low compared to other years over the 1977-1983. Between 1977 and 1979 figures for both numbers and volume were much higher and then dropped precipitously in 1980 and have followed a downward trend since. One explanation, might be that since 1981 it has been to BANDESA's advantage to reduce the size of past due portfolio, since beginning in that year it has received a commission on its trust fund portfolio that is not past due.

There is considerable variation in delinquency among the trust funds, the amount, in part, being a function of the purpose and term of loan, as well as the length of time the particular fund has been in operation. Funds that have been in existence only a few years, tend to show less delinquency. The fact that for most trust funds that there is a larger percentage of loan numbers delinquent than loan volume is basically due to the fact that most large loans are longer-term and therefore, their final payment is not yet due, and the loan is not eligible to be classified as past due. It also suggests that many of the short-term loans for operating expenses fall in the past due category.

Analysis of 1983 Delinquency

Collection Status

Table VII-5 presents information about the delinquency status of the portfolio at the end of 1983. Of the 36.5 percent of the loan volume from the bank funds that are past due, 23.5 percent are in administrative collection and 13.0 percent are in legal collection. All of the former BNA and INFOP loans are in legal collection.

In the case of trust funds, only 2.6 percent of the 16.9 percent of the past-due loan volume is in legal collection,

The table also shows the percentage of non-past due loans that have been extended or refinanced (listed as with novations). Less than 1 percent of the loans in this category were so classified. Therefore, this suggests that few loans have been extended or refinanced to avoid placing the borrower in delinquency, or to improve BANDESA's repayment record.

TABLE VII-3

NUMBER OF PAST DUE AND NON-PAST DUE LOANS BY TRUST FUND, 1977-1983

Trust Fund	1977		1978		1979		1980		1981		1982		1983	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Specif Fund	3,216	100.0	2,623	100.0	2,215	100.0	1,376	100.0	3,010	100.0	1,268	100.0	1,864	100.0
Non-Past Due	1,405	43.7	766	29.2	362	16.3	304	22.1	1,320	43.9	438	34.5	765	41.0
Past Due	1,811	56.3	1,857	70.8	1,853	83.7	1,072	77.9	1,690	56.1	830	65.5	1,099	59.0
AID T-058 Fund	1,770	100.0	4,414	100.0	3,683	100.0	4,076	100.0	3,209	100.0	2,091	100.0	1,380	100.0
Non-Past Due	152	8.6	1,027	23.3	439	11.9	1,507	37.0	495	15.4	602	28.8	323	23.4
Past Due	1,618	91.4	3,387	76.7	3,244	88.1	2,569	63.0	2,714	84.6	1,489	71.2	1,057	76.6
204 Fund	1,249	100.0	1,080	100.0	969	100.0	1,542	100.0	1,300	100.0	1,243	100.0	1,551	100.0
Non-Past Due	642	51.4	400	37.0	254	26.2	879	57.0	535	41.2	878	70.6	999	64.4
Past Due	607	48.6	680	63.0	715	73.8	663	43.0	765	58.8	365	29.4	552	35.6
AID 520 Fund	24,841	100.0	24,476	100.0	24,411	100.0	22,187	100.0	18,68[illegible]	100.0	14,610	100.0	16,192	100.0
Non-Past Due	8,662	34.9	7,921	32.4	7,696	31.5	7,971	35.9	3,406	18.2	5,224	35.8	6,823	42.1
Past Due	16,179	65.1	16,555	67.6	16,715	68.5	14,216	64.1	15,280	81.8	9,386	64.2	9,369	57.9
OIC Fund	80	100.0	98	100.0	101	100.0	99	100.0	95	100.0	86	100.0	81	100.0
Non-Past Due	80	100.0	98	100.0	101	100.0	98	99.0	93	97.9	79	91.9	66	81.5
Past Due	0	0.0	0	0.0	0	0.0	1	1.0	2	2.1	7	8.1	15	18.5
IDB 410 Fund	27	100.0	79	100.0	99	100.0	103	100.0	113	100.0	120	100.0	146	100.0
Non-Past Due	27	100.0	79	100.0	99	100.0	102	99.0	103	91.2	105	87.5	128	87.7
Past Due	0	0.0	0	0.0	0	0.0	1	1.0	10	8.8	15	12.5	18	12.3
AID 024 MC Fund	4	100.0	4	100.0	4	100.0	4	100.0	4	100.0	4	100.0	5	100.0
Non-Past Due	4	100.0	4	100.0	4	100.0	4	100.0	4	100.0	4	100.0	4	80.0
Past Due	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	1	20.0
IDB 460 Fund	1,454	100.0	4,896	100.0	10,192	100.0	6,446	100.0	7,087	100.0	6,177	100.0	1,466	100.0
Non-Past Due	1,454	100.0	4,238	86.6	8,424	82.7	4,624	71.7	4,973	70.2	4,314	69.8	1,245	84.9
Past Due	0	0.0	658	13.4	1,768	17.3	1,822	28.3	2,114	29.8	1,863	30.2	221	15.1
LIC Fund			187	100.0	479	100.0	7,098	100.0	11,137	100.0	11,116	100.0	9,351	100.0
Non-Past Due			186	99.5	376	78.5	6,606	93.1	9,480	85.1	9,163	82.4	7,626	81.5
Past Due			1	0.5	103	21.5	492	6.9	1,657	14.9	1,953	17.6	1,725	18.5

TABLE VII-3 cont.

NUMBER OF PAST DUE AND NON-PAST DUE LOANS BY TRUST FUND, 1977-1983

Trust Fund	1977 Number	1977 %	1978 Number	1978 %	1979 Number	1979 %	1980 Number	1980 %	1981 Number	1981 %	1982 Number	1982 %	1983 Number	1983 %
AID 026 Fund			16	100.0	75	100.0	115	100.0	136	100.0	134	100.0	157	100.0
Non-Past Due			16	100.0	75	100.0	115	100.0	135	99.3	133	99.3	154	98.1
Past Due			0	0.0	0	0.0	0	0.0	1	0.7	1	0.7	3	1.9
AID CNT Fund									1,519	100.0	1,585	100.0	1,703	100.0
Non-Past Due									1,519	100.0	1,329	83.8	863	50.7
Past Due									0	0.0	256	16.2	840	49.3
AID 030-034 Fund											1	100.0	21	100.0
Non-Past Due											1	100.0	21	100.0
Past Due											0	0.0	0	0.0
IDB 630 Fund											5,955	100.0	13,025	100.0
Non-Past Due											5,735	96.3	12,128	93.1
Past Due											220	3.7	897	6.9
FC Fund											6	100.0	6	100.0
Non-Past Due											6	100.0	6	100.0
Past Due											0	0.0	0	0.0
FDC-FDG Funds											2	100.0	2	100.0
Non-Past Due											2	100.0	2	100.0
Past Due											0	0.0	0	0.0
Reconstruction Fund	12,262	100.0	16,096	100.0	18,351	100.0	21,729	100.0	21,878	100.0	22,236	100.0	23,166	100.0
Non-Past Due	12,262	100.0	15,976	99.2	18,189	99.1	21,366	98.3	21,194	96.9	21,291	95.7	22,022	95.1
Past Due	0	0.0	120	0.8	162	0.9	363	1.7	684	3.1	945	4.3	1,144	4.9
Total	44,903	100.0	53,969	100.0	60,579	100.0	64,775	100.0	68,176	100.0	66,634	100.0	70,116	100.0
Non-Past Due	24,688	55.0	30,711	56.9	36,019	59.5	43,576	67.3	43,259	63.5	49,304	74.0	53,175	75.8
Past Due	20,215	45.0	23,258	43.1	24,560	40.5	21,199	32.7	24,917	36.5	17,330	26.0	16,941	24.2

SOURCE: BANDESA, Financial Statement, Summary of Balances.

TABLE VII-4

AMOUNT OF PAST DUE AND NON-PAST DUE LOANS BY TRUST FUND, 1977-1983

Trust Fund	1977 Amount	1977 %	1978 Amount	1978 %	1979 Amount	1979 %	1980 Amount	1980 %	1981 Amount	1981 %	1982 Amount	1982 %	1983 Amount	1983 %
Specif Fund	5.9	100.0	6.3	100.0	5.3	100.0	7.1	100.0	5.4	100.0	4.6	100.0	4.3	100.0
Non-Past Due	2.5	42.4	3.2	50.8	1.5	28.3	2.9	50.0	2.2	40.7	1.4	30.4	1.9	44.2
Past Due	3.4	57.6	3.1	49.2	3.8	71.7	4.2	50.0	3.2	59.3	3.2	69.6	2.4	55.8
AID T-058 Fund	3.0	100.0	1.7	100.0	2.0	100.0	2.5	100.0	2.0	100.0	1.4	100.0	1.2	100.0
Non-Past Due	1.8	16.7	0.5	29.4	0.5	25.0	1.0	40.0	0.5	25.0	0.5	35.7	0.4	33.3
Past Due	1.2	83.3	1.2	70.6	1.5	75.0	1.5	60.0	1.5	75.0	0.9	64.3	0.8	66.7
204 Fund	2.5	100.0	2.8	100.0	1.9	100.0	2.4	100.0	2.7	100.0	3.2	100.0	3.9	100.0
Non-Past Due	1.9	76.0	1.3	56.5	0.8	42.1	1.1	45.8	1.3	48.2	2.2	68.7	2.9	74.4
Past Due	0.6	24.0	1.5	43.5	1.1	57.9	1.3	54.2	1.4	51.8	1.0	31.3	1.0	25.6
AID 520 Fund	25.6	100.0	22.6	100.0	23.4	100.0	24.4	100.0	28.2	100.0	17.0	100.0	19.3	100.0
Non-Past Due	10.7	41.8	11.8	52.2	12.8	54.7	13.5	55.3	16.6	58.9	8.3	48.8	9.9	51.3
Past Due	14.9	58.2	10.8	47.8	10.6	45.3	10.9	44.7	11.6	41.1	8.7	51.2	9.4	48.7
IDB 410 Fund	0.3	100.0	1.0	100.0	1.8	100.0	2.3	100.0	2.4	100.0	2.6	100.0	2.7	100.0
Non-Past Due	0.3	100.0	1.0	100.0	1.8	100.0	2.2	95.6	2.1	87.5	2.2	84.6	2.3	85.2
Past Due	0.0	0.0	0.0	0.0	0.0	0.0	0.1	4.4	0.3	12.5	0.4	15.4	0.4	14.8
AID 024 MC Fund	5.0	100.0	5.0	100.0	5.0	100.0	5.0	100.0	5.0	100.0	5.0	100.0	5.0	100.0
Non-Past Due	5.0	100.0	5.0	100.0	5.0	100.0	5.0	100.0	5.0	100.0	5.0	100.0	5.0	100.0
Past Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IDB 460 Fund	0.2	100.0	3.1	100.0	10.2	100.0	11.7	100.0	15.4	100.0	15.7	100.0	2.6	100.0
Non-Past Due	0.2	100.0	2.8	90.3	9.3	91.2	10.4	88.9	13.5	87.7	13.6	86.6	2.2	84.6
Past Due	0.0	0.0	0.3	9.7	0.9	8.8	1.3	11.1	1.9	12.3	2.1	13.4	0.4	15.4
OIC Fund	1.5	100.0	1.8	100.0	2.0	100.0	2.1	100.0	2.1	100.0	2.0	100.0	1.7	100.0
Non-Past Due	1.5	100.0	1.8	100.0	2.0	100.0	2.1	100.0	2.1	100.0	1.8	90.0	1.4	82.3
Past Due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	10.0	0.3	17.7
LIC Fund			2.0	100.0	1.9	100.0	12.0	100.0	14.5	100.0	15.7	100.[illegible]	11.9	100.0
Non-Past Due			1.6	80.0	0.8	42.1	10.6	88.3	12.6	86.9	13.0	82.[illegible]	9.5	79.8
Past Due			0.4	20.0	1.1	57.9	1.4	11.7	1.9	13.1	2.7	17.2	2.4	20.2
AID 206 Fund			0.0	0.0	0.2	100.0	0.3	100.0	0.4	100.0	0.4	100.0	0.5	100.0
Non-Past Due			0.0	0.0	0.2	100.0	0.3	100.0	0.4	100.0	0.4	100.0	0.5	100.0
Past Due			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

TABLE VII-4 cont.

AMOUNT OF PAST DUE AND NON-PAST DUE LOANS BY TRUST FUND, 1977-1983

Trust Fund	1977 Amount	1977 %	1978 Amount	1978 %	1979 Amount	1979 %	1980 Amount	1980 %	1981 Amount	1981 %	1982 Amount	1982 %	1983 Amount	1983 %
AID CNT Fund									0.6	100.0	0.9	100.0	1.4	100.0
Non-Past Due									0.6	100.0	0.8	88.9	1.1	78.6
Past Due									0.0	0.0	0.1	11.1	0.3	21.4
AID 030-034 Fund											1.2	100.0	1.3	100.0
Non-Past Due											1.2	100.0	1.3	100.0
Past Due											0.0	0.0	0.0	0.0
IDB 630 Fund											9.1	100.0	19.4	100.0
Non-Past Due											8.9	97.8	18.6	95.9
Past Due											0.2	2.2	0.8	4.1
FC Fund											2.0	100.0	2.0	100.0
Non-Past Due											2.0	100.0	2.0	100.0
Past Due											0.0	0.0	0.0	0.0
FDC-FDG Funds											2.1	100.0	2.1	100.0
Non-Past Due											2.1	100.0	2.1	100.0
Past Due											0.0	0.0	0.0	0.0
Reconstruction Fund	13.2	100.0	18.6	100.0	22.5	100.0	28.8	100.0	29.6	100.0	30.8	100.0	32.7	100.0
Non-Past Due	13.2	100.0	18.5	97.4	22.4	99.6	28.7	99.6	29.3	99.0	30.3	98.4	32.1	98.2
Past Due	0.0	0.0	0.1	2.6	0.1	0.4	0.1	0.4	0.3	1.0	0.5	1.6	0.6	1.8
Total	57.2	100.0	64.9	100.0	76.2	100.0	98.6	100.0	108.3	100.0	113.7	100.0	112.0	100.0
Non-Past Due	37.1	64.9	47.5	73.2	57.1	74.9	77.8	78.9	86.2	79.6	93.7	82.4	93.2	83.2
Past Due	20.1	35.1	17.4	26.8	19.1	25.1	20.8	21.1	22.1	20.4	20.0	17.6	18.8	16.8

SOURCE: BANDESA, Financial Statements, Summary of Balances.

