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A Report to

The United States Agency for International Development

Guatemala

AN ASSESSMENT OF RURAL FINANCIAL MARKETS IN GUATEMALA

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PREFACE

The field work for this report was carried out primarily during November, 1989, by a team composed of Robert C. Vogel (team leader), Robert P. Christen, John J. McGuire, Juan Carlos Protasi, Antonio M. Salas, and Michael Saperstein. In addition to the roles of these individuals, the report was made possible by the assistance of numerous Guatemalans from both the public and private sectors who willingly gave interviews and provided other information on which the report is based. A large number of USAID/Guatemala staff also contributed greatly to the report through their useful comments and suggestions as well as the large volume of information that they provided.

In addition to the omission of certain issues that some readers of this report may believe ought to have been included, there is one major intentional omission. There is no discussion of the Guatemalan Government's agricultural development bank, BANDESA. Although BANDESA clearly plays an important role in Guatemala's rural financial markets, there have already been so many studies and reports in recent years focusing on BANDESA that it was mutually agreed that BANDESA not be included. Nonetheless, the resolution of BANDESA's problems could have a major impact on the functioning of rural financial markets in Guatemala.

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CHAPTER I

INTRODUCTION, RECENT DEVELOPMENTS, AND THE IMPACT OF LIBERALIZATION

Introduction

The Guatemalan economy is presently experiencing serious macro-economic imbalances that have forced the economic authorities to liberalize both the financial system and the foreign exchange market. While it is not the purpose of this report to analyze the appropriateness or the repercussions of the measures recently taken, except in so far as they affect the capacity of the financial system to provide credit and other financial services to the private sector, especially in rural areas, the macro-economic situation is nonetheless one of the main elements in the development of the financial system, which makes it necessary to discuss briefly certain key features of the macro-economic environment. In particular, the financial system is currently facing difficulties due to a balance of payments situation that is threatening the internal and external stability of Guatemala. The main factors giving rise to this situation are a substantial fiscal deficit -- which has worsened during 1989 -- an overvalued exchange rate and a persistent deterioration in the terms of trade, due especially to the falling price of coffee. The price of coffee, which was largely responsible for the improvement in the economic situation during the coffee boom in 1986, has been falling continuously throughout the past two years.[1]

The Balance of Payments

Since 1987 the trade balance has been deteriorating rapidly, from a deficit of US$ 268.5 million in 1987 to US$ 339.8 million in 1988. With large expenditures on foreign tourism by Guatemalans, mainly as a consequence of exchange rate overvaluation, the service account has been deteriorating as well. In fact, despite Guatemala's receipt of transfers amounting to about US$ 200 million each year, the current account in the balance of payment recorded negative figures for both 1987 and 1988. Because of a positive balance in the capital account, mainly consisting of private capital inflows to finance imports, an overall positive balance was achieved in 1986. However, capital inflows were insufficient to counterbalance the current account deficit during 1987 and 1988, so that the Central Bank lost

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[1]The price of coffee, which peaked at US$ 205 p/qq during the second quarter of 1986, has dropped systematically to reach a low of US$ 87 p/qq in the third quarter of 1989.

international reserves. Table I.1 shows the evolution of the balance of payments over the past three years.

At the beginning of 1989 the foreign exchange balance showed signs of instability that can be attributed mainly to negative net flows of official and banking capital resulting from debt payments by the public sector and the Central Bank. Nonetheless, the remaining items of the balance of payments achieved positive results. The second quarter, however, was marked by growing expectations of a future devaluation, so that imports began to expand rapidly and exports to contract. As a result, there was a significant decline in international reserves. In an attempt to reverse these tendencies, the Monetary Board began to require advanced deposits (in quetzales) for foreign exchange purchases for tourism and authorized the Central Bank to swap gold reserves amounting to nearly US$ 75 million for foreign exchange. These measures, aimed at maintaining a constant exchange rate, did not have lasting effects, however, as the monetary authorities continued to lose international reserves. Table I.2 shows the monthly evolution of the Central Bank's net international reserves.

Table I.1: The Balance of Payments
(millions of US$)

	1986	1987	1988
Current Account	- 25.2	-365.9	-417.8
Trade Balance	168.1	-268.5	-339.8
Services	-268.4	-288.8	-302.1
Transfers	75.1	191.4	224.1
Capital Account	64.1	267.6	353.7
Private Capital	95.2	222.1	460.2
Official Capital	- 31.1	45.5	-106.5
Errors and Omissions	10.0	24.8	-19.2
Change in International Reserves (+ indicates loss)	- 48.9	73.5	83.3

Source: Central Bank, Department of Economic Studies.

Table I.2: Net International Reserves
(millions of US$)

	1988	1989
January	26.3	- 44.8
February	2.7	- 50.2
March	2.0	- 68.7
April	-16.6	- 65.6
May	-38.0	- 70.9
June	4.6	-125.6
July	-39.6	-170.9
August	-63.9	-197.5
September	-27.4	-158.2
October	-66.4	-191.7
November	-88.4	
December	-59.7	

Source: Central Bank, Department of Economic Studies

The Monetary and Fiscal Situation

The deterioration in the balance of payments was essentially a consequence of the fiscal deficit that originated in the expansion of credit to public sector. As shown in Table I.3, the sources of monetization changed significantly between the first nine months of 1988 and 1989. The expansion in the total means of payments in 1989 more than doubled from the previous year, due mainly to a large increase in credit to the Central Government and to the repayment of long term loans and domestic public debt. As long as the exchange rate was held fixed, the expansion of the money supply in excess of demand caused reserve losses for the Central Bank, as shown above.

The increased financing requirements of the Central Government were caused by the increase in the fiscal deficit, shown in Table I.4 for the first nine months of 1988 and 1989. The fiscal situation deteriorated largely because the tax reform failed to increase tax collections, while the government expanded investments along with the higher operating expenses that resulted from wage increases. The fiscal deficit was mainly financed by increasing the floating debt (e.g., amounts owed to domestic suppliers) which, together with import arrears, contributed to expectations of instability, as forced mechanisms to finance the fiscal deficit threaten to increase future monetary expansion.

Table I.3: Sources of Monetization
(changes in millions of Quetzales
to September of each year)

	1988	1989	Difference
External Sector	- 63.8	- 100.3	- 36.5
Central Gov. Credit	-308.4	32.5	340.9
Pub. Sec. Credit	5.4	- 24.0	- 29.4
Private Sector Credit	274.0	229.6	- 45.4
Fin. Company Credit	90.1	55.5	- 34.6
Net Assets	214.8	114.1	- 100.7
Med. & Lg. Term Loans	- 45.2	34.0	79.2
Others	- 4.2	46.4	50.6
Tot. Means of Payments	162.7	387.8	225.1

Source: Central Bank, Department of Economic Studies

Table I.4: The Fiscal Deficit
(millions of Quetzales
first nine months)

	1988	1989	Change	Percent
Revenues	1.543.6	1.627.4	84.0	5.4
Expenditures	1.548.3	1.885.7	337.3	21.8
Current	1.313.6	1.565.7	252.0	19.2
Investment	234.7	320.0	85.3	36.3
Deficit(-)	- 4.7	- 258.0	-253.3	
Financing	- 18.7	284.1	301.4	
New Debt	150.7	169.4	18.7	
New Floating Debt	-168.0	114.7	282.7	
Change in Cash	- 23.4	26.1	48.1	

Source: Central Bank, Department of Economic Studios

The Liberalization Efforts

In this context of macro-economic imbalances, the Monetary Board first liberalized interest rates in August and then the foreign exchange market in November in efforts to correct the balance of payments disequilibrium. The liberalization of interest rates, which was expected to reverse private and banking capital outflows, did not have the expected impact on financial markets or the balance of payments as the bankers' association agreed to maintain interest rates fixed at prevailing levels.

The subsequent liberalization of the foreign exchange market was intended to allow a more flexible exchange rate, to insulate the economy from external shocks and to avoid the sharp devaluations that had occurred in the recent past -- and thereby create more confidence in exchange rate stability and reduce expectations of devaluation. The liberalization of the foreign exchange market did indeed have an immediate impact on the exchange rate and the balance of payments. However, due to negative foreign exchange position of most banks, the initial exchange rate devaluation damaged bank solvency.

In short, the liberalization efforts were undertaken in the face of strong pressure on the balance of payments and not as part of an overall new strategy for economic policy. The existing macro-economic imbalances, the lack of Central Bank independence, the limited range of monetary instruments available to the Central Bank and the solvency problems facing many commercial banks together undermined the expected desirable effects of the liberalization efforts on saving performance, the availability of finance for investment and the overall health of the banking system. Nevertheless, given the macro-economic imbalances, the liberalization efforts undertaken are preferable to the policies of exchange control and financial repression that have prevailed in Guatemala in the past.

CHAPTER II

POLICY AND LEGAL ENVIRONMENT

The present context, including the policy and legal environment, reveals several kinds of constraints that appear to be relevant in explaining the allocation of credit, and financial services in general, to the rural sector and in indicating potential future developments. Many of these constraints are not specifically related to finance in rural areas, but as long as they affect credit in general, they inhibit the provision of adequate financial services in rural areas. There main types of constraints are:

general macro-economic conditions,

the solvency of the banking system, and

legal and banking regulations.

General Macro-economic Conditions

Macro-economic Imbalances. Potential financial imbalances along with balance of payment problems inhibit the granting of credit by the banking system. In the present context in which the demand for the monetary base is dropping in both nominal and real terms, an increase in credit to the private sector is only possible if the public sector is contractive; otherwise, the Central Bank will simply lose international reserves. Until the fiscal deficit is reduced, any increase in credit to the private sector will only worsen the present situation, as each increase in domestic credit not supported by increased demand to hold domestic financial assets will leak out to buy foreign goods -- thereby reducing international reserves -- or will appear as increased demand for domestic goods -- thereby increasing prices. The expansion of domestic credit based on foreign loans will not change the situation significantly until the demand for money begins to recover, as the borrowed funds will either end up outside the country or result in higher prices, a higher exchange rate and inflation.

From the macro-economic perspective, the essential element for the development of more expansive credit policy is to restore the demand for money and other financial assets in Guatemala. This cannot be achieved through relying only on the liberalization of interest rates and the exchange market. It is also essential to correct the fiscal deficit. The deficit of the public sector crowds out the private sector's access to credit from the banking system, as interest rates paid on "Bonos de Estabilizacion" are sufficiently attractive for banks to place credit with the

government rather than with the private sector. Moreover, the measures recently implemented give rise to uncertainty, related not only to general uncertainty from the adaptation to new rules but also to the fact that economic agents know that these measures were undertaken in an emergency to attempt to escape from the prevailing crisis and the uncertain future. On the other hand, the bankers' association has so far kept interest rates from varying freely. This has been beneficial for some banks (e.g., in helping to maintain their solvency) but it has not enhanced the demand for money in quetzales but has rather stimulated the holding of foreign exchange.

Taking these considerations into account, the following is recommended:

implement a structural adjustment program to correct existing macro-economic imbalances. Unfortunately, the pre-electoral period does not bring conditions supportive of this objective. As long as credit to the public sector is not constrained, either by a smaller deficit or by a greater placement of debt, credit to the private sector will need to be restricted.

Develop an active monetary policy as required by the present floating system for interest rates and the exchange rate. For this to be possible, the Central Bank must have sufficient autonomy to act rapidly in the money market by executing open market operations. This would permit control of the system's liquidity and would thereby help to attain equilibrium interest rates in the money market.

Nonetheless, monetary policy alone cannot achieve monetary stability as long as monetary pressures resulting from fiscal imbalances are not removed.

Trade Barriers and Exchange Rate Overvaluation Undermine Financial Intermediation for Agriculture. Trade barriers, together with overvaluation of the exchange rate, distort relative prices -- thereby affecting the profitability of both export and domestic activities, including agriculture in particular. This situation has undermined the demand for credit and savings mobilization in rural areas. The demand for credit is related to the cost of credit (e.g., interest rates, surcharges, taxes, etc.) and to expected future returns, so that the amount and allocation of credit in rural areas, as elsewhere, will be related mainly to these two factors. The discussion in this section focuses on expected future returns.