TABLE VII-5

STATUS OF TRUST FUND AND BANK PORTFOLIO AS OF DECEMBER 31, 1983
(Thousands Quetzales)

Trust Fund	Administrative Collection	%	Legal Collection	%	Total Past Due Portfolio	%	Non-Past Due Portfolio Without Novations	%	Non-Past Portfolio With Novations	%	Total Non-Past Due Portfolio	%	Total Portfolio	%
Total	24,805.6	16.6	7,692.4	5.2	32,498.0	21.8	116,582.1	78.0	292.2	0.2	116,874.3	78.2	149,372.3	100.0
Trust Funds:	16,100.5	14.3	2,873.0	2.6	18,973.5	16.9	93,282.8	83.1	36.4	.0	93,319.2	83.1	112,292.7	100.0
AID 520-L-018	7,829.0	40.5	1,562.9	8.1	9,391.9	48.6	9,914.8	51.3	15.0	0.1	9,929.8	51.4	19,321.7	100.0
AID 520-L-024	--	--	--	--	--	--	4,999.4	100.0	--	--	4,999.4	100.0	4,999.4	100.0
AID 520-T-026	3.9	0.8	--	--	3.9	0.8	459.8	99.2	--	--	459.8	99.2	463.7	100.0
AID 520-T-026(CNT)	332.7	24.7	--	--	332.7	24.7	1,016.8	75.3	--	--	1,016.8	75.3	1,349.5	100.0
AID 520-T-030	--	--	--	--	--	--	1,223.8	100.0	--	--	1,223.8	100.0	1,223.8	100.0
AID 520-T-034	--	--	--	--	--	--	74.9	100.0	--	--	74.9	100.0	74.9	100.0
IDB 204/TF-GU	757.8	19.3	232.9	5.9	990.7	25.2	2,943.0	74.8	--	--	2,943.0	74.8	3,933.7	100.0
IDB 58/TF-GU	678.9	52.9	162.3	12.6	841.2	65.5	443.2	34.5	--	--	443.2	34.5	1,284.4	100.0
IDB 410/SF-GU	179.0	6.5	242.2	8.8	421.2	15.3	2,330.8	84.7	--	--	2,330.8	84.7	2,752.0	100.0
IDB 460/SF-GU	292.2	11.3	94.1	3.6	386.3	14.9	2,205.5	85.1	--	--	2,205.5	85.1	2,591.8	100.0
IDB 120/SF-GU	161.5	0.9	51.9	0.3	213.4	1.2	17,241.7	98.8	--	--	17,241.7	98.8	17,455.1	100.0
IDB 630/SF-GU	813.4	4.2	15.0	0.1	828.4	4.3	18,644.6	95.7	--	--	18,644.6	95.7	19,473.0	100.0
3-GUA-A/OIC	252.2	15.1	40.1	2.4	292.3	17.5	1,376.6	82.5	--	--	1,376.6	82.5	1,668.9	100.0
Fishing Cooperatives	--	--	--	--	--	--	1,996.3	100.0	--	--	1,996.3	100.0	1,996.3	100.0
Specific Reconstruction Fund	401.4	2.6	47.6	0.3	449.0	2.9	14,854.7	97.1	--	--	14,854.7	97.1	15,303.7	100.0
Specific Fund	1,968.4	46.1	410.9	9.7	2,379.3	55.8	1,878.1	44.0	9.4	0.2	1,887.5	44.2	4,266.8	100.0
FEDECOAG	--	--	--	--	--	--	1,645.1	100.0	--	--	1,645.1	100.0	1,645.1	100.0
ACDI-1-GU FEDECOCAGUA	--	--	--	--	--	--	508.0	100.0	--	--	508.0	100.0	508.0	100.0
DECREE 50-74-LIC	2,430.1	20.3	13.1	0.1	2,443.2	20.4	9,525.7	79.5	12.0	0.1	9,537.7	79.6	11,980.9	100.0
Bank Funds	8,705.1	23.5	4,819.4	13.0	13,524.5	36.5	23,299.3	62.8	255.8	0.7	23,555.1	63.5	37,079.6	100.0
BANDESA's Own Funds	6,457.2	26.8	3,553.8	14.8	10,011.0	41.6	13,774.1	57.3	255.8	1.1	14,029.9	58.4	24,040.9	100.0
460/SF-GU	2,247.9	18.9	149.7	1.2	2,397.6	20.1	9,525.2	79.9	--	--	9,525.2	79.9	11,922.8	100.0
EX-BNA	--	--	687.1	100.0	687.1	100.0	--	--	--	--	--	--	687.1	100.0
EX-INFOP	--	--	428.8	100.0	428.8	100.0	--	--	--	--	--	--	428.8	100.0

SOURCE: BANDESA, Financial Statements, Summary of Balances.

Aging of Delinquent Loans

Aging of past due loans is shown in Table VII-6. Section D shows that of the past due loans from bank funds, 77.1 percent of the number of loans and 78.0 percent of the loan volume were deliquent more than 360 days. This shows that most loans classified as past due are old loans that have been delinquent for some time and are still carried on the Bank's books. The same can be said for trust funds; 74.1 percent of loan numbers and 74.0 percent of the loan volume of these past due loans are more than 360 days delinquent.

The "True" Delinquency

Previously, the analysis has used BANDESA's definition of delinquency This definition, however, seriously understates the true level of delinquency, because all loans for which the final payment is not yet in arrears are classified as non-past due. The seriousness of error in using this definition of delinquency is illustrated in several ways.

First, there is a considerable portion of the non-past due portfolio that is past due. Thirteen percent of the value of the portfolio from bank funds classified as non-past due is in fact past due. Therefore, combined with the 36.4 percent reported by the Bank, 49.4 of the total bank fund portfolio is in arrears.

In the case of trust funds, 7 percent of the value of the portfolio is past due but is classified as non-past due. Combined with the 16.8 percent reported by the Bank this means that 23.8 percent of the total trust fund portfolio is delinquent.

Clearly, the manner in which BANDESA reports delinquency considerably understates the amount of the portfolio that is in arrears. For bank funds and for trust funds delinquency as measured by the amount of the portfolio in arrears is understated by 26.0 and 29.0 percent, respectively.

Second, the Bank's figures are misleading when considering the total amount of the portfolio affected by delinquency. With this definition all loans with payments in arrears are considered as affected and are reported in Section E of the table. In this context, 79.3 percent of the loan volume of bank loan funds are affected as are 51.3 percent of the trust funds. Clearly, the volume of loans in trouble is considerably higher than the figures reported by the Bank.

Third, the seriousness of the delinquency in loans reported as non-past due is not to be minimized. Section A of the table shows that for bank funds, that of all the loan installments past due, that only 32.0 percent are less than 90 days past due and that 32.8 percent are more than 360 days past due. In case of trust funds, some 63.2 percent of such loans are past due for more than 360 days.

Unfortunately, BANDESA does not keep records that enable an analysis of the number of loans that are classified as non-past due, but are with installments in arrears. Were these available, it is very likely that the percentages of loans with delinquent payments would be even higher

TABLE VII-6

BANDESA'S PORTFOLIO, CLASSIFIED BY TIME PAST DUE, AS OF DECEMBER 31, 1983

Trust Funds

Description	Reconstruction Number of Installments	%	Reconstruction Amount (000's Q)	%	Agriculture Number of Installments	%	Agriculture Amount (000's Q)	%	Total Number of Installments	%	Total Amount (000's Q)	%
A. Past Due Portion of Loans With Past Due Installments:												
up to 90 days	28,942	16.1	537.7	9.1	1,061	20.0	399.9	21.4	30,003	16.2	937.7	12.0
from 91 to 180 days	24,512	13.6	454.5	7.6	661	12.4	295.7	15.8	25,173	13.6	750.2	9.6
from 181 to 360 days	40,356	22.4	739.5	12.4	1,416	26.6	452.7	24.2	41,772	22.5	1,192.1	15.2
more than 360 days	86,274	47.9	4,223.7	70.9	2,177	41.0	721.5	38.6	88,451	47.7	4,945.2	63.2
	180,084	100.0	5,955.4	100.0	5,315	100.0	1,869.8	100.0	185,399	100.0	7,825.2	100.0
B. Portion Not Due of Loans With Past Due Installments:	--		26,140.9		7,509		4,660.3		7,509		30,801.3	
C. Past Due Portfolio:	--		662.4		--		18,311.3		--		18,973.7	
Administrative Collection	--		562.9		--		15,537.7		--		16,100.7	
In Judication	--		99.5		--		2,773.6		--		2,873.0	
D. Aging of Past Due Portfolio	1,078	100.0	662.4	100.0	16,228	100.0	18,311.3	100.0	17,306	100.0	18,973.7	100.0
Up to 90 days	32	3.0	116.1	17.5	1,092	6.7	1,350.0	7.4	1,124	6.5	1,468.1	7.7
from 91 to 180 days	77	7.1	37.1	5.6	624	3.8	990.8	5.4	701	4.1	1,027.9	5.5
from 181 to 360 days	185	17.2	97.6	14.7	2,472	15.2	2,339.1	12.8	2,657	15.4	2,436.7	12.8
more than 360 days	784	72.7	411.6	62.1	12,040	74.2	13,629.4	74.4	12,824	74.1	14,041.0	74.0
E. Portfolio Affected by Delinquency (A+B+C)			32,758.8	100.0	-		24,841.4	31.2			57,600.2	51.3
F. Portfolio Not Affected by Delinquency			--		-		54,692.7	68.8			54,692.7	48.7
Total Portfolio			32,758.8	100.0			79,534.1	100.0			112,292.9	100.0

TABLE VII-6 cont.

BANDESA'S PORTFOLIO, CLASSIFIED BY TIME PAST DUE, AS OF DECEMBER 31, 1983

Description	Bank Funds: Number of Installments	%	Amount (000's Q)	%	Total (Bank and Trust Funds): Number of Installments	%	Amount (000's Q)	%
A. Past Due Portion of Loans With Past Due Installments:								
up to 90 days	709	21.9	1,512.2	32.0	30,712	16.3	2,449.9	19.5
from 91 to 180 days	389	12.0	739.5	15.6	25,562	13.6	1,489.7	11.9
from 181 to 360 days	720	22.3	927.3	19.6	42,492	22.5	2,119.4	16.9
more than 360 days	1,417	43.8	1,549.7	32.8	89,868	47.6	6,494.9	51.7
	3,235	100.0	4,728.7	100.0	188,634	100.0	12,553.9	100.0
B. Portion Not Due of Loans With Past Due Installments:	2,616		11,142.3		10,125		41,943.6	
C. Past Due Portfolio:	--		13,524.5	100.0	--		32,498.2	100.0
Administrative Collection	--		8,705.0	64.4	--		24,805.7	76.3
In Judication	--		4,819.5	35.6			5,692.5	23.7
D. Aging of Past Due Portfolio	6,648	100.0	13,524.5	100.0	23,954	100.0	32,498.2	100.0
up to 90 days	171	2.6	380.1	2.8	1,295	5.4	1,848.2	5.7
from 91 to 180 days	133	2.0	899.4	6.7	834	3.5	1,927.3	5.9
from 181 to 360 days	486	7.3	1,816.1	13.4	3,143	13.1	4,252.8	13.1
more than 360 days	5,858	88.1	10,428.9	77.1	18,682	78.0	24,469.9	75.3
E. Portfolio Affected by Delinquency (A+B+C+)	--		29,395.5	79.3	--		86,995.7	58.2
F. Portfolio Not Affected by Delinquency	--		7,684.1	20.7	--		62,376.8	41.8
Total Portfolio	--		37,079.6	100.0	--		149,372.5	100.0

SOURCE: BANDESA, unpublished data.

than those for the loan volume. The reason is that, as shown in Tables VII 1-4, the percentages numbers of deliquent loans are considerably higher than those for the loan volume.

The Effect of Housing Loans on the Trust Fund Portfolio

The housing loans made from trust funds to reconstruct or repair houses damaged by the 1976 earthquake have an important effect on delinquency reported for trust funds. As shown in Table VII-6, 100 percent of the loan volume of these loans have delinquent payments. For those loans classified as non-past due, 47.9 percent of the delinquent loan installments and 70.9 percent of the delinquent loan volume are past due more than 360 days. For those loans classified as past due, 72.7 and 62.1 percent of the loan numbers and loan volume are delinquent more than 360 days.

This dismal record strongly suggests that the credit policy for reconstructing houses was in error. There is little prospect that many of these loans will be repaid. In effect, these loans have been transfer payments. Given these results, the better policy may have been for the government and foreign donors to provide outright grants for the reconstruction of the housing, rather than to disguise them as credit that has led to problems for both borrowers and BANDESA.

The effect of these loans has a negative impact on the performance the total trust funds and tends to mask over the performance for the agricultural loans. Although delinquency for agricultural loans is serious, it is much less severe than the total figures suggest. For these loans, 31.2 percent of the loan volume is affected, of which only 2 percent corresponds to loans classified as non-past due. Of these past due loans, 41.0 and 38.6 percent of the loan installments and loan volume are in arrears for more than 360 days. For agricultural trust fund loans, of those that are classified as past due most are in serious difficulty; some 74.2 and 74.4 percent of the loan installments and loan volume in this category are past due for more than 360 days.

Delinquency in Cooperative Lending

In September 1983, BANDESA reported only 12.7 percent of the loan volume in its cooperative portfolio as past due. This figure, however, is a victim of BANDESA's method of defining deliquency and considerably understates the true extent of arrears in these loans. The principal reason is that the final payment on many of the loans has not come due.

BANDESA does not seperate out information showing the extent of the portfolio affected nor the aging of past due loans for cooperative lending from the total portfolio. Therefore, it is not possible to get aggregate figures for the cooperative portfolio. For purposes of the present study, the analysis is confined to a case study of BANDESA lending to the federation FECOAR. It would have been desirable to have been able to study more federations as well as to pull a sample of cooperatives to do a similar analysis, but time did not permit.

Whereas the results of the FECOAR case study appear to be extreme, from all discussions with Bank officials and cooperative experts, the results are symptomatic of problems with BANDESA loans both to other federations and individual cooperatives. In short, the problem is that the individual member borrowers do not repay the loans to the cooperatives, which means that the cooperatives are unable to repay their loans. Given that BANDESA has more than 400 loans on its books to cooperatives, this situation gives rise to great concern by the Bank.

Case Study of FECOAR

The Federation of Regional Cooperatives is a major borrower from BANDESA. It borrows from the Bank to relend to its five member cooperatives, which, in turn onlend to their members.

As of August 2, 1984, FECOAR had outstanding loans from BANDESA of Q5.5 million. Of this amount, only Q0.4 million were officially considered in arrears. The low figure is because only a small portion of the loans in the portfolio had their final payment due; most of the Bank's loans to FECOAR are very long-term, ranging from ten to twenty years. In reality, the whole portfolio is in jeopardy because the member cooperatives are not repaying their loans to FECOAR due to the fact that the final borrowers within the cooperatives are not repaying their loans to the cooperatives.

Table VII-7 shows this clearly. As of November 1983, 100 percent of the 9,860 loans made by the five cooperatives to their members were reported by FECOAR to have past-due installments. Measured in terms of loan volume, 78 percent of the loans made by the cooperatives were past due. The situation is even more serious because many of these loans appear to be uncollectable. As shown in Table VII-8, 86.9 and 86.3 percent of the loan numbers and volume were past due for more than one year, respectively. About two-thirds of both loan numbers and volume were more than two years past due.

Summary and Conclusions

BANDESA utilizes the most liberal measure of delinquency, considering a loan delinquent only if the last loan installment payment is past due. This practice considerably understates the true level of delinquency in the Bank's portfolio since many loans have past due installments, but loans in this condition are not considered as delinquent since the last installment payment has not yet come due. It should be noted, however, that the BANDESA measure works in the Bank's favor not only in improving its image but also, in the case of trust funds, raising its income since the Bank receives a 5 percent commission on its outstanding, but non-delinquent, portfolio. Therefore, it is rational that the Bank use this measure, although on the surface it can be very misleading to the outside observer in terms of the status of the loan portfolio.

Even with this measure the levels of BANDESA delinquency are very high. Furthermore, they are much more severe for loans from the Bank's own funds than for loans from trust funds. Using the Bank's measure,

TABLE VII-7

STATUS OF PORTFOLIO OF COOPERATIVES AFFILIATED WITH FECOAR, AS OF NOVEMBER, 1983
(Quetzales)

Cooperative	Original Number of Loans	Original Amount Lent	Number of Outstanding Loans	Outstanding Portfolio Amount	Number of Delinquent Loans	Outstanding Delinquent Portfolio
San Andrés Semetabaj	948	539,948	948	392,454	948	392,454
Flor Climalteca	2,488	586,391	2,488	515,109	2,488	515,109
Justo Rufino Barrios	2,055	765,604	2,055	543,678	2,055	543,678
Rey Quiché	3,477	974,895	3,477	812,471	3,477	812,471
12 de Octubre	892	273,447	892	198,307	892	198,307
Total	9,860	3,140,285	9,860	2,462,019	9,860	2,462,019

SOURCE: FECOAR, Análisis de Morosidad.