Farmers' real incomes have a strong effect on financial intermediation in rural areas, including not only the demand for credit but also the supply of deposits. In the case of agriculture, which is largely open to international trade, real income is related to world prices, import protection, export taxes

and the real exchange rate. Prices send signals to farmers to arrange their production, and hence the allocation of resources, in the direction of the greatest marginal benefits to the economy from producing a given commodity. These benefits are measured by world prices, converted into domestic prices at an appropriate exchange rate. By now it is well accepted that protection to other sectors of the economy can penalize producers of exportables and of import-competing products in agriculture. A direct penalty of a policy that protects industry (i.e., through tariffs, import quotas, export taxes and various non-tariff trade restrictions in the case of Guatemala) is to raise the cost of importable inputs such as fertilizers, machinery, etc. For example, import quotas have been used by the Central Bank since 1983 as a rationing mechanism, and the effect of such quotas on the agricultural sector has been to reduce the use of imports, especially fertilizers, and to diminish activity in the agricultural sector which has, in turn, lowered rural incomes.

An indirect, and probably more important, penalty of protection is that it adversely affects incentives in agriculture because of its effects on the exchange rate. The exchange rate that balances the external account at a high rate of protection for industry will be below the equilibrium rate at lower levels of protection. The final result is that the domestic prices of tradeable agriculture products will be lower relative to protected industrial goods and non-tradeables. This drives up the prices of labor and other inputs for the rural sector relative to output prices, thereby reducing the profitability in the production of tradeables goods in the agricultural sector. A similar effect on the real exchange rate and the profitability of agricultural production results from heavy dependence on foreign assistance. As long as Guatemala receives transfers, it does not require a higher level of the real exchange rate to balance its external accounts. Given the level of protection, the real exchange rate is a key signal for resource allocation among sectors. Since most agricultural products are tradeable, the main impact of the real exchange rate will be intersectoral resource flows toward or away from the non-tradeable and non-agricultural sectors.

In the case of Guatemala, the overvalued level of the real exchange rate has stimulated the production of non-tradeable goods and has acted as an implicit tax on agriculture, thereby hindering its competition for export markets and with imported food products. The following table shows the average effect of world prices and the overvaluation of the exchange rate on the level of real income for the main agricultural activities in Guatemala; that is, Table II.1 computes the "real price" as the domestic export price (world price times the nominal exchange rate) deflated by the CPI (with the first quarter of 1985 as the statistical base) and thereby measures the purchasing power capacity of one unit of production with respect to that period.

Table II.1: Real and World Prices for Selected Agricultural Goods (in US$/qq)

	1985	1986	1987	1988	1989 (*)
Coffee					
World Price	114.4	174.5	107.2	120.0	120.6
Real Price	174.7	191.4	96.1	101.9	98.2
Percent Difference	52.7	9.7	- 10.3	- 15.1	-18.6
Real Price Index	100.0	109.6	55.0	84.9	56.2
Cotton					
World Price	55.7	37.4	46.5	56.1	52.4
Real Price	83.2	40.7	41.7	47.7	42.8
Percent Difference	49.3	8.8	-10.3	- 15.0	-18.3
Real Price Index	100.0	48.9	50.1	57.3	51.4
Sugar					
World Price	9.9	9.2	8.1	9.0	10.2
Real Price	13.7	9.4	7.2	7.7	8.3
Percent Difference	38.3	2.0	-10.6	-14.9	-18.7
Real Price Index	100.0	68.6	52.6	56.2	60.6
Banana					
World Price	10.0	10.0	10.0	11.1	11.0
Real Price	15.1	10.9	9.0	9.4	8.9
Percent Difference	51.0	9.0	-10.0	-15.3	-19.0
Real Price Index	100.0	72.2	59.6	62.2	58.9
Meat					
World Price	50.0	67.4	74.2	73.2	71.7
Real Price	74.8	67.4	66.6	62.1	58.4
Percent Difference	49.6	-.-	-10.2	-15.2	-18.6
Real Price Index	100.0	90.1	89.0	84.8	78.0

(*) first semester

Source: Central Bank and own estimates

These examples show clearly that farmers' real incomes deteriorated sharply, as measured by real prices, during the period 1985-89. Deterioration in real incomes was related both to overvaluation and to world prices. World prices had different patterns for different products: there was a coffee boom during 1986, a meat boom the year after, while cotton experienced a major

depression. For the main products, however, the level of world prices in 1989 was not very different from those in 1985, except in the case of meat. The comparison of world prices and real prices isolates the effect of overvaluation and shows clearly that from 1987 on real prices were systematically below world prices, implying that overvaluation acted as an implicit tax on farmers' real incomes. In the case of coffee, which is the most important export good, profitability was reduced by more than 40 percent. Similar losses were experienced by sugar and banana farmers, but most damaged were the cotton farmers, as their world price was reduced along with the real exchange rate. In the case of meat, since the world price increased substantially after 1986, real income fell by only 22 percent.

Credit expansion during the same period presents a similar pattern to real incomes for the different agricultural activities. The following table shows the amount of credit given by private banks to selected crops and livestock.

Table II.2: Credit to Crops and Livestock by Private Banks.
(millions of quetzales)

New Loans Disbursed

	1985	1986	1987	1988
Crops	254.5	261.8	266.7	263.3
Fruits	7.0	6.6	6.3	15.3
Coffee and Sugar	91.5	112.7	134.1	136.2
Cotton	130.5	102.8	71.5	62.7
Others Crops	25.5	39.7	54.8	49.1
Livestock	64.6	65.4	76.1	84.7
Total Crops and Livestock	319.1	327.2	342.8	348.0

Source: Superintendency of Banks

Credit for crops during the period remained almost constant in nominal terms at its 1985 level, implying a sharp reduction in real terms, similar to that experienced by real incomes. During the last two years livestock credit increased by 30 percent in nominal terms, but declined in real terms. Coffee credit increased sharply during the coffee boom, while cotton fell to half its level of 1985 in nominal terms. Banana credit doubled in 1988, largely as a result of the increased international price. (Figures in real terms are shown in Table A1 of the Statistical Appendix.)

The effects of protection and overvaluation seem to be among the most important restrictions for increasing agricultural credit. In this respect, policy recommendations are fairly obvious: non-tariff trade barriers should be removed, and a reduced and uniform rate of protection -- together with a more realistic level of the real exchange rate -- should be attained to promote agricultural production and exports. The Guatemalan Government is planning to implement a trade reform in the near future, but it is not clear if such reforms can be properly implemented in a pre-election period. In addition, although the government recently liberalized the exchange market to allow a more market determined exchange rate, this does not mean that the level of the real exchange rate will necessarily restore competitiveness and increase the real incomes of farmers.

To the extent that the real exchange rate is negatively related to trade protection, the level of government expenditures (which are mainly for non-tradeable goods), transfers from USAID, remittances from non-residents, and external indebtedness, it is not sufficient to liberalize only the foreign exchange market to attaining competitiveness. Several reforms will need to be taken in addition in order to reach the goal of promoting agricultural production. Reforms should include the reduction and equalization of tariffs levels, a simultaneous reduction of transfers from USAID and external indebtedness, and a reduction in the level of government spending -- not just the fiscal deficit.

Credit Rationing and Subsidized Credit Practices. The Monetary Board is empowered through the rediscount mechanism to establish ceilings on loan portfolios by sector and by type of loan, and these can even differ from bank to bank. Limits on credit expansion to the private sector inhibit the development of credit capacity and, at the same time, promote undesirable practices related to credit-rationing and subsidized credit, with negative effects for income distribution and resource allocation. The allocation of credit to different sectors is shown in Table II.3. Figures on credit allocation by economic activity are always somewhat suspect because of the fungibility of credit and, in addition, the difficulty of knowing overall credit allocation by economic sector due to the importance of the informal sector. Nonetheless, according to the figures in Table II.3, a redirection of credit from agriculture and livestock to commerce has taken place. Credit to agriculture declined steadily after 1980, as already discussed in preceding section, as commercial banks reoriented their portfolios in favor of more profitable and less risky activities such as commerce. Rediscount policies at the Central Bank tried to reorient credit allocation to priority activities such as agriculture, including the subsidization of interest rates even in the recent context of liberalization. However, the results suggest that this policy did not induce the desired response from the banking system.

Table II.3: Lending Structure of the Banking System by Economic Sectors

(New Loans in Percentages)

	Agriculture	Industry	Commerce	Other
1981	21.0	31.8	21.8	25.4
1982	19.2	32.9	22.1	25.8
1983	18.2	29.9	23.0	28.9
1984	15.6	30.0	23.3	31.1
1985	14.5	34.9	25.3	25.3
1986	13.7	30.4	31.2	24.7
1987	11.4	32.9	27.0	28.7
1988	11.9	33.5	25.9	28.7

Source: Superintendency of Banks

Crowding Out the Private Sector. Credit ceilings have had a negative impact on the allocation of credit to the private sector which has declined steadily since 1984, as shown in Table II.4 below. At the same time, however, banking system credit to public sector also declined sharply in 1986 as a consequence of the stabilization plan implemented at that time. Credit to private sector is mainly financed through bank deposits, which have been declining since 1984 and thereby restraining the capacity of banks to extend more credit -- an important point to be discussed in detail later. On the other hand, public sector debt (excluding Central Bank debt), though declining in recent years, remains high. The public sector has reduced its requirements for financing from the Central Bank through selling debt to public institutions, banks and public in general. In addition, the government has increased its floating debt (e.g., arrears to domestic suppliers). Since interest on public sector debt is tax exempt, public debt is more attractive, as well as appearing less risky, than loans to the private sector. Banks have therefore often preferred holding public debt instead of lending to the private sector, as in 1989 when banks increased their public debt holdings from 88.3 million Quetzales in December 1988 to 312.6 million Quetzales in April 1989.

Table II.4: Allocation of Banking System Credit Between the Private and Public Sectors
(percent of GDP)

	Private Sector	Public Sector	Total	Total Deposits	Pub.Sect. Debt *
1984	19.9	16.6	36.2	22.0	35.4
1985	18.4	15.4	33.8	20.6	32.5
1986	14.1	8.1	22.2	18.5	25.0
1987	16.0	5.7	21.7	20.1	24.0
1988	15.9	4.3	20.2	18.5	22.4

* including public sector external debt but not including Central Bank debt.

Source: Central Bank, Department of Economic Studies

Since credit to the public sector is made available mainly by the Central Bank (commercial banks contribute a relatively small proportion), it is useful to compare the amount of credit the Central Bank has provided to the public sector with the amount it has provided to the banking system for on-lending to the private sector. Until 1979, the amount of credit provided to the public sector was similar to that provided to the banking system, about 1.75 percent of GDP. From then on, however, credit to the banking system has tended to decline in real terms and by 1988 was only 20 percent of its former peak. In addition, commercial banks have had to maintain increasing reserve requirements at the Central Bank. In fact, commercial banks have become net lenders to the public sector through the Central Bank, thereby crowding out credit to the private sector. Table II.5 shows how net lending to the public sector has gradually approached net lending of commercial banks to the Central Bank.

Table II.5: Loans from the Central Bank to Commercial Banks and Commercial Bank Reserves
(millions of Quetzales)

	Commercial Banks			Public Sector
	Loans	Reserves	Net Lending	Credit
1984	157.3	322.9	165.6	1535.2
1985	125.3	576.1	450.8	1592.0
1986	134.1	743.5	609.4	978.6
1987	121.5	637.0	515.5	774.1
1988	156.8	855.6	699.6	887.2

Source: Central Bank

Rediscount Operations. Rediscount operations basically consist of restoring liquidity for loans already made by commercial banks. To do this, the Central Bank either uses domestic resources (i.e., monetary emission) or external credit lines from international agencies. In the case of external lines, the Central Bank provides funds according to the conditions negotiated with the corresponding agency for each credit line. Rediscounts are not given in advance, but after the loan is made, the financial institution can request liquidity from the Central Bank under the following conditions: (1) credit is for priority sectors as defined by the Monetary Board (e.g., basic grains, medicines, small and medium enterprises, exports, construction bonds, etc.); (2) appropriate (real and collateral) guarantees have been used; (3) credit is not for transnational or foreign enterprises; and (4) credit is not for land acquisition. Financial institutions have not made great use of rediscount lines, and during the past few years they have even decreased in importance. Two facts are mainly responsible for this decrease: (1) the limits imposed on credit expansion to private sector in order to allow more funds for the central government; and (2) the lengthy bureaucratic process involved in rediscounting.