TABLE VII-8

AGING OF DELINQUENT PORTFOLIO FOR COOPERATIVES AFFILIATED WITH FECOAR, AS OF NOVEMBER 1983

Length of Time Past-Due	Cooperatives: San Andrés Semetabaj Number	San Andrés Semetabaj Amount	Flor Climalteca Number	Flor Climalteca Amount	Justo Rufino Barrios Number	Justo Rufino Barrios Amount	Rey Quiché Number	Rey Quiché Amount	12 de Octubre Number	12 de Octubre Amount	Total Number	Total %	Total Amount	Total %
1 - 60 days	0	0	0	0	0	0	194	39,558	0	0	194	1.6	39,558	1.6
61 - 180 days	0	0	0	0	649	130,566	12	2,930	0	0	661	5.4	133,496	5.4
181 - 360 days	242	66,491	194	34,269	0	0	32	8,314	276	55,550	744	6.1	164,624	6.7
1 - 2 years	268	83,449	562	117,323	312	74,975	1,050	275,960	216	41,085	2,408	19.6	592,792	24.1
2.1 - 4 years	314	137,380	1,186	191,844	517	142,455	1,686	349,578	391	66,352	4,094	33.3	887,609	36.1
4.1 - 5 years	77	19,145	432	55,797	214	46,866	536	93,984	135	21,130	1,394	11.3	236,922	9.6
5.1 - or more	350	85,989	1,096	115,876	852	148,816	374	42,147	118	14,190	2,790	22.7	407,018	16.5
Total	1,251	392,454	3,470	515,109	2,544	543,678	3,884	812,471	1,136	198,307	12,285	100.0	2,462,019	100.0

SOURCE: FECOAR, Análisis de Morosidad.

for loans from bank funds, 72.8 percent of the number of loans and 36.4 percent of the loan volume are in arrears. For loans from trust funds, 24.8 percent of the number of loans and 16.8 percent of the loan volume are in arrears. There are several explanations as to why the delinquency rate is so much higher for loans from the Bank's funds. One is that many of these loans were made on a political basis and the borrower does not feel obligated to repay. Another is that, when the Bank was founded in 1970, it inherited a lot of bad loans from BNA and INFOP, which, although they are totally delinquent, remain on the books.

When more appropriate delinquency measures are introduced, the BANDESA repayment problem is much more pronounced. If delinquency is defined to include any loan that has a past due installment, 79.3 percent of the loan volume from bank funds is affected; the corresponding percentage for trust funds' is 51.3 percent (data are not available on loan numbers). In other words, all but one-fifth and one-half of loan volume for loans from the bank's funds and trust funds, respectively, are experiencing repayment problems. If delinquency is defined as the proportion of the total outstanding loan volume that is past due, the respective figures are 49.9 and 23.8 percent.

The problem is yet even more serious. Aging analysis of both bank and trust fund portfolios shows that a majority of the loan volume and almost one half of the installments past due are more than one year overdue. It is doubtful if much of this will ever be recovered. Furthermore, loans to cooperatives are particularly bothersome. A case study of nine loans to the federation FECOAR shows that all of the federation's subloans to member cooperatives are past due, and, about two-thirds had been in arrears for more than two years. Never-the-less these problems do not show up as delinquent on BANDESA's books because the Bank's loans to the federation are long term and the federation's final payments to the Bank are not yet due. Again, it is doubtful that much of these loans will be repaid.

It is important to note, however, that delinquency for trust fund loans for agricultural purposes is not as serious as the above trust fund figures would suggest. One-hundred percent of the housing loans from trust funds, made for reconstruction of homes after the 1976 earthquake, have been affected by delinquency. It appears that most borrowers are treating them as outright transfer payments and not as credit. This dismal record raises the average level of delinquency for loans from trust funds. By comparison, the record for agricultural loans is much more favorable, only 31.2 percent of the portfolio is affected. While some consolation can be taken in these lower figures, the delinquency rate for these loans should still be considered excessive.

These results for agricultural loans suggest that the small- and medium-sized farmers, who are the clients of loans from trust funds, repay better than the typical larger-sized farmers who are borrowers from the Bank's own funds. This should not be surprising for it parallels experience in other developing countries.

BANDESA's delinquency problem is of such a large magnitude, that it should be the primary concern of the Bank. Uncollected loans represent an important loss of current revenue in the form of interest income, reduce the ability of the Bank to make future loans because of losses of principal and interest, and raise administrative costs in the collection process.

The high delinquency rates strongly suggest that BANDESA has not given sufficient emphasis to trying to guard against delinquency in the client selection process and/or in loan collection. Indeed, the previously-mentioned survey of BANDESA agents showed that credit agents have a large case load and do not have much time to carefully select new borrowers nor pursue loan collection. Indeed, the credit agents typically spent only about one-third of an hour per loan in the loan collection process. It would seem appropriate that better client screening processes should be adopted and that the agents be instructed to be firm with clients and actively seek repayment, even at the sacrifice of making new loans or attending fewer borrowers.

The manner in which trust funds are administered also appears to contribute to delinquency because of a lack of proper incentives to cause the Bank to make a strong effort at loan collection. There are two basic reasons.

First, the Bank loses only 2 percent revenue on any past due installments until the loan is placed in the delinquent category. The reason is that BANDESA continues to receive a 5 percent commission on the past due portion (rather than the 7 percent it would have received on repaid installments) as long as the loan is not deliquent. The additional 2 percent revenue it would receive on repaid installments may not be a sufficient incentive to cover the additional costs of an active loan recovery program. Only when a loan is placed in the delinquent category does BANDESA lose all its revenue.

It should also be noted that for those trust funds that do not pay a commission to BANDESA, the government has agreed to make equivalent payments to the Bank. Often the government's payments are delayed almost indefinitely. Under these circumstances, BANDESA has little incentive to work hard to recover these loans.

Second, the problem is worsened because even if a loan is not repaid it does not represent a direct cost to BANDESA in terms of losses in capital. The reason being that the losses of principal and interest are charged against the trust fund and not the Bank. In the longer run this implies that BANDESA will have less loanable funds as the size of the impacted trust funds decline. Experience shows, however, that new trust funds will likely be forthcoming which will serve to compensate the Bank for the previous losses due to delinquency.

The above are indicative of the need on the part of BANDESA, the Ministry of Finance (which contracts for the trust funds) and other credit authorities to carefully examine the trust fund system, as well as the banking operations of BANDESA, to ensure that the incentives are in place to cause the Bank to work to lessen delinquency. Without effective loan collection, credit that is not repaid serves as an income transfer payment to the borrower, creates a non-repayment philosophy or attitude on the part of borrowers that can snowball into even larger collection problems, and works against the long-run viability of the institution. The financial analysis of the next chapter clearly identifies the latter problem.

VIII

FINANCIAL ANALYSIS

Introduction and Background

Since BANDESA was established in 1970, the government, with considerable assistance from foreign donors, has utilized the trust fund instrument to provide financing for agricultural development. Since that time, the trust funds have become increasingly important to BANDESA, such that, at the present, they completely dominate the Bank's operations.

BANDESA incurs considerable costs in administering loans from these programs. Originally, the Bank received income to cover these costs from commissions, quotas and government payments in accordance with the terms of the various trust fund agreements. These were insufficient, however, to cover the Bank's costs and BANDESA was forced to use some of it own capital to cover its annual operating losses that derived from both its trust fund and regular banking operations. In 1980, when confronting the prospect of an unusually large loss, BANDESA signed an agreement with the government that was designed to give the Bank more funds to cover its trust funds expenses. This agreement gave BANDESA Q9.2 million to cover part of its losses that it had suffered between 1971 and 1980 in administering trust funds. Furthermore, it provided that, beginning in 1981, BANDESA would receive an annual commission of 5 percent on the outstanding non-delinquent portfolio, and, when principal on a loan was repaid it would receive a commission of 7 percent. The commissions were to be paid from the trust funds. Where there were stipulations in some trust fund agreements that prohibited paying commissions, the commission was to be paid to BANDESA by the government. Unfortunately, the agreement has not worked out as well as envisioned, and the Bank continues to run substantial losses. At the end of 1983 the financial situation of BANDESA was worse than in 1980.

The present chapter analyzes the patterns and trends of BANDESA's financial situation over the 1977-1983 period. First, the consolidated balance sheet is examined. Second, sources of income and expenses are analyzed. Third, as a means of comparison, BANDESA's financial situation is contrasted with those for Guatemalan private commercial banks. Fourth, some alternatives for improving BANDESA's situation are explored. The chapter concludes with a summary and conclusions.

Balance Sheet Analysis

Table VIII-1 presents the BANDESA consolidated balance sheet as of December 31, for the years 1977-1983. Over this period, total assets as well as the sum of liabilities and the capital balancing account, grew at an average annual rate of 5.5 percent, going from Q77.4 to Q107.0

TABLE VIII-1

BANDESA CONSOLIDATED BALANCE SHEETS: END-OF-YEAR, 1977-1983
(Thousand Quetzales)

	1977		1978		1979		1980		1981		1982		1983		Average Annual Growth Rate
Assets	77,434	100.0	83,196	100.0	93,857	100.0	94,884	100.0	103,093	100.0	91,402	100.0	107,017	100.0	5.5
Bank Reserves	25,362	32.7	37,982	45.6	48,305	51.5	15,755	16.6	9,346	9.1	8,391	9.2	8,198	7.7	-17.2
Loan Portfolio (Net)	21,898	28.3	20,362	24.5	23.508	25.1	31,852	33.6	31,163	30.2	26,678	29.2	35,256	32.9	8.3
Investments in Bonds/Stocks(Net)	12,246	15.8	13,247	15.9	5,393	5.7	7,748	8.2	8,493	8.2	1,547	1.7	5,378	5.0	-12.8
Other Investments (Net)	6,494	8.4	1,260	1.5	7	.0	26,496	27.9	38,867	37.7	39,663	43.4	37,013	34.6	33.7
Other Assets (Net)	9,531	12.3	8,279	10.0	14,318	15.3	10,834	11.4	12,963	12.6	12,999	14.2	19,283	18.0	12.5
Fixed Assets (Net)	1,685	2.2	1,760	2.1	1,719	1.8	1,669	1.7	1,588	1.5	1,499	1.6	1,275	1.2	-4.5
Deferred Charges	218	0.3	306	0.4	607	0.6	529	0.6	673	0.7	625	0.7	614	0.6	18.8
Liabilities and Capital	77,434	100.0	83,196	100.0	93,857	100.0	94,884	100.0	103,093	100.0	91,402	97.8	107,017	100.0	5.5
Liabilities	67,580	87.3	74,444	89.5	86,583	92.3	85,127	89.7	97,628	94.7	89,066	97.4	99,537	93.0	6.7
Deposits	34,470	44.5	34,415	41.4	34,365	36.6	43,414	45.7	40,647	39.4	34,826	38.1	38,297	35.8	1.8
Checking	11,411	14.7	10,893	13.1	11,324	12.1	18,095	19.1	14,663	14.2	11,066	12.1	13,613	12.7	22.4
Savings	22,945	29.6	23,427	28.2	22,996	24.5	23,283	24.5	23,827	23.1	23,745	26.0	24,668	23.0	1.2
Fixed-term Time	114	0.1	95	0.1	45	0.1	2,036	2.1	2,157	2.1	15	.0	16	.0	-27.9
Current Obligations	19,108	24.7	33,032	39.7	46,213	49.2	31,732	33.4	33,999	33.0	33,827	37.0	37,186	34.7	11.7
Credits from Bank of Guatemala	5,939	7.7	3,508	4.2	1,960	2.1	3,069	3.2	12,152	11.8	8,347	9.1	6,804	6.4	2.3
Provisiones	307	0.4	310	0.4	325	0.4	467	0.5	592	0.6	607	0.7	1,702	1.6	33.0
Deferred Credits	0	0.0	5	.0	103	0.1	5	.0	23	.0	13	.0	3	0.0	
Sum of Demand Accounts	64,914	83.8	71,270	85.7	82,966	88.4	78,687	82.9	87,413	84.8	77,620	84.9	83,992	78.5	4.4
Deferred Profits	2,666	3.4	3,174	3.8	3,617	3.5	6,440	6.8	10,215	9.9	11,446	12.5	15,545	14.5	34.1
Capital	9,854	12.7	8,752	10.5	7,274	7.7	9,757	10.3	5,465	5.3	2,336	2.6	7,480	7.0	-4.5
Paid-in Capital	7,367		8,645		9,244		9,956		10,587		10,554		10,560		6.2
Other Contributions	6,770		10,380		12,206		3,113		5,989		9,617		23,659		23.2
Prior Losses to be Applied	(4,283)		(7,394)		(10,276)		(2,353)		(3,312)		(11,112)		(17,837)		26.8
Profit or (loss) for Year			(2,882)		(3,900)		(959)		(7,799)		(6,726)		(8,902)		

SOURCE: BANDESA, Departamento de Contabilidad.

million. Growth, however, was not uniform for the various component accounts. Indeed, some grew, others declined and there were fluctuations. The following sections examine these accounts for assets, liabilities and capital.

Assets

Bank Reserves. In 1977, these deposits represented 32.7 percent of total assets, by 1979 they had risen to 51.5 percent, and in 1983 they had dropped precipitously to 7.7 percent. This rise and fall is readily explicable. These figures include legal reserves held at the Bank of Guatemala and, beginning in 1981, there was a decline in the percentages of demand and time deposits required as reserves. Also, between 1977 and 1979, unlent balances in trust funds, which were held at the Bank of Guatemala, were deposited in this account. Beginning in 1980, the unlent trust fund balances were shifted to another account, "other investments". Therefore, the decline in the "deposits in banks" account was offset by the rise in the "other investment" account. It is clear that BANDESA did not have as much liquidity between 1977 and 1979 as the financial statements would suggest. The liquidity situation was not good in 1983 either. In that year, of the Q8.2 million in this account, Q6.2 million were in required reserves.

Loan Portfolio. This account only includes loans made from the Bank's funds. Loans from trust funds do not appear on the balance sheet because the Bank just administers these funds and has no claim against nor liability for them. The loan portfolio account grew over the 1977-1983 period at an average annual rate of 8.3 percent, although declines were experienced in 1978 and 1982. Loans also increased relative to total assets; in 1977 they represented 28.3 percent of all assets and by 1983 they were 32.9 percent.

As was noted in Chapter V, the growth of BANDESA's portfolio alongside the decline in annual credit flows is explained by the exceedingly high delinquency rates and the lack of new capital. These two factors intertwine to place limits on BANDESA's lending power in the following manner. The Bank of Guatemala imposes limits on bank lending such that a bank cannot lend in excess of a minimum ratio between outstanding loans and capital. High BANDESA delinquency contributes to a large outstanding portfolio, and, since 1981, the capital stock has remained virtually constant. Therefore, with such a large outstanding portfolio and no growth in capital, there is little capacity in BANDESA for making new loans. It was precisely in this period, 1981-1983, that annual lending from bank funds fell precipitously.

Investments in Bonds, Stocks, etc. Over the 1977-1983 period, this account did not exhibit any uniform tendency, but rather fluctuations that corresponded to the availability of investable funds at the time. If the Bank's funds were not lent, then it would be expected to place them in income earning assets. From a purely financial perspective, such investments were undoubtedly more secure and a more certain source of income than many loans. Therefore, it is not surprising that the Bank would want to choose this alternative, rather than make loans, even though the Bank's mission is to extend credit. It appears, however, that, on occassion, the Bank allowed these investments to become excessive.

Other Investments. This account is comprised principally of two sub-accounts: deposits in other banks and unlent balances in trust funds. As explained above, the unlent trust fund balances were placed in this account beginning in 1980, and, therefore, are the reason for the sharp rise thereafter. At the end of 1983, the balance in this account was Q37.0 million. On the surface this may appear high, but when considering that it is the total for twenty-two trust funds, it appears to be more reasonable, with an average of Q1.6 million per fund to attend to both new credits and pending disbursements of existing loans.

Other Assets. This account experienced an average annual increase of 12.5 percent over the 1977-1983 period, although there was considerable annual fluctuation. This account consists mainly of earned income that remains to be collected, such as interest on past due loans. It is logical that this account varies in direct proportion to delinquency.

Fixed Assets. In 1983, fixed assets constituted 1.2 percent of total assets. Compared to 1977, this was equivalent to an average annual decline of 4.5 percent, which is somewhat surprising since over this period BANDESA was increasing the number of its field offices and purchased a large computer. The decline, therefore, may suggest that BANDESA's financial situation has not permitted it to make improvements in existing capital goods. This, however, should not have much impact on the Bank's operations unless it means that BANDESA does not have the necessary buildings, office equipment and vehicles to carry out its work load properly. Among these items, there appears to be a shortage of vehicles in the field offices.

Deferred Charges. This small account is for anticipated expenditures in office supplies, other goods and salaries. The average annual increase of 18.8 percent is correlated with the growth in BANDESA's operations.

Liabilities

Deposits. There are three sub-classes of deposits: demand, savings and fixed-term time. In 1983, total deposits corresponded to 35.8 percent of liabilities. Over the 1977-1983 period, they grew at an average annual rate of 1.8 percent, much less than the 6.7 percent growth in liabilities. This reflects their decline in relative importance; in 1977, they accounted for 44.5 percent of total liabilities and capital. Among the sub-classes of deposits, demand deposits were the only one to demonstrate growth over the period, an average annual rate of 22.4 percent. The growth rates for savings and fixed-term deposits were 1.2 and -27.9 percent respectively. These results show that the Bank has made virtually no progress in mobilizing savings over the period.

Current Obligations. This account grew at an average annual rate of 11.7 percent. As indicated above, the growth is due primarily to the increase in the balances in the trust fund accounts. In 1983, this account corresponded to 34.7 percent of total liabilities and capital.

Credits. Most of the credits obtained by BANDESA are loans or discounts from the Bank of Guatemala. Between 1977 and 1983, the account grew at an average annual rate of 2.2 percent, but there were considerable fluctuations. In 1983, they accounted for 6.4 percent of total liabilities and capital.

Deferred Credits. This account has been unimportant. In no year did it account for even 0.1 percent of liabilities and capital.

Deferred Profits. In 1983, this account represented 14.5 percent of total liabilities and capital, a considerable increase over the 3.4 percent in 1977. Over the 1977-1983 period, the average annual growth was 34.1 percent. Most of the increase came about as a result of past-due interest. This account is the counter account of "other assets" on the asset portion of the ledger, which mainly consisted of past due interest and commission income.

Capital

This section corresponds to the Bank's net worth. It is very important to point out that BANDESA had less capital in 1983 than in 1977. This resulted mainly from the annual operating losses, which when added to the losses carried over from prior years gradually consumed the Bank's capital. The situation would have been much worse had it not been for "other contributions," mostly subsidies from the government. Particularly noteworthy was the exceedingly large "other contribution" of Q23.7 million in 1983. Without this infusion, and those of the previous years, the Bank's liabilities would have exceeded its assets and its capital would have been negative. Under these circumtances, it would not have been long until the Bank would have to had to close its doors.

Income Statement

As shown in Table VIII-2, BANDESA has experienced increasing annual losses over the 1977-1983 period. Indeed, the situation is quite alarming, because the average annual rate of increase in the loss was 38.0 percent. The reason for the increasing losses has been that the Bank's expenses increased at an average annual rate of 21.5 percent, whereas its income grew only 10.0 percent.

In 1983, almost two-thirds of BANDESA's income came from commissions, most of which came to them for their management of trust funds. Almost all of the rest of the income came from interest. In 1977, the percentages were almost exactly the reverse. Over the period, interest income remained fairly constant, but then declined sharply in 1983. This pattern reflects the patterns of annual credit flows, particularly the

TABLE VIII-2

BANDESA CONSOLIDATED INCOME STATEMENT, 1977-1983
(Thousand Quetzales)

	1977		1978		1979		1980		1981		1982		1983		Average Annual Growth Rate
Income	3,193	100.0	4,456	100.0	3,498	100.0	4,416	100.0	5,326	100.0	6,767	100.0	5,666	100.0	10.0
Interest	2,016	63.1	2,522	56.6	2,513	72.0	2,393	54.2	2,410	45.2	2,659	39.3	1,919	33.9	-0.8
Commissions	816	25.6	734	16.5	389	11.1	822	18.6	577	10.8	500	7.4	3,521	62.1	27.6
Currency Exchange	63	2.0	71	1.6	56	1.6	95	2.2	141	2.6	13	0.2	9	0.2	-27.7
Agency Income	132	4.1	67	1.5	80	2.3	76	1.7	78	1.5	87	1.3	97	1.7	-5.0
Extraordinary Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	166	5.2	1,062	23.8	455	13.0	1,030	23.3	2,120	39.8	3,508	51.8	120	2.1	-5.3
Expenses	4,435	100.0	7,372	100.0	7,255	100.0	10,156	100.0	13,807	100.0	12,473	100.0	14,263	100.0	21.5
Interest	1,491	33.6	1,551	21.0	1,501	20.7	1,652	16.3	1,572	11.4	1,616	13.0	1,531	10.7	0.4
Commissions	3	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Currency Exchange	-	-	-	-	33	0.5	-	-	-	-	-	-	-	-	-
Agency Operations	773	17.4	953	12.9	2,608	35.9	3,337	32.9	3,369	24.4	3,994	32.0	4,366	30.6	33.4
Extraordinary Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Central Office and Administrative Expenses	2,118	47.8	4,830	65.5	3,113	42.9	5,103	50.2	8,771	63.5	6,849	54.9	7,772	54.5	24.2
Others	50	1.1	38	0.5	-	-	64	0.6	95	0.7	14	0.4	594	4.2	51.1
Profit (Loss)	(1,242)		(2,916)		(3,757)		(5,740)		(8,481)		(5,706)		(8,597)		38.0

SOURCE: BANDESA, Departamento de Contabilidad.

sharp drop in lending in 1983, as well as the serious delinquency problems, which meant losses of interest income in loans made from the Bank's own funds. With respect to commissions, beginning in 1980, the amounts earned from this source have increased, given the decision taken in that year to provide BANDESA with commissions from trust funds on the amounts of the outstanding non-deliquent portfolio and repaid loans. Between 1980-1982, these commissions were listed under "other" income, whereas in 1983 they were shifted to the "commissions" account. The upshot is that the lack of growth--indeed a decline--in revenues from the Bank's own operations has been the reason for the slow growth of income. Although, this decline has been offset by growth in revenues from commissions, it has not been sufficient to keep up with the growth of expenses.

It is important to note, however, the income from trust fund commissions has not been as large as it should be. It should be recalled that in cases where commissions cannot be assessed on a particular trust fund, due to the restrictions written into the legal agreement, that the government agreed to pay BANDESA an equivalent amount. Unfortunately, the government is in arrears in some of its payments. The figure for 1983 is not available, but in at the end of July, 1984, it was 3.8 million for the total agricultural trust funds (not including housing). The payment of this sum is certain to reduce the deficit, but would come far short of eliminating it.

BANDESA's largest expense is in the "central office and administration" account. In 1983, these expenses were 54.5 percent of the total. Between 1977 and 1983 the relative size of these expenditures fluctuated but tended to follow an upward trajectory. The second largest source of expenditures was for "agency operations". This also grew over the period. Finance costs, or interest expenses, remained somewhat constant over the period but declined in relative importance.

What these results suggest is that agency expenses have risen as more field offices have opened and the loan volume from trust funds has risen. The increase in central office expenses shows that the size of headquarters operations has also grown. The stable interest costs, reflect the lack of growth in savings and fixed-term time deposits and that BANDESA does not borrow much from the central bank nor on the money market.

It is useful to make some comparisons in 1983 to see the depth of BANDESA's problems. First, with respect to the interest accounts, the Bank earned an excess of only Q388,000 in revenues over expenses, the equivalent of 3.0 percent of its non-interest expenses. Granted, many of these expenses were incurred in trust fund operations, but, never-the-less, the amount is exceedingly small and shows how the Bank is not able to use net interest income to offset operating expenses.

Second, central office and administrative expenses in themselves were greater than all income earned by 37.2 percent. Agency expenses alone, were 77.1 percent of total income. The magnitudes vary some, but the patterns are similar for all years since 1980. These figures poignantly show the high costs of BANDESA's operations.

Third, a more careful examination of BANDESA's costs associated with its trust fund operations sheds light on the losses emanating from these operations. In 1983, the commissions that should have been earned by BANDESA on its outstanding non-delinquent trust fund portfolio were equivalent to only about one-third of the Bank's non-interest expenses. Considering that 98.2 percent of BANDESA lending was from trust funds in that year, it is clear that the Bank is not earning sufficient income from its trust funds to begin to cover their costs from its trust fund lending operations.

If the Bank were charging only one-third of its non-interest expenses to trust fund operations, it would be considerably understating the costs associated with these operations. On the other hand, it is doubtful that a full 98.2 percent of BANDESA's non-interest expenses should be charged to trust funds because there are non-trust fund expenses associated with the Bank's other commercial banking operations. Assume, however, for the sake of an example, that 98.2 percent of the non-interest expenses are considered assignable to trust funds. If this is the case, BANDESA's cost per Quetzal lent from trust funds in 1983 would have been Q.32; the cost per Quetzal in the outstanding portfolio would have been Q.11; and the cost per Quetzal in the outstanding and non-delinquent portfolio would have been Q.15. Compared to the Q.05 or Q.07 earnings on these loans, it is clear that BANDESA is losing considerable money on its trust funds.

It should be recognized that the nature of the trust fund arrangement requires additional expenses that would not exist for regular bank loans. The basic reason is the detailed record keeping and reports that must be prepared for each of the twenty-two trust funds. It is only logical that the international agencies or the government that have provided these funds for targeted objectives would want detailed analysis and reports in order to evaluate their success. Unfortunately, this mounts up to much extra work for BANDESA in records and accounting. There appears to be little opportunity for eliminating this situation, but studies should be made to see if the procedures can't be streamlined and simplified.

These comparisons strongly suggest that BANDESA needs to do one or both of two things: (a) increase income or (b) cut expenses. Without appropriate action, the Bank can only continue to exist by heavy subsidization. An example of how the Bank can improve its situation is presented in a later section. First, however, it is useful to compare BANDESA with other Guatemalan banks.

Comparison of BANDESA With Other Banks

Income Statement

Table VIII-3 compares the 1983 income statements of BANDESA and the combined statement of the fourteen private commercial banks. Interest

TABLE VIII-3

COMPARISON OF INCOME AND EXPENSES FOR BANDESA AND PRIVATE BANKS, 1983
(Thousand Quetzales)

Concept	BANDESA	%	Private Banks	%
Income	5,666	100.0	189,623	100.0
Interest	1,919	33.9	160,820	84.8
Commissions	3,521	62.1	17,022	9.0
Currency Exchange	9	0.2	6,077	3.2
Agency Income	97	1.7	1,017	0.5
Extraordinary Income	-	-	2,271	1.2
Other	120	2.1	2,416	1.3
Expenses	14,263	100.0	167,685	100.0
Interest	1,531	10.7	89,206	53.2
Commissions	-	-	210	0.1
Currency Exchange	-	-	2,864	1.7
Agency Operations	4,366	30.6	21,379	12.7
Extraordinary Expenses	-	-	1,999	1.2
Central Office and Administrative Expenses	7,772	54.5	26,911	16.1
Others	594	4.2	25.116	15.0
Profit (Loss)	(8,597)		21,938	

SOURCE: Superintendencia de Bancos, Boletín de Estadísticas Bancarias II Trimestre 1983; BANDESA, Departamento de Contabilidad.

income represents 84.8 percent of the private banks' total income but only 33.9 percent of BANDESA's income. This reflects both the heavy dependency of BANDESA on commissions from trust funds as a source of income and its relatively small loan portfolio. In contrast, the private banks depend much less on commissions and relatively more on income from foreign exchange transactions.

In the expense ledger, the private banks' major expense was financial costs (interest) which accounted for 53.2 percent of the total. In contrast, the BANDESA percentage was only 10.7 percent. In part this shows that BANDESA does not rely much on financial markets to obtain its loanable funds.

It is useful to compare the ratios of interest expenses to income. With respect to interest, the ratio of interest earnings to interest expenses for BANDESA was 125.3 percent, whereas for the private banks it was 180.3 percent. This demonstrates the depressing effects on income of both BANDESA's concessionary loan rate and its high levels delinquency on outstanding loans.

For BANDESA the greatest expenditures were the costs of operating the central office and administration, which corresponded to 54.5 percent of total expenses. In the case of the private banks the percentage was 16.1. If agency costs are added to the central office expenses the expenses of BANDESA for running their offices were 85.1 percent of total expenses; for the private banks the percentage was 28.9. These figures suggest that BANDESA's cost of administering its operations are very much higher than for the private commercial banks.

That this is the case is clearly demonstrated in Table VIII-4. BANDESA's total (central office and agency) costs per Quetzal lent in 1983 were almost six times higher than these of the private banks. The Bank's costs per Quetzal of total outstanding portfolio were more than double those of the private banks.

The ratios of central office and administrative expenses to total incomes reported in Table VIII-3 also demonstrate this point. The ratios were 137.2 percent for BANDESA and 14.2 percent for the private banks. The respective ratios for the sum of agency and central office administrative expenses were 214.2 and 25.5 percent.

A comparison of central office administrative costs with the sum of central office and agency administrative costs is suggestive of the top-heavy structure in BANDESA. For private banks, central office costs were 52.01 percent of the total. For BANDESA, the percentage was 64.03. Given that BANDESA has relatively more agencies than the individual private banks makes this difference even more impressive.

The data of Table VIII-4 reinforce this point. Central office expenses per Quetzal for both annual loans and the portfolio are about three-fourths larger than the corresponding figures for agency operations. Given that the large bulk of the lending loan collection and other commercial banking activity and decision making is at the agency level,

TABLE VIII-4

COSTS PER QUETZAL LENT FOR ANNUAL LOANS AND PORTFOLIO, BANDESA AND PRIVATE COMMERCIAL BANKS, 1983
(Quetzales)

Costs Per Quetzal Lent (includes trust funds) in 1983	BANDESA	Private Banks
Total Expenses	.357	.192
Expenses for Central Office and Administration	.195	.030
Expenses for Agency Operations	.109	.024
Sum of Expenses for Central Office and Agency	.304	.054
Cost Per Quetzal in Loan Portfolio (includes trust funds) as of December 31, 1983		
Total Expenses	.095	.135
Expenses for Central Office and Administration	.052	.021
Expenses for Agency Operations	.029	.017
Sum of Expenses for Central Office and Agency	.081	.038

SOURCE: Authors' calculations based on information reported by BANDESA and the Superintendencia de Bancos, Boletín de Estadísticas Bancarias II Trimestre 1983.

it is indeed inconsistent to have such a large balance of expenses in the central office.

Financial Ratios

Table VIII-5 presents some financial ratios that are useful in comparing and analyzing the structural and liquidity situations of BANDESA and private commercial banks. As can be seen in the table, the ratio of net loans to assets is .29 for BANDESA and .59 for the private banks. The ratios of income earning assets to total assets for the two institutions were .40 and .73, respectively. Both of these ratios show how BANDESA is hamstrung by its financial difficulties, which keep it from expanding lending from its own funds.

The ratio of total investments to deposits is 1.11 for BANDESA and .99 for the private banks. The higher ratio for BANDESA is due to the trust fund balances that it has invested.

The ratio of total deposits to total liabilities demonstrates the inability of BANDESA to mobilize deposits. The ratio for BANDESA is .38 and for the private banks it is .80.

Liquidity ratios also show that BANDESA is worse off than the private banks. The ratio of immediately liquid assets to deposits and accounts payable is .18 for BANDESA and .33 for private banks. The corresponding ratios of liquid assets to total assets are .13 and .28. Consequently, both ratios show that BANDESA is more exposed, in case of a liquidity crisis.

An Alternative

It is possible to demonstrate how BANDESA's situation would improve considerably within a few years time if the Bank were to improve its loan recovery rate considerably, raise loan interest rates, and gain access to additional loanable funds by mobilizing savings or aquiring new capital. Whereas there were many possible combinations of alternatives that could be worked out, we have chosen to present one that incorporates several basic, but reasonable assumptions. Three-year projections based on these assumptions are presented in Tables VIII-6 and 7.