Current rediscount policies in Guatemala have some significant negative effects. First, they discourage resource mobilization efforts by commercial banks as banks have access to cheaper funds from the Central Bank. Second, they promote inefficiency in resource allocation as the cost of funds is lower than the opportunity cost. After liberalization, the interest rate on rediscounted loans was set three points below the market rate for loans, thereby implying that the Central Bank is subsidizing either the intermediary or the final user. Moreover, although rediscount operations had not been allocated according to specific activities in the past, in 1985, when the new administration took office, it decided to allocate credit by priority sectors. Two factors are generally taken into account in establishing priorities: income distribution and resource allocation. However, this is a problematic way to allocate credit for several reasons:

(1) Preferential low interest rates for small enterprises in the agricultural sector have not improved the distribution of income, as the distribution of credit has tended to be highly skewed toward large loans to relatively wealthy farmers -- a typical pattern in developing countries.[2] During the last quarter of 1988, the last available data, the forty largest loans for agriculture from private banks accounted for more than 80 percent of total credit to agriculture given out during that period. It therefore does not appear that the

[2]J. Hanson and R. Vogel, "Low Interest Rates as Offsets to Real Distortions," World Bank Working Paper.

Guatemalan authorities have succeeded in their objectives of improving income distribution.

(2) With respect to resource allocation, preferential low interest rates do not change the available technologies, nor the lack of infrastructure which raises costs, nor the prices paid for inputs and received for outputs. All that is changed is one component of the price of capital, which is reduced for individuals with access to credit at preferential interest rates. Those individuals will be encouraged to select more capital intensive activities, as well as activities which would have been undertaken even without preferential low interest rates. Because of the essential fungibility of credit, preferential low interest rates are an ineffective way to redirect the allocation of resources in favor of a sector, even with a diligent and costly program of supervision such as the Monetary Board has tried to implement through its regulations.

As shown in Table II.3, rediscount policy has not been successful in creating the desired pattern of credit allocation. It has, moreover, favored a small group of large farmers. In addition, the reserve requirement mechanism has made the banking system a net lender to the public sector, thereby crowding out the private sector from credit. For these reasons, and to be consistent with the liberalized framework now being put in place in Guatemala, it is recommended that:

1. the Monetary Board should cease to apply its preferential rediscount policies, including the allocation of funds to priority sectors on a subsidized basis; and

2. until the fiscal deficit can be reduced, global ceilings on credit to the private sector could be maintained as part of the monetary program of the Central Bank.

This means that the Central Bank should employ appropriate monetary instruments to keep credit expansion under control, but should not impose quantitative credit restrictions on the banks as it did when interest rates were fixed. Under a liberalized regime with free interest rates, the Central Bank should use open market operations to sterilize the excess supply of funds. The demand for credit will then be restrained through the prevailing market interest rate. Whenever the fiscal deficit is high, interest rates will rise, so that fewer projects will be profitable and the demand for credit (including the demand for foreign exchange) will be reduced. When the fiscal deficit begins to be reduced, interest rates will decline and credit to the private sector will expand again. In addition, reserve requirements could be reduced along with the elimination of preferential rediscounts to avoid financing the fiscal deficit by crowding out the private sector from credit. This point will be more fully analyzed below.

Lower Domestic Saving Mobilization Undermines Credit Policy for Agriculture. Saving mobilization in Guatemala has been poor compared to other countries in the region, such as Costa Rica, and to developing countries elsewhere. The ratio of gross national saving to GNP was 10 percent -- the region's lowest -- for the period 1965-72. It improved to 15 percent in 1973-78, benefiting from the favorable price of coffee, but then fell back to about 10 percent in 1979-84. Moreover, as shown in Table II.6, financial deepening -- measured as M2 relative to GDP -- has declined after 1984, from 26.4 percent to 23.3 percent in 1988, reflecting the reduced ability of the formal banking system to intermediate financial resources. Since deposits are the main source of funds for credit expansion by the banking system, the system is steadily losing capacity to expand credit to the private sector. In addition, the declining share of quasi-money in M2 and the increasing participation of currency and demand deposits (M1) are symptoms of a greater degree of liquidity preference by the public, possibly related to the increasing development of the informal financial system. Rural finance, constituting a part of the financial system, is undoubtedly affected in a similar way, but there is no available information to analyze the behavior of deposits in the rural areas, except for 1986 when the Superintendency ran a special survey of the banking system -- and this information will be fully analyzed below.

Saving performance can be improved through increasing deposit mobilization by the formal financial system which, in turn, requires the ability to stimulate a higher demand for money. For this reason, it is important to know the main determinants of the demand for money.

Determinants of the Demand for Financial Assets. While many factors can affect the demand for financial assets, the main determinants in the case of Guatemala are substitution between quetzales, foreign currency and goods -- together with a strong shock absorber effect and income changes to a lesser extent.[3] Long run semi-elasticities for inflationary expectations (-2.9 and -3.8, respectively, for M1 and M2) are extremely high, reflecting the strong substitution between money and goods. This effect explains most of the reduction in the demand for financial assets, as the Guatemalan economy became more inflationary with the financing of the increased fiscal deficit. Substitution between dollars and quetzales is strongly influenced by the rate of acceleration in the appreciation of the quetzal -- which has a negative effect on the

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[3]The demand for financial assets and the determinants of time deposits are investigated econometrically in J.C.Protasi, "Macroeconomic Resource Mobilization in Guatemala," World Bank, June 1988.

Table II.6: Financial Deepening
(millions of Quetzales and percents)
(annual averages)

	1984	1985	1986	1987	1988
Currency					
Millions of Quetzales	411.6	532.8	717.0	807.0	915.7
percent of M2	16.4	18.8	19.6	18.4	19.1
Demand Deposits					
Millions of Quetzales	335.1	418.4	590.5	690.0	740.4
percent of M2	13.4	14.7	16.1	15.8	15.4
Means of Payments (M1)					
Millions of Quetzales	746.7	951.2	1307.5	1497.0	1656.1
percent of M2	29.8	33.5	35.7	34.2	34.5
Quasi Money					
Millions of Quetzales	1754.4	1889.7	2344.7	2885.0	3135.0
percent of M2	70.1	66.5	64.2	65.8	65.4
Total Deposits					
Millions of Quetzales	2089.5	2308.1	2935.2	3575.0	3875.4
percent of M2	83.5	81.2	80.3	81.6	80.9
Means of Payments (M2)					
Millions of Quetzales	2501.1	2840.9	3652.2	4382.0	4791.1
percent of GDP	26.4	25.4	23.0	24.7	23.3

Source: Central Bank, Department of Economic Studies

demand for time and saving deposits. The demand for M2 is mostly determined by real interest rates as influenced by expected inflation -- and not by nominal interest rates on quetzal time deposits or external interest rates. The demand for time deposits is greatly affected by the substitution between foreign dollar deposits and deposits in local currency. Time and saving deposits are highly sensitive to external rates of returns, as measured by the arbitraged rate of interest, and to increases in the real exchange rate -- as a proxy for future devaluations. The complete results of these econometric estimations are shown in an appendix.

The implications of poor saving mobilization and a declining demand for money for credit policies in general and for agricultural credit in particular are basically three. First, according to these trends, if saving performance does not improve in the future, the banking system will become increasingly constrained in financing investment and even in providing short-term credit to the private sector, including agriculture, especially considering the increasing importance of credit to the public sector. Second, the use of external credit lines to expand credit to the private sector will either leak out as international reserve losses by the Central Bank or will push up domestic inflation. Third, credit policies that rely on subsidized credit are highly inappropriate for the promotion of saving, as the subsidized interest rates now in place for rediscount operations discourage deposit mobilization.

In this situation, the main recommendations for improving access to credit for the agricultural sector must be based on increasing the demand for money and hence deposit mobilization. An increase in deposits in real terms will require a more stable and predictable monetary policy that will contribute to reducing inflationary expectations. A more stable monetary policy cannot be implemented in the present fiscal situation, so that fiscal adjustment is a prerequisite for increasing the demand for financial assets. In particular, the Government will need to: (1) define a monetary program and announce that program and how the fiscal deficit will be financed; (2) take the necessary actions to demonstrate to economic agents that it is willing to maintain an anti-inflationary program. In addition, an appropriate arbitrage of interest rates is required to avoid capital flight, along with the elimination of expectations of devaluation through a realistic exchange rate that encourage saving and the holding of domestic financial assets.

Lack of Competition within the Banking System. The lack of competition among financial institutions reduces the potential benefits from financial liberalization such as increased saving and investment and greater efficiency in financial intermediation. Prior to the liberalization of interest rates, the formal system was forced to keep interest rates below the ceiling established by the Monetary Board -- a level that was often lower than inflation and expectations of devaluation (which were exacerbated by the continuing overvaluation of the exchange rate). As a result, the formal banking system began to lose its market share in the overall financial system, especially relative to informal financial agents. However, even after liberalization was implemented, the banks and financial companies were able to hold interest rates at an agreed level -- a clear indication of the oligopolistic behavior of the regulated banking system. Such behavior limits the beneficial effects of liberalization and, in particular, inhibits the formal banking system from competing with the informal system to increase its market share and from attracting savings to be allocated to

investment.

Among the reasons that Guatemalan banks have been drawn to control the level of interest rates are:

1. the possible insolvency of many of the banks in the system, increasing the likelihood of a generalized increase in interest rates that would cause loan portfolios to deteriorate further and the whole system to go bankrupt;

2. with the concentration of loan portfolio, higher interest rates would imply an increase in the cost of funds for enterprises connected to banks;

3. liberalization was initiated without first defining fundamental policies regarding problem banks, with the result that banks have argued that a deposit insurance system should have been implemented before interest rates were freed to vary; and

4. many financial agents do not request a liberalization of interest rates for the banking system, as they operate in informal markets at higher interest rates while also avoiding taxes.

More recently the bankers' association has agreed to increase the interest rate on overdue loans. This is an important first step in increasing interest rates since, for a new loan from any bank, debtors will now be willing to accept any rate not higher than the 3 percent per month that they would have to pay. In addition, the Central Bank has approved a flexible regime for adjusting interest rates on existing loans and has allowed the creation of an interbank deposit market. The power of any banking cartel will be reduced further when new banks enter the system, especially when foreign banks begin to participate actively.[4] The Central Bank could also start to intervene more aggressively to weaken any banking cartel by, for example, competing for the savings of the public though open market operations at higher interest rates than those offered by the banks -- which would not only sterilize more resources as part of a contractionary monetary program but would also force banks to offer higher interest rates for deposits.

Solvency of the Banks

Lack of adequate loan recovery and foreign indebtedness have left some banks with questionable solvency that could put pressure

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[4]In the past few months, seven new banks have been licensed, including Citibank.

on the Central Bank to bail out these problem banks. Any such action by the Central Bank could have a substantial impact on monetary stability and inflation. In addition, the poor quality of some bank loan portfolios reduces possibilities of expanding credit.

The growth of the banking system has been hampered by its decreasing capitalization. Between 1960 and 1988 the system's ratio of capital and reserves to total assets has declined persistently from 17.6 percent to 7.7 percent -- and with respect to total deposits from 56.7 percent to 10.3 percent. Moreover, these solvency coefficients are lower for private banks than for public ones. In addition, the Superintendency has been waving capital constraints by granting exemptions from capital requirements to a growing number of collateralized operations. This loss of capital and the present solvency condition of the banking system is unsatisfactory and, in particular, inadequate to allow a credit policy more supportive of the private sector. Banks are presently facing two kinds of difficulties with respect to solvency -- negative positions in the foreign exchange and loan portfolios of questionable quality. Nonetheless, the system has not faced collapse because the Central Bank has taken over the losses of the private banking system through exchange rate differentials. This, however, constitutes a threat to the financial system from the monetization that will result from the transfer of the loses of private banks to the Central Bank.

The Foreign Currency Position. According to the rules of the Central Bank, commercial banks are forced to record assets and liabilities in foreign currency at an exchange rate of 1 US$ = 1 Q and then to register the exchange rate differentials in separate accounts which are reflected in assets and liabilities. Table II.7 shows an overall negative position of US$ 197 million in foreign currency for the commercial banks, and they have held net negative positions for some time. These positions generate losses each time the exchange rate increases. The resulting capital losses would be extremely significant if the Central Bank were not willing to absorb the exchange rate difference. The monetary expansion and the increase in foreign debt implied by this policy would be the same if the Central Bank instead bails out the banks. If for any reason the Central Bank is unable to absorb this cost, the entire financial system would become insolvent. The Central Bank has only two alternatives: either it lets the banks go bankrupt or it monetizes the losses as it has been doing, leading to the loss of its international reserves. In reality, there is only one alternative because if it lets the banks go bankrupt, it will have to monetize anyway.