The exercise begins with BANDESA's situation as of December 31, 1983. The assumptions are: (a) in 1984, the government will provide BANDESA with Q15 million new capital (the equivalent of the trust fund BID TF-GU); (b) beginning in 1984, the Bank will charge 12 percent interest--the maximum authorized by the Monetary Board--on all loans from its own funds (c) in 1984, the Bank will transfer Q5 million from its investments account to its loan account in order to make additional new loans; (d) beginning in 1984, the unlent trust fund balance will be reduced to Q2.5 million by increasing loans from trust funds; (e) the Bank's deposits will increase 10 percent per year; (f) in 1985, the Bank will recover Q3 million in past due interest and commissions; (g) in 1984,

TABLE VIII-5

COMPARISON OF FINANCIAL RATIOS FOR BANDESA AND PRIVATE BANKS, 1983

Ratios	BANDESA	Private Banks
Structural		
Net Loans/Total Assets	.29	.59
Income Generating Assets/ Total Assets	.40	.73
Total Investments/ Total Deposits	1.11	.99
Total Deposits/ Total Liabilities	.38	.80
Liquidity		
Immediately Liquid Assets/Deposits and Other Accounts Payable	.11	.18
Liquid Assets/Deposits and Other Accounts Payable	.18	.33
Liquid Assets/Total Assets	.13	.28

SOURCE: Superintendencia de Bancos, *Boletín de Estadísticas Bancarias II Trimestre 1983*; BANDESA, Departamento de Contabilidad.

the Bank will raise its loan recovery rate to 85 percent; (h) in 1985, this recovery rate will rise to 90 percent; and (i) beginning in 1984, the Bank will be authorized to receive commissions of 6 percent on its outstanding non-delinquent trust fund portfolio.

The results are presented in Tables VIII-6 and 7. The bottom line is that the Bank's paid-in capital increases each year and that BANDESA's annual loss is reduced by almost 83 percent by 1986. It is noteworthy that if the loan interest rate had been raised to 15 percent rather than 12 percent, the Bank would have shown a profit in that year.

Clearly this alternative is based on specific assumptions. Never-the-less, it illustrates what could happen to BANDESA if changes were introduced to increase its ability to make more loans from its own resources and to increase its earnings on them through higher interest rates. Of course, it also depends upon a sizeable infusion of new capital, a major reduction in delinquency and a modest increase in mobilizing savings. The exercise does not directly take account of any reduction in operating expenses, but were this to occur it would enhance the reduction of the annual losses.

Exercises such as the one presented here deserve more attention than can be devoted here. It would be very useful to do some carefully planned simulation models to illustrate the results from different sets of alternative assumptions. In this process sensitivity analysis could be conducted to determine how the results are impacted by changes in the hypothesized assumptions.

Summary and Conclusions

This chapter analyzes in detail the difficult and precarious financial situation of BANDESA, that has been referred to frequently in previous chapters, in order to explain how these problems have developed and to propose some solutions. The analysis covers the 1977-1983 period.

An examination of the consolidated balance sheets shows how the Bank's capital declined over the period at an average annual rate of -4.5 percent because the average annual rate of growth of liabilities was 6.7 percent whereas the average annual growth of assets was only 5.5 percent. This has meant that BANDESA has had to be continually subsidized by the government.

The Bank's loan portfolio has grown over the period, but the annual credit flows have declined in recent years because of the reduction in capital. This has limited BANDESA's ability to make new loans because of minimum loan/capital ratios established by the Monetary Board. As a consequence, BANDESA is trapped in a vicious circle that links delinquency, operating losses capital, and lending capacity. A reason for the decline in capital is the Bank's annual operating losses, which result, in part, from the large portion of the loan portfolio that is in arrears. Yet without more capital, the Bank cannot increase its

TABLE VIII-6

PROJECTED BALANCE SHEETS FOR BANDESA, UNDER CERTAIN ASSUMPTIONS, 1983-1986

	1983	1984	1985	1986
Assets	107,017	117,017	117,846	119,059
Bank Reserves	8,198	8,198	8,921	9,692
Loan Portfolio (Net)	35,256	54,256	57,362	60,804
Investments in Bonds/Stocks (Net)	5,378	1,378	1,378	1,378
Other Investments (Net)	37,013	32,013	32,013	32,013
Other Assets (Net)	19,283	19,283	16,283	13,283
Fixed Assets (Net)	1,275	1,275	1,275	1,275
Deferred Charges	614	614	614	614
Liabilities and Capital	107,017	117,017	117,846	119,059
Liabilities	99,537	94,537	95,367	46,580
Deposits	38,297	38,297	42,127	46,340
Checking	13,613	13,613	14,974	16,472
Savings	24,668	24,668	27,135	29,848
Fixed-term Time	16	16	18	20
Current Obligations	37,186	32,186	32,186	32,186
Credits from Bank of Guatemala	6,804	6,804	6,804	6,804
Provisiones	1,702	1,702	1,702	1,702
Deferred Profits	3	3	3	3
Sum of Demand Accounts	83,992	78,992	82,822	87,035
Deferred Profits	15,545	15,545	12,545	9,545
Capital	7,480	22,480	22,479	22,479
Paid-in Capital	10,560	14,005	16,922	18,431
Other Contributions	23,659	38,659	38,659	38,659
Prior Losses to be Applied	(17,837)	(26,739)	(30,184)	(33,102)
Profit or (loss) for Year	(8,902)	(3,445)	(2,918)	(1,509)

SOURCE: Authors' calculations.

TABLE VIII-7

PROJECTED INCOME AND EXPENSES FOR BANDESA UNDER CERTAIN ASSUMPTIONS, 1983-1986

	1983	1984	1985	1986
Income	5,666	10,818	12,079	13,651
Interest	1,919	5,534	6,195	6,567
Commissions	3,521	5,058	5,658	6,858
Currency Exchange	9	9	9	9
Agency Income	97	97	97	97
Extraordinary Income	-	-	-	-
Other	120	120	120	120
Expenses	14,263	14,263	14,997	15,160
Interest	1,531	1,531	1,629	1,792
Commissions	-	-	-	-
Currency Exchange	-	-	-	-
Agency Operations	4,366	4,366	4,584	4,584
Extraordinary Expenses	-	-	-	-
Central Office and Administrative Expenses	7,772	7,772	8,160	8,160
Others	594	594	624	624
Profit (Loss)	(8,597)	(3,445)	(2,918)	(1,509)

SOURCE: Authors' calculations.

annual loan flow and generate more interest. Hence, annual operations losses continue. The solutions to breaking the circle are clear; reduce delinquency by collecting on past due and future loans, lower operating expenses, and raise income by both expanding the loan portfolio and raising the loan interest rate. To speed up and facilitate the process, BANDESA would be helped by a substantial infusion of new capital in the immediate future that would allow it to rapidly increase its lending capacity and interest income.

An analysis of the income statement further demonstrates the problem in terms of income and expenses. Over the 1977-1983 period, operating losses grew at an average annual rate of 38 percent, because income only grew 10 percent while expenses grew 21.5 percent.

In 1983, about two-thirds of BANDESA's income came from commissions the Bank earned for managing trust funds. Most of the remaining income came from interest on loans made with the Bank's own funds. It is clear that BANDESA should try to increase its interest income by substantially improving its loan collection, increasing the size of its loan portfolio, and raising loan interest rates. Furthermore, it was demonstrated that the commissions that BANDESA receives from its trust funds were quite inadequate for covering the costs of administering the trust fund programs. This suggests a two-pronged approach for these programs: the commission rate should be raised and operations costs should be reduced.

The examination of BANDESA's expenses show that, in 1983, some 85.1 percent of their total costs are involved in operating the central office and bank administration (54.5 percent of total) and agencies (30.6 percent of total). These results are not too surprising, given that BANDESA has relatively little financial costs, since it does not mobilize much savings nor borrow much from either the Bank of Guatemala or in financial markets. The fact, however, that operations expenses greatly exceeded total income strongly suggests that these costs are excessive.

Two comparisons with the private commercial banks serve to better put BANDESA's operations costs in perspective. First, the private banks had only 16.1 percent and 12.8 percent of their total expenses in costs for operating their central offices and agencies, respectively; figures that are considerably lower than BANDESA's. Second, and even more telling, is that BANDESA's costs per Quetzal lent, for the sum of loans from bank and trust funds, was about six times higher than these costs for the private banks. Furthermore, BANDESA'S costs per Quetzal in the loan portfolio were almost double those for the private banks. Third, the relative sizes of BANDESA's operations expenses for the central office and administration appear to be very high.

It should be recognized that the figures for BANDESA and the private banks are not completely comparable. There are important differences in the extent that each institution provides other types of banking services and that the private banks tend to lower their costs by making larger loans than BANDESA. Furthermore, it is necessary to recognize that the administration of twenty-two trust funds places a heavy burden on BANDESA for accounting and reporting purposes. Never-the-less, the figures strongly suggest that BANDESA has excessive operations expenses and should search for ways to reduce them, especially in the central office.

In conclusion, this analysis clearly demonstrates that if BANDESA is to become financially viable in the long run that it needs to take several measures. Although, the exact magnitude of the proposed changes would need to be determined by a more thorough study, the directions of the changes are clear. BANDESA needs to: (a) considerably reduce its delinquency on its past due and future portfolio in order to raise income and recycle more loanable funds; (b) raise interest rate on loans from its own funds in order to increase income; (c) increase the commission on the trust funds portfolio in order to raise income (This measure would imply raising the loan rate on these funds in order to provide a sufficient margin to offset the effects of inflation such that the trust funds would not decline in their real value, and, hopefully, allow them to grow over time.); (d) carefully consider how to cut operations costs, especially in its central office and administration; (e) receive a new injection of capital in order to allow it to immediately expand lending from its own operations; and (f) develop its lending capacity through an active and viable program for mobilizing domestic savings, a topic which will be explored in detail in the following chapter.

IX

BANDESA'S POTENTIAL FOR MOBILIZING RURAL SAVINGS

Introduction

The previous chapters have made continual reference about the need for BANDESA to increase its lending capacity through the banking side of its operations. One means put forward to do this was the mobilization of more savings and other time deposits in order to provide the Bank with additional loanable resources.

This, however, is only one of the arguments for mobilizing more rural savings. In the next section the more complete arguments for saving are presented. This is followed by a section that describes BANDESA's record in savings mobilization. Then, the potential for BANDESA mobilizing more savings is examined and recommendations are made for realizing that potential. The chapter concludes with a summary and conclusions.

Arguments for Rural Savings Mobilization

Agricultural development banks in most less-developed countries have traditionally concentrated on extending loans and have neglected their potential role to mobilize savings and, hence, serve as true financial intermediaries in the rural sector. This has come about for several reasons. First, there is a widespread belief that rural folk in these countries do not have much of a capacity to save and, therefore, it is not economically worthwhile for the banks to try to mobilize the savings that exist.

Second, because of the pressing needs and targeted goals in the sector, it is necessary to transfer huge amounts of loanable funds to the banks in order to enable them to extend credit for these purposes. For these ends, loans, grants or subsidies from governments and foreign donors are viewed by policy makers and credit programmers as the quickest and best source for channelling large sums of funds to the banks.

Third, from the perspective of the banks, these funds are preferred to savings for several reasons: (a) because of the bland interest rates they are much less expensive to aquire than those that would come from mobilized savings; (b) once a grant or loan is made available for a credit program, there are large chunks of loanable funds immediately available to a bank, and the credit program can be put into effect on a large scale; (c) the bank's transactions costs in aquiring these funds may be less than those needed to mobilize savings; and (d) the bank would incur new costs in managing the savings accounts with respect to how the saving deposits are lent or invested such that reasonable liquidity is maintained to service withdrawals. In some cases, the banks do not have the expertise to carry out this responsibility.

Fourth, the concessionary loan interest rates that are typically charged to the final user of credit with agricultural development bank loans stand in the way of savings mobilization because they don't allow the bank to pay a rate of interest on savings deposits that is sufficiently attractive to garner large numbers and volumes of deposits and still maintain a sufficient spread. As such, at the prevailing interest rates, the banks appear not to have a large supply of potential savers and savings, and, consequently, are led to believe that there are few savings to be mobilized.

For all of these reasons, most agricultural development banks have not mobilized savings. Many do not even have a savings mobilization window. For those banks that have the savings window, many are inactive and oftentime have been shut down. This historical experience, however, should not stand in the way of rethinking the savings mobilization question. Indeed, very persuasive arguments can be made as to why savings mobilization should be an integral part of rural finance. The following are the most prominent.

Financial Intermediation and Resource Allocation

A goal of any economy should be to develop an institutional structure and policies that facilitate an optimal allocation of resources. One type of institution that is important in this process is the financial intermediary. Without rural financial institutions that are accessible and offer the opportunity as a place for farmers, rural non-farm households and businesses to deposit their excess liquidity, the possibilities for financial intermediation in rural areas are limited. This means that agricultural credit must mainly come from sources outside the sector, including foreign donors. Although, the sector may not expect to be entirely self financed, without savings mobilization there is a potential for obtaining financial resources within the sector that is being missed.

It is increasingly recognized the small farmers do indeed save, even though many might be classified as marginal or poor. These persons anticipate the need to make forseen expenditures such as for farm investments, school supplies, personal or household uses and will save in order to be able to obtain them. They also know that they may be suddenly hit with unforseen, but predictable, expenditures, such as for a sickness and will save as a hedge against these contingencies. Under these circumstances, farmers particularly the small farmers who have limited access to banks located in the urban centers, will look to other alternatives to hold their excess liquidity until it is needed to finance some future need. Common means are cash stashed away in the home and the purchase of easily salable animals or other valuable objects. Savings in this fashion represent perfectly rational decisions by savers, but they result in funds not entering into the financial system and may earn less income than the saver could earn with interest in a bank savings account. If savings facilities were available and accessible, and if the savers were to decide to place their funds in a bank, then, through the process of financial intermediation, these savings would be directed to other persons through loans or investments.

If the saver saw it to his advantage to place his excess liquidity in a savings account, then it can be presumed that he did it to gain additional benefits, including income. Likewise the bank's additional loanable funds emanating from the expanded savings deposits will be used to benefit more borrowers. Therefore, through the financial intermediation process, both the savers and borrowers experience higher incomes.

It would be expected that many more persons would use the bank's savings window than would be seeking credit. In this manner, many more rural folk would benefit than would be the case under a straight credit program. This also illustrates how the bank can play a valuable intermediation role by taking relatively small amounts of savings from many depositors and combining them into a lesser number of loans that are of a relatively larger size.

If the rural sector had accessible financial institutions that mobilized savings and the return on such savings to the potential saver was sufficiently attractive, financial resources would be mobilized. Through the process of intermediation, these resources would be more appropriately allocated in the economy and returns to both savers and borrowers would be improved. A corollary would be that the physical resources would also be more appropriately allocated. In this fashion, total output and incomes in the sector and in the economy as a whole would be improved.

Increased Viability of Financial Institutions and Decreased Dependence

Most agricultural development banks have become virtually dependent on grants and low-interest rate loans from their governments and foreign donors as their sources of loanable funds. These banks typically incur annual operations losses, which not only consume their interest earnings but also part of their capital. This requires that they receive continual subsidies from the government. Banks in these conditions are not financially viable, in the sense that they can't continue to operate without subsidies. As long the banks can count on subsidies and access to inexpensive credit funds they are able to continue in business. Yet, in the long run, operating with subsidies does not contribute to making the banks into financially independent and viable institutions. Stated another way, it does not lead to the development of the financial sector in rural areas. Therefore, the policies that have caused this mode of operations, while contributing to short-run goals, do not create long-run conditions that will reduce the dependency of these banks on government and foreign donor financing. If a development goal is to create self-sustaining and financially-viable rural development banks then the system must be changed.

Savings mobilization offers that opportunity. If a bank is successful in mobilizing savings, it will add to its sources of loanable funds and permit it to become less dependent on grants and loans from the government and foreign donors. Paradoxic as it may seem, if the bank relies more on savings, and thus supplants cheap resources with more expensive resources, the manner in which the bank will be forced to manage the additional resources gained from savings deposits will enable the banks to operate in a more profitable position.

BANDESA's Record in Savings Mobilization

Since its establishment, BANDESA has had a savings window facility in each of its agencies. With considerable expansion in the number of agencies, the accessibility of the rural population to the savings window has increased. Never-the-less, as was shown in Table VIII-1 of the previous chapter, over the 1977-1983 period the nominal amount of BANDESA's savings deposits remained somewhat constant, growing very slowly at an average annual rate of growth of 1.2 percent. Measured in real terms, the amount declined at an average annual rate of -6.6 percent, which means that BANDESA had considerably less real resources from this source in 1983 than in 1977. Over the same period, the Bank held only a very small volume of fixed-term time deposits. At the end of 1983, BANDESA had less than Q1 million in fixed-term time deposits and Q24.7 million in savings deposits. According to bank officials, there were numerous persons holding savings accounts, but the typical amounts on deposit were quite small.