Table II.7: Net Foreign Currency Positions of Banks as of 9/30/89
(in millions of US$)

	Assets	Liabilities	Net Position
Private Banks	70.2	164.8	- 94.6
Foreign Banks	2.6	17.4	- 14.8
State Banks	2.0	89.8	- 87.8
Total	74.8	272.0	-197.2

Source: Superintendency of Banks

As long as the banking system is formally the debtor obligated for these liabilities, its capital is clearly insufficient, but an accurate estimate of the banking system's capital would require an adjustment of its remaining assets for monetary devaluation. Although this capital loss is not a recent phenomenon, the fact that the foreign exchange system has been modified implies that now for each Quetzal increase in the price of the dollar, the banking system loses -- due to exchange rate differences -- an amount approximately equal to its accounting capital. After the foreign exchange market was liberalized, the Central Bank no longer guaranteed the exchange rate, so that banking institutions must now obtain foreign currency in the market in order to pay their new foreign obligations. However, the Central Bank has recently decided to absorb the exchange rate losses by providing the banks with the necessary amount of foreign currency to cover their foreign obligations. In any case, under present conditions of questionable solvency, it would be risky for the banking system to expand its activities, given that it may not have sufficient capital to respond to its depositors and other providers of funds.

Loan Portfolio Delinquency. On the average, loan delinquency is 14 percent of private bank portfolios. Although this includes some banks with over 40 percent and others less than 1 percent, 14 percent is nonetheless a high average. Moreover, the way of measuring delinquency is inadequate. As shown elsewhere in this report, bank reserves and interest accrued but not received indicate that loan delinquency is even higher. Lack of recovery of loan portfolios not only constitutes a limit to credit expansion for agriculture, and in general, but also introduces other distortions in credit markets.

At present, the solvency of many banks in Guatemala is highly questionable. Moreover, insolvent institutions continue to operate because of lack of transparency, weak banking supervision and the poor quality of information. Although the situation is not the same for all banks, only two or three banks may be fully solvent with adequate capital. Insolvent banks can undermine the profitability and future health of the system if they undertake

overly-aggressive competition for deposits, thereby pushing up interest rates and adversely affecting the liquidity condition and portfolio quality of healthy banks. This possibility was not taken adequately into account when interest rates were liberalized. In any case, under present conditions free interest rates can act as an indicator for depositors and investors of the solvency of banks.

In short, questionable solvency constrains credit expansion by the banking system for various reasons, among them:

banking institutions become more conservative and reluctant to assume new risks -- which is particularly important for agriculture because of its higher risks compared to most other activities;

the amount of loanable funds is reduced and a significant portion of portfolios immobilized in loans to inefficient sectors;

poor performance in loan collection reduces the operating income of financial institutions, and to compensate the inefficient sectors of the economy are penalized through an increase in the interest rates on their loans;

unproductive loans are refinanced and new credits are granted to help debtors to delay their bankruptcy -- which may in the end ruin the lender as well as in the case of some insolvent institutions presently operating;

the present system of free interest rates may increase deposits in banks with solvency problems as they increase their interest rates, and this will redirect resources from healthy banks to fragile banks and from efficient sectors to inefficient ones, thereby increasing the risks of the banking system.

because of present regulations pertaining to minimum capital, bank equity must be increased in order to grant new credits.

Given the present circumstances, before promoting a policy of credit expansion by banking institutions, it is recommended to:

1. require problem banks to increase capital as a prerequisite for developing a sound credit policy;

2. allow mergers among banks so that insolvent institutions can be absorbed by stronger ones if this does not create excessive concentration or negotiate their sale to applicants for new bank charters (but in neither case would the Central Bank be responsible for the deposits of insolvent institutions); otherwise, insolvent banks will have to be taken over and liquidated;

3. change accounting norms for the valuation of assets and liabilities to show clearly the effective net worth of each institution (which will require changes in the law of the Central Bank with respect to the valuation of assets and liabilities in foreign currency); and

4. authorize new banks to enter in the system, but only with high initial equity, to try to promote competition while reducing the risk of insolvency (which can be a particular problem for new banks trying to expand aggressively).

Legal and Banking Regulations

The Stamp Tax. There is a stamp tax of 3 percent on all credit contracts, and this has important implications for financial activities.[5] First, it increases the effective spread and, second, it makes short-term credit unaffordable. For example, a 30 day loan renegotiated on a monthly basis would be charged 42.6 percent per year in tax alone, compared with an interest rate of about 16 percent plus commissions and surcharges. Because of such excessive taxes, credit operations in agriculture that would normally be short term will require users to maintain credit lines if only to avoid these costs. Moreover, since collateral requirements are more stringent for longer maturities, short-term credit lines are also used to bypass the requirements for mortgages or similar guarantees. In addition, as the initial loan can be rolled over many times, the numbers in Table II.8 may not reflect the effective maturity of loan portfolios.

The stamp tax also introduces other distortions that, while not specific to rural financial markets, affect credit allocation in general including the agricultural sector.

1. It discourages intermediation through the banking system for new credits and for credit expansion for old borrowers. However, there are several ways to evade the stamp tax in the case of old borrowers (e.g., by referring to the original loan document but without referring to the amount of the loan).

2. It inhibits prompt increases in bank capital, as the stamp tax [illegible] be paid on authorized capital, and this restrains credit expansion in the long run because of the 10 percent capital requirement for loan portfolios.

3. It inhibits competition among banks as borrowers have to

[5]There are some exemptions to the stamp tax such as loans funded with external credit lines from the IDB, USAID, the World Bank, etc. and loans from BANDESA for less than 30,000 Quetzales.

pay the 3 percent tax when switching from one bank to another, which encourages a slow turnover in bank portfolios.

Borrowers in rural areas also avoid the stamp tax by demanding credit in informal financial markets. In fact, the stamp tax is one of the most important legal restrictions that promotes informal financial markets and inhibits competition. It should be eliminated and, if revenue shortfalls are a serious constraint, replaced by other taxes not affecting financial intermediation.

Table II.8: Term Distribution of Bank Agricultural Credit as of December 1988 (in millions of Quetzales)

Maturity	State Banks	Priv. Banks	Fin. Comp.	Total Agric.
Less than 1 year	7.1	27.5	2.3	36.9
Between 1 and 5 years	3.0	1.3	1.8	6.1
More than 5 years	0.4	1.0	0.1	1.5
Total	10.5	29.8	4.2	44.5

Excessive Reserve Requirements. Excessive reserve requirements induce higher spreads, restrain the demand for credit and undermine savings mobilization. Reserve requirements are high in Guatemala, more than 20 percent of total deposits on average. At present, required reserves for demand deposits are 41 percent, but only 13 percent for savings and time deposits. As a consequence of this differential treatment, a change in deposit structure favoring saving deposits has been observed as banks and depositors collaborate to reduce the average reserve ratio. At the same time, estimates from the Superintendency indicate that the majority of bank loans, though being medium term loans, are registered as short term credit, often in the form of revolving loans, in order to avoid the stamp tax and collateral requirements.

Reserve requirements drive a wedge between borrowing and lending rates and thus act as an implicit tax on financial intermediation. This wedge develops because the reserve requirement allows only a fraction of deposits to be lent. Therefore, the lending rate must exceed the deposit rate in order to cover the total interest due on deposits. In particular, reserve requirements generate a constant proportional relationship between deposit and lending rates, and this has an important implication for the absolute spread as the interest rate on deposits increases. When the deposit rate is low, the impact on

the spread is small, but when the deposit rate becomes high, the reserve requirement can raise the cost of loanable funds substantially. This may in fact happen in Guatemala as the deposit rate increases with interest rates free from control -- as long as reserve requirements continue to be high.

Table II.9 shows actual spreads compared to the minimum spreads implied by the prevailing deposit rate and reserve requirement ratio. Actual spreads increased during the period along with the deposit rate and reserve requirement coefficient. However, the difference between the actual and minimum spreads remained more or less stable. This might be considered a surprising result in light of the questionable condition of bank loan portfolios. However, the fact that interest rates were fixed during the period restrained banks from adjusting the lending rate, thereby affecting profitability and perhaps leading toward decapitalization in some cases.

Table II.9: Minimum and Actual Banking System Spreads
(percent)

	Reserve Requir.	Deposit Rate	Actual Spread	Minimum Spread (1)	Dif. (2)
1983	15.9	9.0	5.5	1.7	3.8
1984	15.2	9.0	4.9	1.6	3.3
1985	17.5	9.0	5.7	1.9	3.8
1986	21.1	9.0	6.3	2.4	3.9
1987	19.9	9.0	5.8	2.2	3.6
1988	20.7	13.0	6.9	3.4	3.5

(1) computed as deposit rate(res.req./1-res.req.).
(2) computed as arithmetic difference in percentage points.

Source: Superintendency of Banks and our calculations.

Reserve requirements constitute a source of finance for the fiscal deficit. As the fiscal deficit became larger, the government tended to seek low cost sources of finance such as Central Bank credit. Under these circumstances, the Central Bank responded by increasing reserve requirements in order to capture at low cost more of the resources mobilized by the financial system -- thereby instituting a non-transparent source of finance. In addition, as discussed above, banks are required to allocate a certain proportion of their loan portfolios to priority activities at preferential rates of interest. The impact of such forced investments on spreads is similar to that of reserve requirements. However, the interest received on forced investments does contribute to covering the costs of mobilizing deposits, so that

forced investments do not increase spreads as much as non-interest earning reserve requirements. At present, the interest rate subsidy on forced investments is three percentage points.

The most important difference between reserve requirements and forced investments is that forced investments are like an earmarked tax whose beneficiaries are the recipients of the low interest forced investments of the financial intermediaries. This difference has important implications for the cost of credit, as well as for income distribution. Favored borrowers receive a blend of low-cost forced investment loans and higher cost non-priority loans, reducing their average cost of credit below the cost of a non-priority loan. As indicated above, large farmers are the main beneficiaries of low-cost loans, while most medium and small farmers have to pay cost of non-priority loans.

Although the effect of reserve requirements and forced investments on spreads is unambiguous, the effect on deposit and lending rates will depend on the respective interest rates elasticities of the supply of deposits and the demand for credit. As with explicit taxes, reserve requirements and forced investments reduce resource mobilization by the formal financial system and encourage financial intermediation to move to the informal market.

According to foregoing considerations, and especially in a liberalized framework as is now being put in place in Guatemala, reserve requirements should be eliminated. However, given the present macro-economic imbalances, it cannot be recommended to remove reserve requirements until the fiscal deficit is under control. Under this constraint, a second best alternative could be to reduce reserve requirements gradually while simultaneously eliminating preferential rediscounts credit lines and selling public debt through open market operations. As Table II.5 shows, the elimination of preferential rediscounts would allow a reduction of almost 20 percent in the average reserve requirement coefficient. Through open market operations, the Central Bank could keep the money supply under control, while deficit financing would become more transparent. Although the cost of deficit financing will be higher, so that government expenditures will increase, the benefits from increasing lending capacity and lowering spreads will stimulate financial intermediation and thus economic activity.

Collateral Requirements. The banking law establishes minimum guarantees from borrowers according to loan maturity. For example, loans with maturities over one year must be secured by assets such as government bonds or mortgages, but for short term loans only fiduciary guarantees are required. From Table II.10 it can be seen that eleven types of guarantees are in use for loans from private and government banks, though some of them are rarely used. Most of these guarantees represent some combination of three basic categories: mortgage over real property, fiduciary and mortgage

over personal property ("prenda").

Agriculture is usually considered a risky activity so that banks tend to want greater protection. For that reason, agricultural loans from private banks are more frequently required to have mortgages (of one type or the other) than loans to other economic sectors. On the other hand, Table II.10 shows that at private banks 39.4 percent of agricultural loans are allowed to have only fiduciary guarantees as compared to 56.6 percent for other sectors. These numbers indicate that, except in the case of agriculture, guarantees at private banks are dominated by confidence and faith. As will be shown below, loan portfolios are concentrated in large loans, implying that private banks lend predominately to large borrowers in whom they have particular confidence.

It is easy to see from Table II.10 that government banks are more conservative in general than private banks. However, for agricultural loans, government banks less frequently require real property mortgages than for other economic sectors. This is related to the fact that the Government's housing bank, which appears in the other sectors column, lends based on real property mortgages, while BANDESA lends mainly to small-scale farmers who often do not have property that can be mortgaged. Nonetheless, BANDESA more frequently requires personal property mortgages than do the private banks and makes relatively little uses of fiduciary guarantees.

Table II.10: Collateral Requirements
(percents)

	Private Banks		State Banks	
	Agric.	Others	Agric.	Others
Mortgage*	27.5	13.3	24.5	76.8
Gov. Bonds	6.6	21.8	-.-	3.7
Mortgage F.H.R.	-.-	-.-	-.-	-.-
Red. Com. Paper	1.6	3.3	3.4	2.5
Red. Gov. Bonds	-.-	-.-	-.-	-.-
Other Obligations	-.-	-.-	-.-	-.-
Fiduciary	39.4	56.6	16.7	12.8
Prend. & Fiduciary	0.9	1.2	7.1	0.7
Mort. & Fiduciary	0.7	0.4	0.7	-.-
Prenda*	15.4	2.0	30.3	2.2
Prend. & Mortgage	7.9	1.4	17.3	1.3
Total	100.0	100.0	100.0	100.0

* Mortgage refers to real property mortgage and prenda refers to personal property mortgage.

Source: Superintendency of Banks.

Collateral requirements should not be imposed by law, and banks should be free to demand guarantees according to the capacity of the borrower and the feasibility of the project. If enforced, these requirements can constitute a serious constraint to efficient resource allocation and growth potential in the agricultural sector. Such guarantee requirements can, in particular, hamper the access to credit by small and medium scale farmers. The figures in Table II.10 may indicate that the possibility for credit expansion to agriculture in general and small and medium scale farmers in particular is effectively constrained, or they may indicate that collateral requirements can be avoided and in fact serve mainly to provide an excuse for not making loans that bankers would not want to make in any case.

CHAPTER III

RURAL FINANCIAL INTERMEDIATION

Financial intermediation in rural areas may be described in terms of credit flows to agricultural activities and deposits mobilized outside of Guatemala City, thereby considering as rural areas all departments other than Guatemala City. In this section of the report three kinds of issues will be analyzed: (1) credit allocation by area and type of crop; (2) concentration of deposit mobilization by area; and (3) bank deposits as a source of funds for agriculture finance.

Credit Allocation

Recent Evolution of Credit. Agricultural credit currently represents approximately 12 percent of credit generated by the private and state banking system, having declined from 18 percent in 1983 to 12 percent in 1988. Measured in real terms, credit to agriculture has almost been cut in half as compared to its level in 1983, and its growth rate in real terms has been systematically negative over the past four years. The reduction in agricultural credit has been especially significant at the private banks, while the government's bank, BANDESA, increased its agricultural lending although its share is still quite low. (See Table A1, A2 and A3 of the Statistical Appendix.) The phenomenon of declining credit for agriculture was, as discussed above, related to several issues, among them: (1) declining real incomes of farmers; (2) credit constraints due to the tightened monetary policy imposed by the current administration; (3) crowding out of the private sector from credit as the fiscal deficit increased the requirements of the public sector; and (4) various banks' diminished capacity to expand credit due to problems of loan recovery and solvency. Nevertheless, the output of the agricultural sector grew by 3.6 percent in 1987 and 4.1 percent in 1988 in real terms. Although credit for agriculture from the formal banking system has been contracting, agriculture has managed to grow with the help of other sources of finance such as informal finance and self-finance.

Credit Allocation by Activity. The bulk of the loans to agriculture, both in value and number go to crops, followed by livestock, while forestry, hunting and fishing represent a very small percentage. As Table A1 in the Statistical Appendix shows, the activities most affected by the reductions credit allocation were those related to basic grains which diminished dramatically in both real and relative terms. Nonetheless, there was an increase in BANDESA's credit activities. In any case, the reduction in credit to the farming sector seems not to have affected production during 1988. Crops for domestic food consumption increased by 3.5 percent, while those used as

industrial inputs grew by 9.1 percent. The least dynamic activities were export oriented, which grew only by 1.7 percent.

Stratification of Credit. Table A4 in the Statistical Appendix shows credit allocation by size of loan. Private bank portfolios are concentrated in large loans, especially in the case of agriculture. By contrast, BANDESA makes more small loans, presumably to small-scale farmers, but BANDESA's market share is so small compared to private banks that its corresponding stratification is meaningless. According to these numbers, small-scale farmers do not have access to credit from the private banking system. This could be a constraint to expanding basic grains production, as small-scale farmers harvest the larger proportion of Guatemala's output of basic grains, which in turn represents the most important component of Guatemalan's food intake. In addition, the potential of small-scale farmers to participate in production for export may be limited. When interest rates become freer in the future, and if collateral requirements are removed, the availability of credit for small farmers should be greater. In the meantime, however, it will be difficult to solve this problem through the formal financial system.

The Banking Network and Credit Allocation by Areas. Credit allocation to the agricultural sector is basically related to two main factors: the banking network in the countryside and the production orientation in different areas. The private banking network, reflecting the concentration in population and especially in economic activity, has 109 of its 262 agencies in Guatemala City, followed by Escuintla and Quetzaltenango with 21 agencies each. For the rest of the country, each department has an average of only 5.8 agencies. This skewed distribution implies that in Guatemala City there is approximately one agency for each 16,000 people, but in the rest of the country there is one agency for each 49,000 people.

Table A5 in the Statistical Appendix summarizes the allocation of credit to different agricultural activities in each area. In the same table, some indicators of the relative importance of credit activity in each area are also given. From Table A5 it can be seen that:

1. The central zone receives 43 percent of total agricultural credit from the private banking system, followed by the south zone that receives 28.5 percent. Concentration in the central zone is mainly related to population concentration (28 percent ot total population) and banking concentration (45 percent of total agencies and branches). In this respect, many farmers borrow in Guatemala City rather than where their farms are located.

2. Although it has only 10 percent of the banking agencies, the south zone is the most intensive agricultural borrower

from the private banking system, as measured on a per capita basis or a per agency basis. The predominant factor in this zone is the production orientation. The south zone includes the departments of Escuintla and Santa Rosa where coffee, cotton, sugar and livestock are the predominant activities. As can be seen in Table A6, Escuintla is the largest borrower on a per capita, per agency and per economic establishment basis, reflecting the high level of economic activity.

3. The central and western zones follow in terms of intensive use of credit, related to the production of coffee, sugar, cotton and livestock. However, compared to the South, the levels are much lower on a per capita, per agency and per economic establishment basis.

(Tables A6, A7, A8, A9 and A10 in the Statistical Appendix provide detailed information on credit allocation by department and activity.)

Deposit Mobilization by Area

The determinants of deposit mobilization and the demand for financial assets have already been discussed, so that this section will describe only the structure of deposits by area, especially in relation to population and the banking network.

Concentration of Deposits. Based on a survey conducted in 1986 by the Central Bank (See Tables A11 and A11a in the Statistical Appendix) 87 percent of all demand deposits were in the Department of Guatemala, followed by 2 percent in Quetzaltenango. Nine provinces accounted for only 1 percent each and the remaining 11 provinces for less than 1 percent each. The structure is rather similar for saving deposits. In the case of time deposits, which represent only 4.8 percent of total deposits, the Department of Guatemala accounts for an even higher proportion of deposits, 92 percent. Table A11b in the Statistical Appendix ranks the departments according to the amount of deposits.

In summary, Guatemala and Quetzaltenango are the main centers for demand and saving deposits, while Guatemala and Izabal attract most of the time deposits. One reason that the distribution of all types of deposits is concentrated mainly in Guatemala is because most resources and facilities are in the capital. This is a common phenomenon in countries with similar socio-economic conditions to Guatemala. In addition, Quetzaltenango, as the second largest city in the country, has more resources than other rural cities. Another important reason for the skewed distribution of deposits is that companies that do open accounts in rural bank offices or branches still perform all major operations in Guatemala City and use the rural offices only for payroll payments and similar services.

Per Capita and Per Agency Deposits. Tables A12 and A13 in the Statistical Appendix show per agency and per capita deposits for each department. Apart from the Department of Guatemala, the most efficient agencies in terms of the amount of deposits per agency are located in Jutiapa, Zacapa, Sacatepequez and Huehuetenango. In per capita terms, Zacatepequez, Chiquimula and Quetzaltenango show the highest amounts. These tables show that deposit mobilization is quite closely related to population and the number of agencies in the department. The Spearman rank correlation coefficient between deposits per capita and per agency has a statistically significant value of 0.82. However, there is considerable dispersion in both per agency and per capita deposits. In the case of per capita deposits the coefficient of variation is 2.28, compared to 1.30 per agency, indicating that other factors such as the level of income or wealth may be affecting deposit mobilization, as discussed earlier in this report. Since there is no information available on income or wealth by area, the number of economic units or establishments has been used as a proxy for the level of activity in each department. The simple linear regression for deposit per agency in each department is highly significant with respect to the population of the department and the number of economic establishments.[6]

Bank Deposits and Agricultural Credit by Area

Deposit mobilization need not be a binding constraint for credit expansion in rural areas. However, it can restrain credit policy in those areas that are more agriculturally oriented. Table III.1 shows private bank deposits and credit to agriculture by agency. An examination of Table III.1 can be useful to see how bank deposits can contribute to financing agricultural credit in each department. These figures indicate that the banking system only uses 27.4 percent of the deposits captured in rural areas to finance agriculture. Credit diversion to other economic activities is a common policy applied in almost every area. Even when Guatemala City is excluded, the average of agricultural lending relative to deposits increases to only 36.5 percent. There are a few departments, mainly in the south and west (indicated by an asterisk in the table), where average lending per agency is higher than deposits. These departments are as follows:

Chimaltenango, principally oriented to coffee and livestock;

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[6]The simple linear regressions are as follows:

$$\text{Dep/Ag.} = -653.1 + 12.1\ \text{Pop.} \qquad F(1,20) = 42.5$$
$$\text{Dep/Ag.} = 2051.9 + 1.99\ \text{Estab.} \qquad F(1,20) = 117.5$$

Santa Rosa and Escuintla, producing coffee and cotton;

Suchitepequez and Retalhuleu, producing coffee and livestock; and

San Marcos, mainly producing coffee.

Table III.1: Deposits and Agricultural Credit per Agency in each Department as of December 1988.

(thousands of Quetzales)

Zone	Department	Deposits	Credit	Cred./Deps. (percent)	
Center	Guatemala	24,873.5	1,305.8	5.2	
"	El Progreso	1,577.5	414.3	26.3	
"	Sacatepequez	5,387.0	705.1	13.1	
"	Chimaltenango	1,097.0	1,907.7	173.9	*
South	Escuintla	2,094.9	3,849.8	183.8	*
"	Santa Rosa	3,651.4	4,297.8	117.7	*
West	Solola	1,265.0	131.6	10.4	
"	Totonicapán	290.5	90.0	31.0	
"	Quetzaltenango	3,651.5	608.2	16.7	
"	Suchitepequez	3,076.3	2,767.9	90.0	*
"	Retalhuleu	2,401.9	2,638.7	109.9	*
"	San Marcos	1,322.6	1,354.7	102.4	*
"	Huehuetenango	5,046.8	205.8	4.1	
"	El Quiche	1,307.4	18.6	1.5	
North	Baja Verapaz	1,385.5	333.5	24.1	
"	Alta Verapaz	3,003.8	710.2	23.7	
"	El Peten	1,196.1	137.0	11.4	
"	Izabal	3,527.1	851.2	24.1	
East	Chiquimula	3,644.9	115.8	3.2	
"	Jalapa	1,556.4	45.2	2.9	
"	Jutiapa	8,073.3	93.7	1.2	
"	Zacapa	5,723.6	753.0	13.2	
Total Av. per Ag.		3,870.6	1,060.7	27.4	
Total Av. per Ag. exc.Guat.		2,870.5	1,049.0	36.5	
Total Av. per Ag. exc. (*)		4,469.3	407.4	9.1	

Source: Superintendency of Banks and our estimates.