To put the BANDESA experience in perspective, it is useful to make three comparisons between the Bank's savings record with that of the combined private commercial banks. First, between 1977 and 1983, the nominal amount of savings deposits held by the private banks increased at an average annual rate of 13.2 percent. In real terms the average annual growth was 4.4 percent. Clearly, the private banks out performed BANDESA, not only in growth but also because they expanded their financial resources from this source in real terms.

Second, the private banks have depended more heavily on savings and fixed-term time deposits as a source of financial resources than has BANDESA. In 1983, the ratio of the sum of savings and fixed-term time deposits to the loan portfolio for BANDESA was .7. In sharp contrast, the ratio for the private banks was 1.12.

Third, the relative participation of BANDESA in the banking system in mobilizing savings is considerably less than their relative participation in lending. In 1983, loans from BANDESA's own funds accounted for 2.5 percent of the system's loan portfolio, but the Bank only held 1.7 percent of the sum of the system's savings and fixed-term time deposits. In contrast, the figures for private commercial banks were 83.3 and 90.7 percent, respectively. It is clear that BANDESA has played a relatively larger role in the nations financial markets in extending credit than in mobilizing savings. The ratio of its credit to savings relative participation in the banking system was

1.47. The private banks, however, have been relatively stronger in mobilizing savings; their ratio was .92.

These comparisons demonstrate that BANDESA has not been nearly as successful in mobilizing savings as the private commercial banks. There are at least six interrelated factors that appear to have contributed to the Bank's lack of growth in mobilizing savings.

First, although BANDESA is a commercial bank, it is primarily a development bank. Therefore, the Bank has placed much more emphasis on lending than on savings mobilization. This undoubtedly reflects the philosophy of both the government and BANDESA's management about the role of the Bank in the development process.

Second, although BANDESA has rapidly extended its offices to additional regions of the country, it has not emphasized savings mobilization in these facilities. Nor has it made any overall and concerted effort to promote savings mobilization among its borrowers or other potential savers in rural areas.

Third, BANDESA's predominate agricultural sector orientation and office locations in rural areas does not provide the Bank with easy access to urban residents and businesses. It is common for urban wage earners, who have regular incomes, to establish regular savings plans out of their paychecks. Furthermore, businesses use savings accounts as a place to store their excess liquidity as they manage their cash flow. In contrast, farmers obtain their excess liquidity more in chunks, typically at harvest time, and are more likely to use it at that time to make direct farm investments or save it by investing in highly liquid real assets.

Fourth, BANDESA has not provided attractive interest rate incentives to potential savers. The Bank has consistently paid rates on savings and fixed-term time deposits that are less than the maximum allowed by the Monetary Board and what the private banks and the financieras pay. Therefore, BANDESA interest rates are not only low, but also they are not competitive. Furthermore, the Bank has not adjusted the interest rate for inflation. As a consequence, BANDESA's real rate has often been negative. On all of these accounts, there is little incentive for depositors to save with BANDESA.

Fifth, with the increasing availability of trust funds, BANDESA appears to have found it better to use this source of funds to expand their lending operations rather than mobilize savings. There are several reasons. Most important, is that the Bank earns a relatively large "spread" on loans from trust funds. BANDESA incurs no financial cost for aquiring trust funds since it pays no interest on them. With an expected revenue from commissions of 5 percent on the outstanding non-delinquent portfolio and 7 percent on loan repayments, the Bank's spread is greater than that it receives from the interest rate differential on most loans made from its own funds. To illustrate this point, consider that the Bank currently pays 6 percent on savings accounts. There is an additional hidden cost of 0.67 percent, because

10 percent of savings deposits must be held as required reserves. Therefore, the Bank only gets the use of 90 percent of the amount deposited. The current maximum loan rate for credit from the Bank's own funds is 12 percent, but many loans are made at 9 percent. Therefore, the spread on these loans is between 2.33 and 5.33 percent depending on the loan interest rate.

Of course, for both bank and trust fund loans, there are administrative costs and risk costs. The latter correspond to the costs to the Bank if loans are not repaid. While trust fund administrative costs appear to be high, there are also reasonably high costs in managing both the savings and lending operations from BANDESA's banking operations. There are no risk costs for loans from trust funds, because any losses in interest and principal due to default are charged directly to the trust fund and not the Bank. In contrast, any losses incurred in loans with the Bank's own funds are charged directly to BANDESA. With a history of high delinquency rates, BANDESA certainly must consider these costs to be high. In sum, on a simple cost-benefit basis, it appears that BANDESA has little or no financial incentive to prefer using mobilized savings to expand its lending operations when trust funds are readily and increasingly available.

Sixth, as BANDESA's capital has declined because of its operating losses, its capacity to lend from its own funds has decreased due to the required minimum ratio between the loan portfolio and capital. Thus, without more capital, the Bank is discouraged from mobilizing savings because BANDESA couldn't place more loans even if it had larger savings deposits.

The combined effects of these six factors have worked against BANDESA vigorously pursuing savings mobilization. It is clear that the philosophy and the proper incentives have not been in place. The following section analyzes BANDESA's potential to mobilize savings, if the appropriate incentives were installed.

BANDESA's Potential for Mobilizing Savings

It is without doubt that BANDESA could mobilize considerably more savings were the Bank to make a firm commitment to do so and be willing to make the changes to create the necessary incentives to attract more depositors and deposits. This section is divided into three parts. First, the necessary incentives for attracting voluntary savings are presented. Second, the major obstacles to the Bank's implementing a savings mobilization program are discussed. Third, the possibilities for establishing a forced saving program are considered.

Incentives for Voluntary Savings

There are three sets of incentives for the potential depositor that need to be considered to attract voluntary savings: (a) financial returns to the saver; (b) the saver's transactions costs in making and withdrawing deposits; and (c) and saver's confidence in the Bank. The potential depositor will consider all of these factors jointly, assigning a weight to the importance of each component. The saver's final decision will depend upon how the benefits of saving with BANDESA compare with other available alternatives.

Financial Returns. The financial returns are essentially determined by the interest rate paid on savings accounts. Clearly, the higher the rate the more savings will be attracted, *ceteris paribus*. BANDESA's potential for mobilizing savings would be increased by offering interest rates that are at least on a par with those paid by other commercial banks and would be further enhanced if they were to offer even higher rates, say at the upper limit established by the Monetary Board. Furthermore, if BANDESA were to make adjustments in the nominal rates to account for the effects of inflation, there would be even greater incentives for savers.

In addition to interest rates there are other financial incentives that could be employed. A promotional program could be implemented that would offer prizes or chances in a raffle to new depositors. Such a program could also be used as a mechanism to encourage current depositors to increase their deposits by at least some minimum amount. In this scheme the prizes or raffle serve as a means to raise the expected returns on the savings over and above the interest earnings.

Transactions Costs. Savers transactions costs are determined fundamentally by the accessibility of a bank office to the saver and the amount of time and paperwork in making both deposits and withdrawals. The time and expense required to travel to and from a business or home to the Bank are important elements in the savings decision, particularly if the amounts deposited or withdrawn are of small size, if deposits or withdrawals are made with frequency, and/or if the saver anticipates the need for easy and rapid access to the liquidity in his savings account.

Fortunately, BANDESA already has a resonably extensive network of agencies and *cajas rurales* distributed throughout the nation. The network enhances accessibility to much clientele, but never-the-less many potential savers live some distance from these offices. In the future development of new field offices, decisions about location should be based not only on credit considerations but also on their accessibility to savers.

Once the saver arrives at the Bank it should be easy for him or her to either make a deposit or withdrawal. The Bank's current passbook arrangements appears to work well. A problem, however, can occur if the Bank does not have the liquidity to allow the withdrawal on the spot. This creates costs for the saver not only with respect to the delays in obtaining his money (the costs of foregone opportunities for lack of the money and/or those of obtaining interim financing, say from a money lender or the sale of some liquid asset) but also in incurring the additional costs of returning to the bank office at a future date.

Confidence. Confidence in the Bank is almost a necessary condition. It is imperative that a saver feel confident that the Bank will be fully responsible for the funds left on deposit and that they will be readily available when he wants to withdraw them. Without this, the saver will be very reluctant to trust his funds to the Bank for safe-keeping. BANDESA has a favorable reputation in rural areas, especially as a source of credit. As a state institution the Bank carries the implicit backing of the government.

It is important for BANDESA to change its image. At present, it is widely considered as a place to obtain credit for agricultural purposes, and not as both a credit and savings institution. To effectively mobilize savings, this image must be altered through agressive savings mobilization campaigns. Although existing borrowers should be one group that are encouraged to save with the Bank, the net to bring in more savings depositors should be cast much more widely. After all, the concept of financial intermediation is that the Bank should mobilize savings from persons with excess liquidity and transfer it, in the form of loans, to those who have a liquidity shortage. This suggests that the Bank should develop an aggressive promotional campaign not only among small- and medium-sized farmers, but also among non-farmer households and businesses located in the regions served by BANDESA. Such efforts are designed to inform potential depositors about the opportunities to save at the Bank. This is an important first step, but, in the end, the effectiveness of the campaigns in persuading potential depositors to place their funds with the Bank will largely depend upon the incentives offered.

Obstacles Confronting BANDESA

The key to the Bank's mobilizing voluntary savings is providing the potential depositor with attractive incentives compared to alternative forms of saving. To do this, however, would require that BANDESA make some fundemental changes in its policies, and, as was discussed previously, there are some obstacles to making these changes. The major obstacles are discussed below.

First, is the trust fund system. For the reasons outlined previously, the conditions and terms under which the trust funds are administered creates incentives for the Bank to gravitate towards this source of funds rather than to rely on savings deposits. Therefore, savings deposits end up being a secondary source of loanable funds to the Bank. As long as the government and foreign donors make trust funds available to the Bank under these favorable terms, BANDESA will continue to prefer them and relegate savings deposits to a secondary position.

Second, is the interest rate structure. To create more favorable incentives to attract savers the Bank should raise its interest rate on savings deposits. This, however, would be difficult to do since the savings rate is inextricably tied to the loan rate through the spread. If the savings rate is raised then the loan rate also must be increased. This, however, is both an economic and political issue. The Bank's clientele has become long accustomed to concessionary loan rates and their implicit income transfers and will resist change. To make changes would be politically unpopular. Moreover, both the government and the Bank have considered the concessionary rate as a philosophical underpinning for their approach to the sector development. On all accounts, there is certain to be resistance on the parts of both the borrower and the lender to raise the loan rate.

Third, is the Bank's cost-benefit analysis of mobilizing savings. BANDESA's costs would be elevated if it tried to capture more savings. Financial costs would rise, administrative and promotional costs would increase and risk costs would go up. To make savings mobilization profitable, these costs would have to be more than offset by increased revenues. For an institution that is experiencing financial problems, it is difficult to embark on another program that has inherent cost increases. Furthermore, this is tied to the delinquency problem. The historical record of high delinquency suggests that much of the potential revenues might be lost.

Fourth, is capital. BANDESA desperately needs more capital in order to build its base to be able to increase lending. This is a precondition to expanding savings mobilization, without more capital there is little room to increase lending nor an incentive to mobilize saving.

Fifth, is BANDESA's concern about its base of potential depositors. In the past BANDESA has obtained savings from its borrowers. Since these are persons in need of funds most of them only hold small amounts in their savings accounts. Under these conditions the average cost of administering these accounts is high. For this reason, in addition to working with these depositors, BANDESA should try to attract savers from among non-farm households and businesses that would make larger deposits, in order to lower the average cost of administering accounts.

Forced Saving

The Bank should consider a forced savings program to complement its voluntary savings deposit program, as a means to both raise more funds and get borrowers in the savings habit. Under this arrangement all borrowers would be expected to keep a specified percentage of the face value of their loan in a special "required deposit" savings deposit account at the Bank. Monies so deposited would not be returnable to the borrower until the loan and its interest were repaid in full. These deposits could be interest or non-interest bearing, but, if interest is paid, the interest rate should be considerably below the rate paid on voluntary savings accounts in order to ensure a sufficient spread for BANDESA. When the loan and interest are repaid in full, the borrower would have the option of withdrawing his money from the Bank or leaving it on deposit in a standard savings deposit account that would earn the regular interest rate. In the future, if the borrower were to take out another loan, funds could be transferred from the savings account to the "required deposit" account to be used as the required deposit for the future loan.

Such a program has several important advantages to BANDESA. First, it would provide BANDESA with a significant amount of money, porportional to the loan portfolio, that could be used to further expand its loan portfolio. If the trust fund agreements would permit, the forced saving mechanism could be applied to loans from both trust funds and the Bank's own funds. As an example, assume the mechanism had been applied to all loans made in 1983. For each percentage point of required deposit the Bank would have had Q399,000 on required deposit. If the required deposit were 10 percent, then BANDESA would have mobilized Q3,990,000 in additional resources.

Second, this mechanism would indirectly serve to raise the rate of interest on the loan. Whereas the borrower would pay the contractual rate of interest on the face value of the loan, he would only have access to a fraction of that value. In this manner, the effective rate of interest is determined by the relationship between the amount of interest paid and the amount of funds actually received by the borrower. Thus the effective rate of interest paid by the borrower and earned by the Bank would be greater than the contractual rate, with the results that the higher effective rate would reduce the concessionary aspects of the Bank's interest rate structure and lead to greater bank revenues.

The formula for deteriming the effective rate is:

$$\text{effective loan rate of interest} = \frac{\text{contractual loan rate of interest}}{1 - \text{percent required deposit}}$$

Therefore, for example, if the contractual loan interest rate was 9 percent and there was a 10 percent deposit requirement, the effective rate of interest would be 10 percent, the equivalent of an increase in borrower costs and bank revenues of 11.1 percent. If the contractual loan interest rate was 12 percent and there was a 10 percent requirement, the effective rate would be 13.3 percent. In this case, the increase in borrower costs and bank revenues would be 10.8 percent.

Third, this mechanism should improve repayment. The higher effective interest rate should reduce the demand for credit for low-productive and speculative purposes, thereby reducing the likelihood that borrowed funds will be used in activities that do not generate a high economic return or have a cash flow that inhibit loan repayment. Furthermore if the borrowers know that they can get a substantial refund after repaying their loan, they may have more incentive to repay. If they don't repay, the borrower would lose these funds and the Bank can use them to partially recover their losses on the loan.

Fourth, many borrowers are likely to convert much of their forced savings to voluntary savings after they pay off their loan. In this manner, the forced savings mechanism can create yet additional voluntary savings.

The forced savings mechanism offers a number of advantages to be used to complement a voluntary savings program. It should not, however, be considered a substitute. An effective voluntary savings program will require changes that will allow the Bank to more appropriately serve as a true financial intermediary that provides valuable services not only to borrowers but also another set of clients, the savers.

Summary and Conclusions

In most less-developed countries financial intermediation in the agricultural sector has been neglected. Emphasis on increasing sectoral output and improving income distribution has led development planners and policy makers to concentrate on credit programs. Meanwhile, scant attention was directed to savings mobilization. In recent years, it has become increasingly recognized that such an orientation creates a never ending dependency by agricultural development banks on governments and donors of foreign assistance as sources to expand loanable funds. Under these conditions the financial institutions do not develop an independent, self-sustaining and long-term financial viability Moreover, for lack of opportunities to save in financial institutions rural folk are deprived of an opportunity to raise their income through the intermediation process, with the consequence that both financial and physical resources are allocated in a less than optional manner. The establishment of viable savings mobilization programs in rural financial institutions provides a means to rectify this situation.

BANDESA's record in savings mobilization is mixed. On the positve side, the Bank, as part of its commercial banking operations, has always had savings windows in each of its numerous agency offices that are located throughout the nation. On the negative side, BANDESA has not actively encouraged savings mobilization because it has concentrated on credit and for lack of the combination of promotional campaigns and appropriate incentives to attract potential depositors. This is shown by the figures over the 1977-1983 period, when the Bank's savings deposits slowly grew at an average annual rate of 1.2 percent, and, in real terms, declined - 6.6 percent. In contrast, the private commercial banks considerably out performed BANDESA in mobilizing savings over the same period.