By excluding those departments in which private banks lend more to agriculture than their deposits, the average declines

sharply to a surprisingly low 9.1 percent. Moreover, all these figures indicate that there is no statistically significant correlation between deposits and credit to agriculture. Nonetheless, it would be a mistake to conclude that deposit mobilization has nothing to do with credit expansion in rural areas. There is an aggregation problem derived from the fact that some rural departments are not agriculturally oriented such as Quiche, Progreso, Chiquimula, Jalapa, etc. in which bank deposits cannot be allocated to agricultural activities. If instead only those departments are included that are more agriculturally oriented[7] (indicated by an asterisk in Table III.1) then departments ranked according to the level of credit to agriculture approximately corresponds to the rank resulting from deposits mobilized by the banking system, and the Spearman rank correlation coefficient is 0.77. Thus deposit mobilization, though not a binding restriction for credit allocation to agriculture, restraints credit policy. Deposit mobilization and credit allocation are mutually dependent.[8] Effective saving mobilization based on positive real interest rates permits financial intermediaries to capture resources that might otherwise be allocated to unproductive investments such as inflation hedges. Recent liberalization reforms that permit positive real interest rates will encourage savings mobilization in rural areas and thereby stimulate agricultural credit.

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[7]Defined as those departments that use more credit from the banking system; this is an operational definition and not a technical one.

[8]As R. Vogel has pointed out in "Savings Mobilization: The Forgotten Half of Rural Finance," saving mobilization by the banking system improves credit allocation.

CHAPTER IV

THE ROLE OF THE BANKING SYSTEM IN RURAL FINANCE

Market, Legal and Structural Constraints

There are numerous market, legal and structural factors that inhibit bank agricultural lending in Guatemala to varying degrees. Some of these constraints are common in most developing countries, while others are typical of agricultural lending even in a developed country such as the United States. These are discussed in detail below.

Poor Communications: The Impact of Telephone and Data Transmission. Most banks in Guatemala are highly computerized. Their accounting depends on reliable electronic data transfer among offices. Telephone service to many rural locations is poor or non-existent. This implies that a bank that operates agencies in such rural areas cannot maintain its financial records current on a daily basis. However, this is not necessarily a critical constraint since daily radio communication or less frequent mail service presents a viable alternative. Moreover, accounting information from a small rural branch is not likely to have a significant impact on the consolidated financial statements of a typical bank. Daily changes should typically be inconsequential and thus not materially distort the financial statements of the bank. For these reasons, poor communications should not be a critical factor inhibiting agricultural credit.

Domicile of Agricultural Producers in Guatemala City. Many agricultural producers, especially large and medium scale ones, have their farms in rural areas but maintain their residences and even their offices in Guatemala City. Although they generate economic activity in rural areas, they conduct their banking transactions in Guatemala City, withdrawing cash to take to rural areas to pay workers, etc. This cash eventually works its way back into the banking system as workers pay for purchases from merchants who make deposits in their banks. Moreover, as more banks decide that it is viable to establish offices in rural communities, more banking activity will take place in the region to which the underlying economic activity pertains. In fact, numerous new agencies have been opened by private banks during the last two or three years and more are planned. (See Exhibits B and C.). At present, location may even facilitate rather than inhibit the availability of agricultural credit, especially for larger scale producers. Such borrowers will frequently be able to offer collateral in the form of urban real estate to secure loans that might not otherwise be available. In addition, borrowers are able to visit their bankers more conveniently to provide required information, which is particularly important since all banks but one have their headquarters in Guatemala City.

Concentration of Decision Making at Bank Headquarters. Closely related to the previous point is the fact that all Guatemalan commercial banks, except for the Banco de Occidente, and all five of the finance companies are headquartered in Guatemala City. The only city with anything more important than an agency is Quetzaltenango. The Banco de Occidente has its headquarters there, although its management is for the most part located in Guatemala City, and the Banco Agricola Mercantil operates a branch in Quetzaltenango. Agencies are offices that do little more than accept deposits, cash checks, and provide a limited range of non-credit services. It is unusual to find any authority to make loans at an agency. Decision making, especially with regard to credit, is thus almost totally concentrated in Guatemala City.

Potential for Economically Viable Deposits. The potential for banks to generate depo[illegible] in significant amounts in rural markets can be limited by several factors. These center around the costs of establishing the infra-structure to gather deposits as compared to the value of those deposits to the bank. The costs of gathering deposits include the physical facilities (office, furniture, equipment, etc.), the staff, and the transaction costs involved in processing deposits and withdrawals and in conducting the relevant bookkeeping involved in maintaining accounts. The benefits to a bank from any given deposit derive from the bank's ability to: (1) lend the funds gathered at a favorable spread over the costs (not only the interest paid but also the costs of administering the accounts); and (2) earn income in the form of service charges.

The spread necessary to make deposit gathering worthwhile depends, among other things, on reserve requirements. The higher are reserve requirements in general or on the particular type of deposit that a bank might want to emphasize (e.g., passbook savings) the greater will be the required spread. In order for a bank to cover the cost of deposit funds and its other operating expenses and make a profit, the rate paid on deposits must be lower or the rate charged on loans must be higher. Until the recent liberalization, the rates on deposits and loans were fixed by the monetary authorities, thereby -- together with high reserve requirements -- limiting possibilities for profitable deposit mobilization in rural areas. Liberalization of interest rates, especially if accompanied by changes in reserve requirement policy, can provide an important stimulus to expand branch networks in rural areas based on the increased profitability of mobilizing deposits.

Occasionally other factors, such as competitive pressures, may induce a bank to enter a market where it may not be able initially to conduct profitable operations. Implicitly, the bank is trying not to lose even more through the loss of existing

customers and/or market share. An interesting example of this in Guatemala is the Pacific coastal region in Esquintla Department where several banks have recently opened branches and others are following. However, this sort of competitive pressure is unlikely to cause the banking system to expand into rural areas where no bank offices currently exist, even though it may subsequently enhance competition.

Because of regulations imposed by the monetary authority, banks in Guatemala do not currently impose many of the types of service charges that could result in significant non-interest income. For example, in the United States banks typically impose monthly service charges on checking accounts with balances below a given amount, but this sort of charge is not imposed in Guatemala. Therefore, a bank has no way to offset transaction costs on accounts with small balances that may be typical in rural areas. Removal of regulations against service charges, most of which were imposed to prevent the circumvention of interest rates controls that have now been removed, could thus help in rural areas to promote deposit taking in particular and branching in general. In addition, there are other government policies discussed elsewhere in this report, such as the availability of cheap rediscount lines for priority sectors, that discourage deposit mobilization and thereby inhibit the more aggressive bank branching that could provide a full range of financial services in rural areas.

Costs to Borrowers of Changing Lenders. If a borrower in Guatemala decides to change his relationship from one financial institution to another, there are costs involved. These will include in particular the stamp tax imposed by the Guatemalan Government on all promissory notes and certain other types of debt instruments. Such costs might also include, in the case of borrowing supported by real estate collateral, new appraisals and legal fees for preparing and registering mortgage documents. A borrower who changes his borrowing relationship to another institution expects to receive benefits that are greater than the costs associated with the change. The less the costs associated with the change, the greater is the incentive for the borrower to make a change that he considers beneficial. If the costs are relatively high, then they serve as a disincentive to competition.

One cost of borrowing in Guatemala that is particularly onerous with respect to changing lenders is the stamp tax. If a borrower wants to discontinue his relationship with his bank and change to another bank, the cost of such a decision is 3 percent of the amount of his borrowing due to the documentary stamp tax that is imposed on debt instruments. The amount of the tax is 3 percent of the amount specified on the promissory note or other debt instrument. Guatemalans have, however, developed a few loop holes to minimize the impact of this tax. For example, when a loan is renewed with the same lender, a document is prepared that makes

reference to the original promissory note, specifies the changes in terms, but refrains from mentioning an amount. In this way, the tax does not have to be paid again on a renewal of part or all of the loan. This procedure is said to work as well for lines of credit even though the borrower may not be continuously in debt to the lender throughout the year. However, there is no loop hole to avoid this tax if a borrower changes banks and has to execute new documentation to support borrowing from that institution.

Although this type of tax is not unusual in Latin America, or even in the United States, the rate of the tax in Guatemala serves as a significant deterrent to changing banks. (A similar tax in Florida is 0.15 percent with many exceptions for international financing and other transactions that the state wishes to encourage.) In Guatemala the impact is to reduce competition among banks, as the borrowers have a strong disincentive to shop around for better service, lower interest rates, or more liberal terms. A significant reduction in the tax could stimulate borrowers to seek more favorable financing and thereby increase competition among banks and improve credit terms and service to all sectors, including agriculture. The reduction in revenues to the Government from a reduction in the rate of this tax would also be at least partly offset by increases in total taxable borrowings as borrowers change lenders more frequently. Moreover, if a borrower can easily change lending institutions, he can more readily obtain better terms. For example, a common complaint in Guatemala is that banks are very conservative with respect to the amount of credit they will extend as a percentage of the value of collateral. Although this is not a simple issue, it is reasonable to assume that in a more competitive environment, a less conservative approach would prevail.

Performance of Formal Financial Institutions in Providing Financial Services to the Agricultural Sector

Banking Office Networks. The Guatemalan banking system is highly centralized in Guatemala City. As of December 31, 1988, a total of only 56 cities and towns were served by public or private sector banks. Table IV.1 illustrates this. Notwithstanding the present degree of concentration, certain areas are experiencing growth. For example, the Pacific coastal area, which is a relatively prosperous low altitude agricultural region, is developing rapidly, and several banks have opened offices in Escuintla while others have plans to do so. Banking office networks in more populous and prosperous rural areas will continue to increase. This should result in substantial increases in the number of people in the interior who will have reasonably convenient access to the banking system and who will maintain deposit accounts. This, in turn, will result in increased capturing of deposits in rural areas -- much of which will be reinvested in those same areas as more people enter the formal

banking economy and reach creditworthy status. However, the process will not necessarily be rapid, and more remote areas will continue to be served only by the Central Bank and/or BANDESA, if at all.

Table IV.1

Location of Banking Offices in Guatemala

City / Town	Government Banks	Private Banks	Financieras	Total
Guatemala	18	105	5	128
Quetzaltenango	3	11	-	14
Escuintla	4	8	-	12
Suchitepequez	4	4	-	8
Alta Verapaz	3	5	-	8
Retalhuleu	2	4	-	6
Chiquimula	3	3	-	6
Sacatepequez	2	3	-	5
Huehuetenango	2	3	-	5
Izabal	2	3	-	5
Zacapa	3	2	-	5
* all others	48	39	-	87
Total	94	190	5	289

* Includes 45 other cities and towns having less than five banking offices. The Central Bank and/or BANDESA are the only providers of banking service in 18 of those 45 cities.

Bank Agricultural Credit Through Other Channels. Agricultural credit from banks is probably much greater than the reported figures indicate since many providers of credit to agriculture are suppliers and exporters who, in turn, obtain bank credit to finance the loans that they provide to agricultural producers. An interesting example, discussed in detail later in this report, is the case of foreign owned coffee exporters, many of whom finance

coffee growers. The coffee exporters provide crop financing, taking mortgages and crop liens in the same fashion as a bank, and obtain credit from local banks in order to support this activity. Such loans are typically secured by standby letters of credit (effectively serving as bank guarantees) opened by the coffee exporter's head office in a foreign country through a bank in that country and in favor of a local (Guatemalan) bank which extends the credit.

According to various interviews conducted, it is widely believed that credit in Guatemala, especially agricultural credit, is mostly available to large wealthy producers, particularly those who are shareholders or directors of banks. Most bankers, however, report this to be a myth and state that, in fact, the largest producers do not tend to use bank credit to any extent. Such producers are said either to finance their agricultural needs with their own capital or, in some cases, to obtain credit from foreign banks or financial institutions doing business in Guatemala (but not within the regulated system) in U.S. dollars collateralized by their deposits at these banks. Although detailed information is unavailable, it is reported that a significant amount of Guatemala's banking activity is of this nature.

Participation in Special Agricultural Credit Programs. A few banks and finance companies participate enthusiastically in refinancing facilities offered by international donor agencies through the Central Bank. A current example is the Inter-American Development Bank's "Programa de Crédito Agropecuario, BID 529/OC-GU." Those institutions, and perhaps some others that might be induced to move into this type of lending, could likely absorb more credit through this type of program. However, because of the foreign exchange risk involved (for the lender if not for the borrower) it is questionable if such credit should be made available to borrowers who do not produce for export.