Six interrelated factors that contributed to BANDESA's poor savings mobilization performance were identified. These were, it's: development bank philosophy, agricultural sector orientation, lack of a savings mobilization program and promotion, low non-competitive interes rates on savings deposits, shortage of paid-in capital that places an upper limit on lending, and the ready availability of trust funds to expand lending on terms that are more favorable to the Bank than are available through savings deposits.

In spite of this situation, BANDESA appears to have much more potential to mobilize savings than the past record would suggest. A forced savings program that would capture resources from new loans was proposed as one means to raise more loanable funds that would serve not as a substitute for, but rather a complement to voluntary savings. This mechanism was shown to offer advantages for immediately obtaining more funds, enhancing loan repayments, and indirectly increasing the loan interest rate for both borrowers and the Bank. The latter would serve to both raise bank income and alleviate the concessionary aspect of contractural loan interest rates.

In the long-run, however, BANDESA should place emphasis on mobilizing voluntary savings. To do this would require that the Bank undertake measures to attract more depositors and larger deposits by: (a) creating more confidence in the institution and changing its image from a credit bank to a full-fledged financial intermediary, (b) offering attractive and competitive interest rates on savings deposits, and (c) reducing saver transactions costs through accessibility of bank offices and ease of deposits and withdrawals without delays.

BANDESA is fortunate in that its high-level leadership is enthusiasti about actively trying to mobilize savings. Moreover, the Bank would not be starting from scratch. The Bank already has thirty-seven agencies with savings windows and personnel that are accustomed to savings operations and management. Furthermore, it has twenty-nine cajas rurales to which it could extend its savings operations in order to make the savings window even more accessible to its rural clientele. In other words, it has in place an infrastructure for savings mobilization.

There are, however, several major obstacles that stand in the way of substantially increasing savings that would need to be overcome. First, a rise in the interest rate on savings deposit implies raising the loan rate. This will meet political and economic opposition, given the well-entrenched historical record of BANDESA lending at concessionary rates with their implicit income transfers. Never-the-less, the issue must be addressed head on and the concessionary aspect of loan rates be eliminated or reduced whenever the opportunity presents itself, otherwise savings interest rates cannot be raised to competitive levels.

Second, if the trust funds continue to have terms and conditions that are more favorable to the Bank, in a cost/benefit framework, for obtaining funds than are savings deposits, then BANDESA will continue to use them and view savings as a secondary source for raising loanable funds. Consideration needs to be given to possible reform of the trust fund conditions such that they do not cause the Bank to minimize savings mobilization.

Third, BANDESA faces a restraint in its dwindling paid-in capital. The Bank desperately needs a new injection of capital in order to allow it to build up its base to expand its loan portfolio. This would require a substantial budgetary commitment by the government.

Fourth, BANDESA faces a restricted set of potential depositors because of its concentration on borrowers. The set needs to be expanded by a savings promotion campaign and trying to induce non-borrowing rural households and businesses to make deposits at BANDESA.

Fifth, a savings mobilization campaign would encounter resistance because it entails more and immediate financial, administrative, promotional and risk costs for the Bank. A long-run perspective is necessary. These costs must be weighed against the benefits of increased revenues. Never-the-less, any program that entails immediately raising costs will encounter resistance given BANDESA's serious financial difficulties.

In summary, BANDESA has a good potential for effectively mobilizing considerably more savings if the proper incentives are put in place. The Bank would need to have the combination of external incentives to attract both more depositors and larger deposits. It would also need to have internal incentives to direct its own behavior to mobilize savings. If both of these sets of incentives--external and internal--were to be put in place, BANDESA would greatly enhance its role as a viable financial intermediary, be less dependent upon external infusions of loans, aid and subsidies, and allow the sector to become more self financing.

X

CONCLUSIONS AND RECOMMENDATIONS

Introduction

The previous chapters examined in depth BANDESA's structure, operations and financial condition. An overview of the banking system and credit and monetary policies as they impact on Guatemalan rural financial markets was also presented. Detailed summary and conclusions sections were included at the ends of chapters II through IX. The present chapter will not recapitulate this material in detail; the reader should refer to these sections and the several chapters for more complete analysis and information. This chapter attempts to synthesize and consolidate the conclusions of the previous chapters, in order to focus on the most cogent and important elements, as well to extend the piecemeal analysis of the earlier chapters into a broader perspective. The chapter is organized in three basic parts. First, an overview of BANDESA is presented, with emphasis on identifying both its positive and problematic aspects in the context of both Guatemalan rural financial markets and its internal structure and organization. Second, alternative strategies for BANDESA's future development are set forth. Third, the chapter concludes with recommendations for BANDESA.

Overview of BANDESA

Dual Character

BANDESA is a public sector financial institution that was established in 1970 as a result of a restructuring and consolidation of the government's agricultural credit institutions. The Bank has a dual character. Its primary role is that of a development bank, designated to work mostly with the nation's medium- and small-sized farmers. Secondarily, BANDESA is constituted as a commercial bank and is expected to carry out normal commercial banking operations, especially in rural areas. Often these two roles come in conflict, because of the predominant development bank philosophy. This, however, need not be the case, as will be argued latter.

As a development bank BANDESA plays an important and coordinated part in the government's sectoral development programs--the Minister of Agriculture and Food chairs its Board of Directors--by providing financing for targeted objectives. In this role, BANDESA has been the focal point for most government and foreign assistance agricultural credit programs.

Since BANDESA was established, its credit programs have been increasingly concentrated in loans made from trust funds, which have been placed with BANDESA. Financing for the trust funds has been almost equally divided between foreign donors--AID and IDB have been the most important--and the government. By 1984, the number of trust funds had risen to twenty-two, and lending from these funds had come to completely dominate the Bank's credit. In 1983, 99.7 and 98.3 percent of BANDESA's loans and amount lent came from this source. Compared to 1977, this represents sharp declines in both the relative and absolute importance of lending from the Bank's own funds. In 1977, the relative percentages of numbers of loans and amount lent from the Bank's own funds were 17.6 and 34.6. In absolute terms, between 1977 and 1983, the annual number of loans decreased 98.5 percent and the annual flows of credit declined 92 percent. The changing figures are symptoms of BANDESA's serious and difficult financial situation, which will be considered in more detail later.

Role in Guatemalan Rural Financial Markets

In 1983, BANDESA's lending, from both trust funds and its own funds, accounted for only 17.8 percent of the amount lent to the sector by the banking system. The principal lenders were the fourteen private commercial banks, which lent 71.4 percent of the total, concentrating their lending among the larger commercial farmers. Financieras and other state development banks were the other banking system lenders.

Between 1977 and 1983, BANDESA's relative participation declined. In the former year, the Bank accounted for nearly 30 percent of the banking system's loans to the sector. The reason for the decline was the relatively slow growth of BANDESA lending, an average annual real rate of 2.2 percent over the period, compared to 11.6 percent for the banking system as a whole.

When measured in terms of numbers of loans, BANDESA's participation looms much more significant and impressive. In 1983, the Bank accounted for a very large majority of the loans to the sector. This reflects that the Bank's lending is concentrated among the small- and medium-sized farmers and that its average loan size is relatively small compared to the other banks. BANDESA clearly is meeting its mission of serving its targeted clientele, and does not appear to be using its credit to finance large-size farms. These economic units are being served by the commercial banks. It is noteworthy, however, that the numbers of borrowers served by BANDESA virtually has not changed since 1977. This reflects the slow growth in its lending activity over this period.

The other side of financial markets is the mobilization of savings. In this respect, BANDESA's role has been considerably less important than in extending credit.

In 1983, BANDESA held only 1.7 percent of the banking system's savings and fixed-term time deposits. The private commercial banks were the most important, with 90.7 percent of the total. The lack of importance of savings within BANDESA is shown by the ratio of the sum of savings and fixed-time deposits to the loan portfolio for the bank's own funds. The Bank's ratio was .7. In contrast, the ratio for private commercial banks was 1.12.

Historically, BANDESA has not assigned importance to savings mobilization. Between 1977 and 1983, the real value of the Bank's savings deposits declined at an average annual rate of -6.6 percent, whereas savings deposits in the private commercial banks grew 4.4 percent. An important factor in the BANDESA trend has been the increasing availability of trust funds which the Bank has been able to use as a substitute for mobilizing savings. As will be discussed below, it appears to be economically advantageous to make this substitution, particularly with the financial difficulties that BANDESA has faced. The use of trust funds, however, does not assign BANDESA a role in rural financial intermediation, rather it makes the Bank dependent on transfers from the government and international assistance.

Infrastructure and Personnel

BANDESA has an extensive infrastructure that spreads across the nation. In 1984, there were eight districts, thirty-seven agencies and thirty cajas rurales. Each of the agency offices carries on both commercial and development banking operations. The cajas rurales only engage in credit. Between 1974 and 1984, BANDESA had an input department that sold fertilizers at favorable prices. In 1984, the decision was made to discontinue this department because its operating losses were a financial drain on the Bank.

At the end of 1983, BANDESA had 1,158 employees. Of this number, 42 percent were working in the central office, a figure that suggests the bank is somewhat top heavy in its central administration.

Credit Portfolio

Between 1977 and 1983, the annual real flows of all credit extended by BANDESA, including loans from their own funds and trust funds, grew at an average annual rate of 2.2 percent per year. The number of loans made per year remained about the same, about 20,000.

BANDESA extends credit for four major lines of activities: crop, livestock, housing and small industry and artisanry. Crop loans account for about four-fifths of the total. In this category, loans for export/industrial crops are the most important, with basic grains and vegetables accounting for most of the rest. Most crop credit is for financing annual operating expenses. Livestock and housing loans, which are for longer-terms, account for the large bulk of the rest of the lending. The housing credit programs were developed as emergency measures following the devastating 1976 earthquake. Little credit is extended for artisanry and small industry.

BANDESA lending is concentrated in the important commercial agricultural regions of the country. It is particularly important to realize, however, that much of the credit for basic grains goes to the small farmers of the densely-populated high plains, a clientele that is not served by other banking institutions. The large majority of BANDESA credit is directed to individual medium- and small-sized farmers who are owners, poseedores, usufructarios and renters. A limited amount goes to cooperatives, federations of cooperatives, and organized groups. Whereas BANDESA has been a major source of financing for cooperatives, in recent years the Bank has been cutting back its credit to these organizations because of severe delinquency problems in the cooperatives.

The size of BANDESA loans depends mostly on the activities financed. Most loans, however, are quite small in size; reflecting the fact that they serve small-sized farming units. In 1983, 89.9 percent of the trust funds loans were for Q5,000 or less, and 31.6 percent were for Q500 or less. Loans made from the Bank's own funds tended to be larger, but not exceedingly so.

Delinquency

BANDESA has a very serious delinquency problem. The problem is most severe for loans made from the Bank's own funds. In this portion of the loan portfolio, at the end of 1983, 72.8 percent of the number of loans and 36.4 percent of the outstanding volume had not been repaid by the time the last installment was due, the criterion that the Bank uses to classify a loan as delinquent. Although, these figures are alarming, they do not show the true depth of the delinquency problem. When delinquency is measured as the portion of the portfolio that has any installment past due, the percentage of the loan volume that is affected rises to 79.3 percent. The problem is even more serious, a majority of the delinquent payments are more than one year past due and it is doubtful that they will ever be repaid. The delinquency rate is highest among those loans inherited by BANDESA when it was established, but is nearly as bad among loans made since that time.

The high delinquency in the Bank's own funds has immobilized much of BANDESA's loanable funds from its commercial banking operations and, as such, has placed severe limits on its ability to make loans from this source. Moreover, the delinquency raises collection costs and leads to significant losses in both interest income and principal.

Delinquency on loans made from trust funds is not as severe as that on loans made from its own funds. Never-the-less, it is very substantial. At the end of 1983, 24.8 percent of the number of loans and 16.8 percent of the loan volume had not been repaid by the time the last installment was due, and 51.3 percent of the loan volume was affected by delinquency. Aging analysis also showed that a majority of the delinquent payments were more than one-year past due. It is noteworthy that delinquency is highest among housing loans and considerably less for agriculture.

In contrast to loans from their own funds, delinquency with trust fund loans is not nearly as costly to BANDESA. If a loan becomes delinquent, it is the trust fund that suffers because interest and principal payments are paid to the trust fund and not the Bank. The losses to the Bank resulting from delinquency are the additional collection costs and the commissions it receives on the outstanding non-delinquent portfolio. Under this arrangement the Bank does not have as strong an incentive to collect on its trust fund loans as it would if it were also to lose the principal and interest.

Many loans to cooperatives appear to have a hidden but yet potentially serious delinquency problem. The hidden aspect is that many of the loans are longer-term, and, hence, have not had installments falling due. The serious aspect is that many of the cooperatives' subloans to its members are past due. Therefore, because the cooperatives are not collecting on their loans to its members, it is doubtful that they will be in a position to repay their debts to BANDESA when the payments fall due.

Credit Delivery System

BANDESA has made important innovations to develop a credit delivery system that is reasonably efficient for both the Bank and the borrowers in terms of direct costs for loans made to individual farmers. A major innovation has been an increasing decentralization of decision making, giving more authority to the field offices. As of June 1984, loans up to Q8,000 are approved at the agency level. By this standard, 99 percent of the loans made from trust funds in 1983 would fall under this limit. Decentralization has sped up the loan approval process such that borrowers can reasonably expect to receive their first disbursement about two weeks after initiating credit application procedures. Another innovation was the standardization of loan application forms for all loans, no matter the source of funds. Another is the flexibility in required documentation, especially documents showing the borrower's right to farm the land. Finally, the introduction of simplified procedures for previous borrowers who have a record of prompt repayment of loans, significantly reduces both the Bank's and borrowers transactions costs for these clients and should provide an incentive for repayment. In spite of these innovations there appear to be means to further simplify the system, especially for the borrower. One example is the requirement for a legal loan document prepared by a lawyer, which is costly for the borrower to obtain.

For loans to cooperatives and individuals seeking larger loans, the delivery system is not nearly as efficient. Since these loans are larger, they must be approved in the central office, and, as such, encounter many delays as they go through the bureaucracy, which can lead to untimely loan disbursements. Loans to cooperatives require considerable paperwork by the cooperative, a factor that increases borrower costs and can contribute to delays in timely disbursement of credit.

The credit delivery system appears to be heavily oriented to making loans and disbursing credit, but less emphasis is placed on loan collection. In 1983, more than 20,000 loans were made. Most were quite small in size. A survey of BANDESA credit agents showed that the typical agent has a case load of some 400 borrowers. Furthermore, that the agent only spent an average of 6.6 hours per year on each small crop loan he manages. The emphasis on credit delivery, but not collection, is also shown by these statistics. Of this time, only 5.4 percent was typically spent on loan collection.

Interest Rate Structure

The BANDESA interest rate structure is conditioned by the overall structure for the nation's banking system established by the Monetary Board. The interest rates charged by BANDESA are typically less than the maximum rates established by the Board. In 1984, the maximum loan rate was 12 percent. BANDESA charged this rate only on loans to larger farmers in its commercial banking operations. Most loans made with the Bank's own funds carried a 9 percent rate, the Bank's rate for medium- and small-sized farmers from this source of funds.

Loans from trust funds made to individual farmers normally have a 8 percent rate. Loans made to cooperatives carry rates from 0 to 4 percent depending on the purpose of the loan and whether or not the organization is a cooperative or a federation. The lower BANDESA rates are designed to allow sufficient spread to each of the intermediary organizations such that the final borrower pays 8 percent for regular loans and 4 percent for housing reconstruction loans. In some cooperative loans, however, the final borrower is charged more than 8 percent. This may reflect the cooperatives' inefficiency in handling the credit as well as the members' willingness to pay a higher rate.

The BANDESA interest rate structure is clearly concessionary. The government and the Bank have considered subsidized interest to be an important part of development policy for credit to small- and medium-sized farmers. It is clear, however, that this policy creates a number of distortions in financial markets with important impacts on the allocation of real and financial resources, the financial viability of BANDESA, the potential political use of credit, and on savings mobilization. The latter comes about because a concessionary loan rate virtually dictates a lower interest rate on savings and time deposits because of the spread factor. This holds true for BANDESA, the Monetary Board has set 9 percent as the maximum interest rate on savings and time deposits but the Bank only pays 6 percent.