Institutional Restraints in Practice

Economic Justification of New Banking Offices. Private financial institutions will only enter a new market, e.g., invest in a new branch or agency in a rural community, if the institution perceives the likelihood of generating marginal profit or, at least, the need to defend its regional customer base from competition. When new branches and agencies are mainly a response to competitive pressures, the most economical approach is often for banks to offer in rural areas only those classes of accounts that involve minimal transaction costs and pay modest interest rates. Savings accounts are usually the product of choice if a bank wants to offer attractive deposit services and minimize costs. Checking accounts involve too many administrative costs in the form of paper processing, accounting (computer time), overdraft loss risks, and other operating risks from bad checks, forgeries, etc.

Certificates of deposit or other types of time deposits usually pay the highest interest rates. Moreover, savings accounts can be especially beneficial to the small rural customer since he is accustomed to settling his obligations in cash and is not accustomed to checking accounts. Bank savings accounts can also provide a safer and higher yield alternative compared to other savings choices.

Lack of Service Charges for Non-Credit Services. Banks need to broaden their base of non-interest income. This should logically come from establishing fees for services that are currently provided without charge and from increasing fees for services with low charges. An appropriate fee structure should at least cover transaction costs and, ideally, provide a profit margin consistent with the bank's opportunity cost. If such a fee structure existed, it could offset any implicit losses in providing deposit services to low income people in rural areas. Nonetheless, the installation of a fee structure as described above would be painful, and the first bank to do it would undoubtedly lose customers. Once the necessary changes have been made in banking regulations, probably the easiest way to initiate a fee structure quickly would be through an agreement among banks so that customer loss from one bank to another would be minimal.

Collateral Requirements for Credit. Many people have argued that banks are too strict regarding collateral requirements for agricultural loans. However, when specifics were discussed, bankers' responses indicated prudence rather than discriminatory practices. Banks are supposedly unwilling to take into consideration as eligible collateral as high a percentage of the value of rural real estate and improvements, personal property (equipment, etc.), and crops as they might in the case of urban areas. This is unquestionably true, but the underlying criteria for collateral requirements are nonetheless the same. The problem is not only that agricultural lending is often particularly risky but also that the value of rural property is subject to similar risks. In particular, a prudent banker must take into consideration the fact that the market for agricultural real estate is more limited than for developed urban real estate. Its value fluctuates much more than urban real estate for several reasons.

Crops fluctuate greatly in price according to prevailing market for the type of commodities produced on a given farm.

Machinery and equipment is subject to hard use, theft and other disappearances.

Crops are subject to disease, pests, weather damage, etc.

Guerrilla activity at times in some regions exacerbates these problems.

For these reasons, appraisals of rural real estate and other agricultural assets must be made on a conservative basis if a lender is to maintain a reasonably healthy portfolio.

Lack of Project Analysis Capability among Commercial Banks. Only five finance companies ("financieras") and a few banks are reported to have any meaningful ability to analyze a project and evaluate it for purposes of long-term financing. Since few banks have the ability to perform project analysis, they usually do not attempt to develop feasibility studies -- nor do they require them from their customers. However, in the case of most refinancing facilities at the Central Bank, feasibility studies are required. Nonetheless, the private banks typically do not attempt to the analyze studies submitted by their clients but rather pass them on to the Central Bank with little analysis and comment of their own.

Few of the applicants for loans under refinancing facilities have the ability to develop well-conceived feasibility studies and instead rely on their experience and instinct to make their investment decisions. Consequently, most applicants for Central Bank credit lines must hire consultants to prepare the studies. There are reportedly about a dozen independent consultants in Guatemala who will attempt to produce feasibility studies, and several of these consultants generate good quality studies, but others do not. In any case, the Central Bank's Credit Department has seen fit in most such cases to involve itself in re-evaluating the feasibility studies, even though they come as part of a package of information in support of loans already approved by the private banks. This results in delays as the studies are re-analyzed and questions are resolved with the banks which, in turn, have to contact the applicants to clarify or seek additional information.

The Cost of Project Finance Compared to Traditional Bank Credit. Even if Guatemalan banks were willing and able to perform better project financing, there are cost deterrents for the borrower. If traditional financing methods are used, the borrower must confront the front-end costs of borrowing for a long period only once. The most significant of these costs are an appraisal of the collateral, the legal costs to prepare and register the documentation, especially the mortgage, and the documentary stamp tax of 3 percent on the amount of the credit. This kind of credit can be renewed indefinitely without having to incur any additional costs, except perhaps for minor legal fees for preparing the renewal document.

If, on the other hand, project financing is sought and the loan is to be amortized over time, then other costs must be incurred. If the funds are provided by an international donor agency, then a feasibility study will typically be required. This is an especially risky expense for the borrower because it must be incurred before a loan is approved and with no assurance of approval. The current rate for a feasibility study prepared by an

independent consultant in Guatemala is reported to range from about 1 to 3 percent of the amount of the proposed credit. Since Guatemalan banks do not routinely analyze the cash generation capability of a borrower, feasibility studies are of no relevance to them except as they might be required to obtain access to certain refinancing facilities at the Central Bank.

Over the long term, traditional credit may be periodically renewed with minimal cost, while project financing with amortization disappears over time so that the borrower then has to go through the process and expense of a new loan. However, it should be noted that prudent lending practices would result in a repetition of some of these expenses in any case. For example, a bank that lends against collateral and renews the loan without significant amortization should require periodic updating of the appraisal -- something that does not appear to take place routinely in Guatemala. In any case, it is clearly less costly for a borrower to obtain a credit facility collateralized by real estate or other assets and then to periodically renew the facility. However, this can lead to what are known as "evergreen loans" on the books of banks, as banks cannot know if their loans are liquid or could be amortized over a reasonable time if required.

Table IV.2 provides estimates of the various costs for traditional bank credit as compared to project financing.

Table IV.2

Costs of Borrowing

Item	Traditional Approach Req.	Cost (estimate)	Project Financing Req.	Cost (estimate)
Feasibility Study	No	N/A	Yes	1-3 percent of amount
Appraisal	Yes	1 percent or more of collateral Occurs at time of original credit	Yes	1 per. or more of collateral Repeats if new financing is requested
Legal Fees	Yes	Unknown Minimal for renewals	Yes	Unknown Repeats if new financing is requested
Collateral Registration	Yes	Unknown but occurs only at inception of credit facility	Yes	Unknown but is repeated if new financing is obtained after project loan is repaid
Documentary Stamp Tax	Yes	3 percent of credit at inception of facility	Yes	3 percent Repeated on future loans

Traditional Credit Attitudes of Guatemalan Bankers. Traditionally, granting of credit is based on three factors, often referred to as the three "C's" of credit, i.e., "character" (personal integrity and reputation of the borrower), "capital" (net worth of the borrower), and "capacity" (ability of the borrower to generate income to service credit). In Guatemala considerable emphasis is placed on character and capital. In some cases character is heavily based on family name, but this does not appear to be as important as it used to be. When evaluating capital, banks typically look for real estate that can be taken as collateral. For most part Guatemalan banks pay little attention to capacity. There are a few noteworthy exceptions, including most finance companies and a few banks. Development credit and project lending require evaluation of capacity, but many of the more traditional Guatemalan bankers appear to have no interest in

learning how to evaluate capacity. This may be due to the fact that, with previous government policies of controlled low interest rates, there was no incentive to evaluate capacity because it is relatively expensive to evaluate and enough low risk borrowers were available who could qualify for loans on the basis of character and capital.

Requirements for Information or Reluctance of Farmers. Agricultural producers, especially medium and small-scale ones, keep limited records and are rather unsophisticated in their business practices. They are unable and unwilling to provide the extensive financial and business information required to support a credit request for medium or long-term financing. Most of those willing to go through the process of obtaining a bank loan under a relending program such as the BID 529/OC-GU facility have had to hire independent consultants to prepare the required feasibility study and supporting financial information.

Bankers report that such applicants typically do not seek to obtain long-term project financing from any source. They are accustomed to borrowing on the strength of their names and available and acceptable collateral. They manage their farms by experience and instinct and not by the use of extensive and sophisticated financial and management planning and control techniques. They tend to be resistant to extensive paper work and to disclosing details about their finances. One can sympathize with this attitude since it takes time to educate this type of borrower to convince him that the rewards of this type of financing outweigh his perceptions of its disadvantages. Nonetheless, the fact that many agricultural producers do not like paper work and personal financial disclosure is not a valid reason for lenders to eliminate reasonable and prudent information requirements for loan applicants. Banks must rather work with those applicants who are willing to conform to information requirements and patiently educate other potentially creditworthy borrowers.

The Condition of Banks and Ability to Take Additional Risks

A review of recent financial information on banks and the comments of various individuals interviewed indicate that the banking system in Guatemala may be in poor financial condition and getting worse. There are various reasons for this, not the least being the decreasing value of the Quetzal, imminent interest rate increases, and bad loan portfolios. The condition of individual banks varies greatly, but several are technically bankrupt. This greatly diminishes their ability to take additional credit risk in their loan portfolios -- unless such banks adopt strategies of extreme risk taking because their owners have nothing left to lose.

There is considerable evidence to suggest that portfolios of many Guatemalan banks are replete with problem loans, i.e., loans

that are not paying as agreed, are uncollectible, or have already been subject to judicial action. This situation has considerable significance with respect to the ongoing ability of the banking system to respond to the legitimate credit needs of the entire economy, not just the agricultural sector. In a healthy system there is constant turnover in loan portfolios, interest is collected, loan losses are minimal, and bank capital grows enabling the system to increase lending. In an unhealthy system characterized by bad loan portfolios, bank capital is eroded through lack of profits and excessive loan losses. Bankers become fearful and more conservative in their lending practices than they might otherwise be -- unless, again, they adopt strategies of extreme risk taking for the reasons noted above.

The costs to the public increase as banks are intervened by the banking authorities and are kept in operation or liquidated and depositors paid off. If a bank reaches the point where it must be intervened by the Central Bank, problem loans will increase, and likewise the cost to the public of managing or liquidating the bank. The circumstances of intervention are never optimal for effective bank management, and many marginal borrowers will take advantage of the situation to avoid repayment of their loans. On the other hand, to allow unhealthy banks to continue to operate runs the risks that losses will mount even more rapidly, especially if bank owners adopt a high risk strategy. Moreover, such banks need to by replaced by banks that makes sound loans that appropriately serve all sectors of the economy, including even higher risk sectors such as agriculture.

In order to quantify the extent of loan portfolio problems, several interviews were conducted with Superintendency staff and with certain bankers. These confirmed that the portfolios of several banks have serious problems, although comments were generally based on intuitive notions as opposed to quantified data. Several individuals also readily agreed that the Superintendency lacks adequate supervisory power to take timely action with problem banks. If a bank is intervened, it is only after the damage is so severe that all capital has been dissipated and a considerable infusion of money has to be made -- or has already been made -- by the Central Bank. The Banco Inmobiliario is an extraordinary case in point and will be discussed in more detail below. The inadequacy of supervisory power derives from several causes, and a brief discussion of these causes follows.

Independent Audits of Banks. Independent bank audits are not mandatory in Guatemala, and, in any case, the quality of most independent bank audits is weak. The large banks typically use a quasi-independent firm to audit their books, where such firms are not completely independent because their only client is one bank. Only a few banks use the services of a major public accounting firm to audit their books, to prepare financial statements, and to render an opinion on the financial condition of the bank and its

conformity with generally accepted accounting principles. One major independent public accounting firm audits five banks, including one public sector bank and four private sector banks. Of the private sector banks, one is in formation and not yet operating, one is considered very sound and well managed (and is the only one for which the accounting firm issues a 'clean' opinion), one is in extremely poor condition, and the other is somewhere in between. Between the lack of high quality independent audits and the lack of authority of the Superintendency to make their loan classifications effective, it is not possible to rely on the quality and accuracy of financial statements for Guatemalan banks.

Loan Classification Procedures. In the United States and many other countries, bank loan portfolios are subject to periodic independent review and classification utilizing uniform industry-wide criteria. Such independent reviews are conducted by banking regulatory authorities during the course of their periodic examinations of banks, independent public accounting firms in the course of their annual audits of banks' financial statements, and by internal credit review departments organized with clear mandates and independent, direct to the board of directors reporting chains. In the case of small banks in the United States, independent credit reviews are frequently performed by outside consultants hired for this express purpose by their boards of directors. Findings of independent credit reviews are usually taken seriously by bank management and by regulatory authorities. In most cases the classifications and criticisms of loans and lending practices cannot be over-ruled in a self-serving manner by bank management.