Another factor is that few adjustments are made in the interest rate, neither by the Monetary Board nor the Bank, for inflation. Over the 1977-1983 period, the real rates were shown to fluctuate considerably. At some times both loan and savings deposit rates were negative. These fluctuations only serve to create changing incentives to both borrowers and savers and lead to instability in the financial markets and the misallocation of resources.

Savings Mobilization

Although BANDESA has always had a savings mobilization window facility in each of its agencies, the Bank has not placed emphasis on mobilizing savings. Figures for the trend during the 1977-1983 period illustrate this. Over this period, the real amount of savings deposits declined at an average annual rate of -6.6 percent. Six factors were identified as being major contributors to this lack of emphasis on savings mobilization. These were BANDESA's: (a) development bank philosophy that stressed lending rather than the Bank functioning as a financial intermediary and mobilizing savings; (b) primary orientation to the agricultural sector and rural areas; (c) lack of an aggressive savings mobilization program; (d) low non-competitive interest rates on savings and fixed-term time deposits; (e) shortage of paid-in capital which places an upper limit on lending and, hence, the need to have savings; and (f) the increasing availability of trust funds to expand lending on terms that are more favorable to the Bank that savings deposits. The reason for the last point is that it appears that, after taking account of financial administrative and risk costs, the returns to BANDESA for trust fund loans are more favorable than for loans from the Bank's own funds.

BANDESA has the potential to mobilize more savings. It has the savings window facility and personnel experienced in handling and managing savings deposits. To further extend its savings operations it would be a short step to open saving windows in the cajas rurales. The biggest obstacles will be overcoming the above-mentioned six factors. Raising the interest rate paid on savings deposits is likely to be the most difficult to overcome because of its close tie to the loan rate. The well-entrenched concessionary rate philosophy and political obstacles could make it difficult to raise the loan rate.

Financial Situation

BANDESA has suffered increasing annual losses in its operations. Between 1977 and 1983, the losses grew at an average annual rate of 38.0 percent. The reason is that while income was growing at an average annual rate of 10.0 percent, costs were rising 21.5 percent. With the rise in trust fund lending and the decline in credit from the Bank's own funds, the principal source of income has become the commissions received for managing trust funds. Interest received for loans from the Bank's own funds, formerly the major source of income, has declined and has become a distant second source of income. The impact of the difficulties in BANDESA's commercial banking operations is clearly shown by this trend; the high delinquency rate has immobilized its lending capacity from this source of funds.

The rise in BANDESA's costs is concentrated in the increasing expenses for running the central office and administration. An analysis of these costs, which included a comparison with private commercial banks, shows that the Bank's expenses for its central office appear to be excessively high. This is a characteristic common to many public institutions. Part of the blame, however, can be attributed to the separate accounting and reporting records that must be kept on each of the twenty-two trust funds. On this account, BANDESA claims that the commissions it receives on its trust funds are too low. This, however is an empirical question that needs to be studied in more detail.

The annual operations losses have had a severe impact on BANDESA's balance sheet. With decreases in lending from the Bank's own funds, assets have not grown as rapidly as liabilities, which has forced a decrease in the Bank's paid-in capital. The reduced capital has further contributed to BANDESA's financial difficulties by lowering the limits on the Bank's lending from its own funds because of the minimum ratio between loan portfolio and capital required of banks by the Monetary Board. In this regard, the delinquency problem has been a major contributor to these difficulties. Not only has it represented a loss in income, which has contributed to operations losses, but is also has handcuffed the Bank in making new loans because delinquent loans account for a large portion of the outstanding loan portfolio.

The analysis of the financial situation is perhaps the best means to gain a true perspective of BANDESA. Clearly, BANDESA is caught in a financial quaqmire. Without heavy subsidization--something that the Guatemalan government is not inclined to do--or changes that allow the Bank to get in the black by raising income and cutting expenses, the Bank's financial situation will only worsen.

Wither BANDESA?

BANDESA is playing an important role in the development of the 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 agricultural development. Other financial institutions, particularly the private commercial banks, have *de facto* been assigned the responsibility for 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. 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. There are few sound arguments in favor of increased subsidization. Therefore, what are the alternative strategies? There appear to be two.

The first is the trust fund strategy. Under this approach BANDESA would discontinue its commercial banking operations and devote itself completely to extending credit from trust funds. Indeed, this would be the end result of following the trajectory that the Bank has been on in recent years as its trust fund operations have come to dominate the Bank's operations.

The advantages of this strategy would be to simplify BANDESA's operations. The Bank should be able to reduce costs immediately by shedding its commercial banking operations and the personnel necessary to maintain them. This should help to bring costs in line with income.

Under this strategy, care should be given to try to make BANDESA financially viable such that its costs are covered by revenues and a surplus is generated for future growth. Without this orientation, it would be easy for BANDESA to succumb to permanent subsidization. To avoid this, undoubtedly would require that loan interest rates be raised in order to elevate revenues for the trust funds and allow a larger commission for BANDESA.

The major disadvantage would be to place the Bank solely in the role as a source of credit and not as a financial intermediary that mobilizes savings. Although, this is much the situation in BANDESA's current operations, the strategy would neglect the Bank's important potential role as a financial intermediary in the development of financial markets in rural areas. This, in turn would contribute to the misallocation of both real and financial resources. A second major disadvantage is that BANDESA would remain entirely dependent upon the government and foreign assistance as sources to expand its financing. A third disadvantage is that arrangements would need to be made to liquidate the Bank's commercial bank loan portfolio and deposit accounts.

The second strategy is to try to reform the current mixed trust fund-commercial banking system in order to build a strong but development-oriented commercial banking base that will also accomodate the trust fund operations. The major advantage of this strategy is that it properly places emphasis not only on credit, but also on savings mobilization through financial intermediation. In this manner, this strategy directly contributes to the development of rural financial markets, and improved allocation of financial and real resources. Under this strategy, BANDESA should become more financially viable, eliminate its need for subsidization, and decrease its dependence on foreign assistance and the government for financing. A second advantage is that it builds upon the Bank's present structure and operations.

There are two major disadvantages of this strategy. First, it would require major policy changes, some of which will meet strong opposition. Second, it imposes heavy requirements on the Bank and its personnel to manage both the credit and deposit accounts.

It is the view of the authors that it is in the best interests of Guatemalan agricultural development and BANDESA that the second strategy be followed. This judgement is based upon the positive effects of this strategy on BANDESA's financial viability and role in financial intermediation; as well as the importance of mobilizing savings in sector development, resource allocation and income distribution. Moreover, it is the structure established for BANDESA in its organic law and the strategy that is preferred by the Bank's administration. The following section presents the authors' recommendations for implementing this strategy.

Recommendations

1. BANDESA has demonstrated that it plays an important role in agricultural sector development by financing large numbers of small- and medium-sized farmers. It should continue to concentrate on working with this clientele, leaving the financing of larger farmers to the private commercial banks.

2. BANDESA, while maintaining its development orientation, should work towards becoming a financially viable institution, which would eliminate the need for government subsidization. The following recommendations are in pursuit of this goal.

3. BANDESA's role in both agricultural and financial sector development could be expanded and improved in two basic ways. First, it could play a much more active role in financial intermediation by emphasizing savings mobilization as well as credit. In this manner, it would play an important role by capturing excess liquidity in the sector and channeling it to productive uses. Also through savings mobilization it should provide financial services to a larger number and wider range of clientele. Second, with access to more financial resources derived from savings mobilization, it should be able to reach more farmers with its credit program.

Eventually, the role of BANDESA could be expanded more widely to become a rural development bank that would serve financial needs of other clientele in rural areas, including commerce, services, small industry, etc. Were the Bank to do this, it would spread its risk through diversifying its loan portfolio and increase its access to more potential depositors.

4. BANDESA should use both trust funds and its commercial banking operations to expand its lending. It should rely on the commercial banking side of its operations, however, to mobilize savings and provide the fundamental base for its banking activities. Trust funds should be viewed as an additional source of loanable funds.

5. BANDESA will need to both take immediate measures and make policy changes in order to revive its commercial banking operations. The immediate measures are necessary to give new life to the commercial banking side of the Bank. The policy changes will be required to allow BANDESA to be successful in its commercial banking activities

in the longer run and keep it from reverting to its current financial difficulties.

The immediate measures are two-fold. First, the Bank needs a new injection of paid-in capital in order to build up its base for expanding its loan portfolio. The new capital might come from either the government or foreign assistance. Perhaps it could be negotiated to get the capital by transferring monies presently in a trust fund.

Second, BANDESA should reduce the size of its outstanding loan portfolio by writing off uncollectable bad debts from those delinquent loans that appear unrecoverable. If this were done in combination with new capital, then BANDESA could immediately extend new credit from its commercial banking side.

The policy changes that are required are also two. First, the loan interest rate should be raised to the maximum authorized by the Monetary Board. Such a rate would not be out of line with the competition, and probably would be still concessionary as measured by the opportunity cost of money. While raising the rate will meet opposition on both philosophical and political grounds, the counter arguments for raising the rate are sound and persuasive and need to be aggresively pushed by the Bank.

Without raising the loan rate it will be virtually impossible to make the second necessary change, raising the interest rate on savings and fixed-time deposits to be competitive with those rates offered by the commercial banks, and, perhaps, to the maximum authorized by the Monetary Board. Without an increase in the savings interest rate, it would be much more difficult for BANDESA to mobilize voluntary savings, which the Bank would need as the principal source of funds to expand lending from its commercial banking operations.

6. BANDESA's interest rates on loans from trust funds should be raised to the same level as the rates for other loans in the Bank in order to obtain as much spread as possible to recycle funds within the trust funds for future lending and cover the risk costs of bad debts. Again, resistance to this policy would be expected, but the arguments for raising the rates are positive and persuasive.

7. BANDESA should place more emphasis on real as opposed to nominal interest rates to avoid the undesirable effects of inflation on the Bank's real income and long-term viability as well as the effects on borrower and saver behavior and resource allocation. BANDESA's ability to make adjustments for inflation, however, is limited by national monetary policy. In establishing the maximum interest rate structure, the Monetary Board has concentrated on nominal rates and has not made frequent adjustments for inflation. This appears to be undesirable. Adjustments in the nominal rate to take account of inflation in the interest rate structure are in order.

8. BANDESA should develop aggressive promotional campaigns to encourage voluntary savings mobilization. The use of advertising, prizes and raffles should be considered as means to attract more deposits and new depositors. Credit agents and other bank employees should be offered bonuses for garnering new depositors.

To begin the program it would be best to start on a pilot study basis. Under this arrangement, an aggressive savings mobilization campaign could be begun in several agencies in order to identify success elements and problems before extending the program to the whole BANDESA system.

9. BANDESA should also consider using forced saving for both loans from trust funds and their own funds as a means to build up additional resources to be lent out by the commercial banking side of the Bank.

10. BANDESA's management of trust funds needs to be studied carefully in order to determine their cost of operation and an appropriate commission to be paid to the Bank. Wherever possible, management costs should be reduced. In this regard, BANDESA should be aggressive in working with foreign assistance organizations and the government to try to simplify and consolidate reporting and accounting procedures.

The commissions BANDESA receives from trust funds should not be expected to cover the costs of non-trust fund operations, as the Bank has been forced to use them in recent years. Such costs should be covered by revenues earned on the commercial banking operations.

The commissions that BANDESA receives should be established at a rate that not only takes account of costs but also does not create internal incentives within the Bank to favor trust funds over mobilizing other resources, such as savings. If this is not done, the Bank will tend to demphasize savings mobilization and the institution's role as a financial intermediary.

11. BANDESA's financial position would be improved if the government were not in arrears on the trust fund commissions it has agreed to pay BANDESA when the trust fund agreements do not permit commission payments. This should be corrected, either by the government meeting its obligations as they fall due or by trying to renegotiate the trust agreement to permit commissions to be rapaid.

12. BANDESA must reduce delinquency on loans from both its own funds and trust funds. There are two strategies that should be followed. First, intensive efforts should be made to recover loans that have past due installments. Second, measures should be implemented to significantly reduce delinquency on new loans.

In the first strategy, as mentioned previously, the loan portfolio should be reviewed and loans that are determined uncollectable should be removed from the books. If this is done, these loans can be placed in a special account and the Bank can still try to collect on them, but, in the meantime, they will not appear on BANDESA's balance sheet. For loans that are determined collectable, pressure, including legal, should be placed upon the delinquent borrowers to repay. This is important in order to establish a precedent for current and future borrowers so that they know the Bank is serious about recovery and will go to the extreme to collect overdue debts.

In the second strategy, there are several measures. First, above all, it is important to establish a mentality among both credit agents and borrowers that repayment is expected, unless there are extremely justifiable extenuating circumstances.

Second, the Bank should provide the credit agents with more time and incentives to collect loans. This might be accomplished by reducing the agents' case loads and providing bonuses or salary adjustments to agents for loans that are in their portfolio and paid on time.

Third, careful consideration should be given as to whether credit should be used as a measure to provide emergency assistance. For example, the housing loans made with reconstruction trust funds are experiencing serious delinquency. Borrowers apparently full-well realize that they will not be forced to repay these loans and hence are defaulting even though many could repay. This makes a sham of credit and works against developing a good repayment mentality. Under these circumstances, it might have been better to give outright grants rather than provide emergency credit.

Fourth, the simplified loan application procedures for preferred clients "A" and "B" who have demonstrated prompt repayment in the past should be continued. The borrower's prospect of low transactions costs and virtually guaranteed future access to credit will enhance repayment.

13. BANDESA should reduce its operations costs. Costs of operating the central office and administration are high and are a major source of BANDESA's present financial difficulties. An in-depth study should be undertaken to determine how costs can be reduced, including the elmination of unnecessary personnel. Costs of making loans and disbursing credit in the field offices do not appear to be excessive.

14. BANDESA should continue to seek ways to make the credit delivery system less costly for both the Bank and the borrower, while at the same time collecting sufficient information and documentation that will effectively enhance repayment. There are several immediate possibilities.

First, expand the preferred client system as much as possible. Encourage borrowers to become a preferred client by promoting the program and repayment. The preferred client system should also be extended to cooperatives, such that a cooperative with a good past record does not need to resubmit all of the paperwork and documentation that was presented with prior loan applications.

Second, documentation, and the cost of same, should be reduced whenever possible. An example is the need for the borrower to have a lawyer prepare a legal document. This is expensive for the borrower and it would seem that the Bank could develop a standardized and less-costly substitute document.

Third, use the preffered client system to eventually allow the borrower to arrive at a position of having virtually an open line of credit. Under this arrangement, the borrower would have access to this amount of credit without any restraints and little paperwork.

14. BANDESA should carefully review the program for technical assistance. The arrangement with DIGESA is not working satisfactorily. An alternative would be to put technical assistance on a pay basis whereby BANDESA, or preferably DIGESA, would be paid by the farmer for assistance rendered. Under this arrangement, the borrower can decide for himself as to whether or not he considers the assistance of sufficient value to pay the fees for the service, and the provider of assistance can receive a fee to offset the costs of giving advise.

15. BANDESA should carefully review cooperative credit. In its present form loans to cooperatives and federations are unsatisfactory both to the Bank and the cooperatives and their membership because of the credit delivery costs for the cooperatives and the severe delinquency problems. These loans are particularly problematical to BANDESA because the Bank has little control over them. Before making the loan, the cooperative decides which members will get credit. Then after the loan is made, BANDESA has no control over disbursement or repayment, these being done by the cooperatives and/or federations. Because of this situation and its harmful effects on the Bank's financial position, BANDESA should strongly consider discontinuing lending to cooperatives and federations. Although this would mean that the Bank would not be serving an important element in rural Guatemala it seems inappropriate that the Bank should not have to sacrifice its financial situation to serve the cooperative movement.

16. It is important to recognize that the success of the proposed recommendations will depend upon the ability of BANDESA to incorporate most of them simultaneously. The key recommendation, however, is the change in the interest rate structure. With this change, the other recommendations will be much easier to put into effect.