The purpose for such credit reviews is obvious. Periodic, independent reviews of lending practices and individual loans provide a vehicle to facilitate the maintenance of healthy banks and the banking system as a whole. It facilitates the identification of unsound or unsafe practices and the detection of problems in time to permit the bank to take action to protect itself -- or for a regulatory authority to take prompt and effective action to discipline or intervene a bank with severe problems. It also facilitates the identification of incompetent or corrupt or poorly trained loan officers and bank managers.

In Guatemala, the Superintendency has the power and authority to perform periodic examinations of banks. Its examiners review loan portfolios as part of their routine examinations. They classify loans as "normal," "doubtful," or "loss," apparently using standard criteria. However, if the Superintendency classifies a loan as "doubtful" or "loss," and the bank's management does not agree to charge-off the loan, then there is an appeal process, and the bank does not have to charge-off the loan until its appeal has been heard and lost. Since such appeals are heard by the Monetary Board (an inappropriate function for the highest monetary authority in the country) appeals may not be heard until months or even a

year after the examination. By the time such appeals are considered, the bank may have collected the loan or, more likely, the loan will have deteriorated even further. For a bank with many bad loans and many appeals, the long delays inherent in this process permit a bad bank to become hopelessly insolvent. The public cost of intervening a bank therefore becomes much higher than it might have been if the Superintendency had been able to make its classification stick at the time of the examination so that the extent of portfolio problems would have been more obvious sooner.

Accounting for Uncollectible Loans. In the United States and many other countries, the generally accepted accounting practice is to create an allowance (reserve) for uncollectible loans by periodic charges to income which are credited to the allowance. Such charges are, within limits, tax deductible. This provides a financial incentive for banks to create and build an allowance that can absorb losses. This allowance can also provide clues as to the condition of the bank's loan portfolio. Allowances for loan losses can be created in Guatemala, but charges to earnings for this purpose are not tax deductible. A loss can be charged to earnings only after all legal remedies for collection of the loan have been exhausted, collateral has been repossessed and sold, and the original borrower or guarantor have been pursued for any deficiency. In other words, it is a difficult and lengthy process to make a tax deductible charge to earnings for a bad loan. Allowance for loan losses are thus not a good indicator of -- nor an adequate cushion for -- loan losses in Guatemala.

Financial Data and Indicators of Loan Portfolio Quality. A limited analysis was conducted of the most recent financial data available from the Central Bank, the "balances analíticos" of the banks as of September 30, 1989. The purpose was to attempt to have an indication of the scope of the problem. Several tables and exhibits containing the data analyzed, together with some relevant ratios, are shown in an annex to this report. However, before discussing the actual data, ratios, indicators and conclusions, the logic of the analysis of loan portfolio problems needs to be discussed. The flow of the process from when a loan, that eventually becomes uncollectible, is initially disbursed until cash is received from the sale of foreclosed collateral is described below. Balance sheet categories are listed as shown on the "balances analíticos" submitted to the Superintendency, and the most comparable accounting terms in the United States are shown in parentheses.

Phase	Balance Sheet Category	Comment
1	Inversiones en préstamos y en Documentos descontados - and - Documentos a cobrar en moneda extranjera (Loans, Discounts, Receivables in foreign currency)	A loan, discount or export document that is registered on the books of the bank, presumably with the expectation that it will be paid by the customer as agreed.
2	Préstamos vencidos - and - Documentos vencidos (Past-due loans and discounts)	A loan, discount or export document that becomes past due. The problem is that it cannot be determined from readily available information just how long an item in this category has been past due. To be considered past due, the loan need only be 1 day past due. Many loans have month-end billing dates. Many of these might be paid a few days after the beginning of the following month. These do not necessarily represent problems. On the other hand, a loan that is 90 days past due is most likely a problem.
3	Productos por cobrar: Intereses sobre préstamos Intereses sobre documentos descontados (Interest income receivable)	Interest has been registered as income, but not collected. Since banks in Guatemala are on cash accounting, not accrual accounting, this category represents income that has been registered but is potentially uncollectible.
4	Estimación: préstamos / documentos descontados / documentos a cobrar en moneda extranjera de dudosa recuperación (Allowance for loan and discount losses)	A loan is classified, either internally or by Superintendency examiners, as loss or doubtful. When an allowance is created in this category, it is considered to be a serious situation with little hope of recovery.
5	Activas extraordinarios	Legal action to collect the loan has been initiated and completed

	(Other assets owned)	and collateral has been repossessed. This is for most part a non-earning asset, typically real estate. A relatively large amount of other assets owned constitutes a burden for a bank since such assets typically yield little, if any, income and cause expenses for maintenance, repair, and disposal.
6	Deudores por ventas de activas (Receivables from sale of other assets owned)	Other assets owned that have been sold and short-term credit has been granted to the purchaser. The quality of such receivables is not known. Reportedly, when longer term credit is granted to a purchaser of such assets from a bank, then the credit is treated as a loan and is documented and registered on the books of the bank as a loan.

By examining the amounts in these categories on a bank's balance sheet, it is possible to estimate the extent of loan portfolio problems and to what degree these problems have advanced. Unfortunately, a detailed system of loan grading and classification and an ageing of past due loans is not available for portfolios as it would be in the United States. For this reason, conclusions as to gravity of the situation in any particular bank are somewhat tentative.

If a bank has a significant amount of past due loans, but only modest amounts in allowances for uncollectible loans and discounts, then problems may be at an early stage. Instead, however, the bank may be rolling over poor quality loans so that they cannot be identified as problems. If a bank has a significant amount in its allowances for uncollectible loans and discounts, then it can reasonably be assumed that the bank (or, more likely, the Superintendency examiners) has classified a substantial amount of loans as loss or doubtful. This is a sign of existing problems and worse problems to come.

If a bank has a substantial amount of other assets owned, it is an indication that the bank has had (and perhaps still has) serious loan problems that have led to legal actions to foreclose on loan collateral. This can become a potentially crushing load for a bank to carry, as explained above. Once the bank has obtained title to collateral (and registered it as other assets owned), these assets must be sold. Once this has been accomplished, the bank either receives cash (ideal), grants short-

term credit which is registered as receivables from sale of other assets owned, or grants long-term financing and registers this as a loan. A substantial amount in receivables from sale of other assets owned may or may not represent a problem, depending on the collectibility of the receivable, the agreed upon period for its repayment, and the amount of interest earned, if any. Nevertheless, a large quantity in this category is an indicator of the extent of previous bad loans, as it is the most advanced stage for bad loans. In all cases what constitutes considerable or substantial or large amounts must be related to the bank's net worth, as this is the cushion for absorbing losses.

Consider three cases.

1. The Banco Inmobiliario was intervened by the Central Bank some time ago. It is generally acknowledged to be the Guatemalan bank in the worst condition. Past due loans represent nearly half (46 percent) of its total portfolio and are nearly twice (190 percent) its total net worth (capital accounts). Its allowances for uncollectible loans are very modest, but many of the bad loans have already gone though the legal process. Other assets owned represent an incredible 79 percent of its net worth -- to which no other bank comes close. Receivables from sale of assets represent 61 percent of net worth. If all questionable accounts, i.e., past-due loans, interest income receivable, other assets owned and receivables from sale of other assets owned are compared to net worth for the Banco Inmobiliario, they amount to 330 percent of capital plus allowances for uncollectible loans. From this it should be clear why the bank was intervened and is considered to be the worst in the country.

2. At the other extreme might be the Banco de Exportaciones. It is a relatively new bank and, by all reports, a very healthy and well-managed institution. Past due loans represent 20 percent of its portfolio and 108 percent of its net worth, but with a reasonable explanation for even this level. Many of this bank's loans are for the financing of exports, the repayment of which derives from remittances from foreign purchasers that are used to liquidate loans to exporters. It is alleged, credibly, that the bank's past due loans are typically only a few days past due. Moreover, it has no allowance for uncollectible loans, no other assets owned and no receivables from sale of other assets owned. Thus the total of all questionable accounts is only its past due loans (plus an insignificant amount of interest receivable).

3. An example of a bank that is not in good condition but has not yet been intervened is Banco del Ejército. Past due loans represent a relatively modest 15 percent of its portfolio and 116 percent of its net worth. However, other assets owned

represent 8 percent of its net worth, and receivables from sale of other assets owned represent another 56 percent. The total of all its questionable accounts is 184 percent of capital plus allowances for uncollectible loans.

With the above examples as a guide, the data in Exhibits F and G can be reviewed to draw one's own conclusions. It seems clear that several banks are in serious financial condition due to high levels of problem loans. Moreover, these banks may deteriorate quickly and substantially in an environment of free interest and exchange rates.

With free interest rates it can be assumed that interest rates will eventually rise. Theoretically, deposit rates should rise so that real rates of return on deposits equal alternative rates on dollar denominated deposits -- plus an additional risk factor to compensate for the perceived risk in depositing funds in a bank in Guatemala. The point here is not to attempt to quantify how much rates will rise, but only to indicate that they will rise. As this happens, the least healthy banks, as perceived by depositors, will have to pay the highest rates to compete with the more healthy banks. This is due not only to risk perceptions but also to liquidity issues. Good banks attract good customers, both depositors and borrowers, and have a wider base of alternative deposits with which to fund their lending activities.

As rates rise for deposits, they will also rise for loans. Banks will adjust interest rates on existing portfolios as fast as underlying loan documents and maturity dates permit. However, there is a significant difference between interest expense for deposits and interest income for loans. A bank must pay interest on all interest bearing deposits, but it can only collect interest on loans to those borrowers who have the ability and willingness to pay. The implications of higher interest rates for weak banks are that interest expense will go up, interest income may go up, but the difference (net interest income) may decrease. This may not happen for those weak banks that are not highly dependent on interest bearing deposits as opposed to demand deposits. The degree to which net interest income declines, or even becomes negative, depends on just how high rates go and just how bad a particular loan portfolio is. Based on the data analyzed, there is good reason for concern with respect to certain banks. Table IV.3 illustrates the basis for this concern. As can be seen, it is not just the degree of past due loans in the portfolio, but rather the aggregate effect of all of the accounts that indicate problems.

Table IV.3

Indicative Ratios for Banks with Questionable Loan Portfolios

Bank	Past-due loans and discounts / total loans + discounts (percent)	Past due loans + Interest receivable + Other assets owned + Receivables from sale of other assets owned / Net worth + Allowance for losses (percent)
Cafe	26.6	204.8
Ejército	14.4	184.5
Granai & Townson	20.3	220.3
Inmobiliario	45.8	329.9
Metropolitano	20.5	263.2
BANDESA	25.0	168.2

CHAPTER V

THE ROLE OF COOPERATIVES IN RURAL FINANCE

Size and Membership of the Cooperative Movement

The Guatemalan cooperative movement is fundamentally rural based, with over 74 percent of cooperative members and almost 80 percent of cooperatives located outside of metropolitan Guatemala City. Over 170,000 families, approximately 10 percent of the rural population, belong to rural based cooperatives (Tables V.1 and V.2). These numbers are even higher when it is noted that two of the major credit unions listed in metropolitan Guatemala City, and accounting for almost half of urban credit union members, are actually rural based credit unions located just outside the city limits.

Credit unions dominate the cooperative movement. Almost 60 percent of all cooperative members are credit union members (Table V.3). Agricultural cooperatives are the next most important in terms of total membership, representing 24 percent of total cooperative members. Eleven percent of cooperative members belong to consumer cooperatives and slightly more than 6 percent belong to production, housing, transport and other types of cooperatives. Credit unions also tend to be much larger than other types of cooperatives, as they have almost 60 percent of total cooperative membership but only represent 20 percent of the total number of cooperatives. Agricultural cooperatives represent almost half of the total number of cooperatives, but have only 24 percent of total membership. Consumer, producer, housing, transport, and other cooperatives represent 31 percent of the total number of cooperatives but only 17 percent of total membership.

In rural areas, 94 percent of all cooperative members belong to credit unions or agricultural cooperatives. Sixty-three percent belong to credit unions although only 17 percent of the rural cooperatives are credit unions, and 31 percent belong to agricultural cooperatives although almost 60 percent of the rural cooperatives are agricultural cooperatives.

Condition of the Cooperative Movement

Although Guatemala has a sizeable cooperative movement with over a thousand cooperatives throughout the county, the movement cannot be considered healthy. Moreover, firm data about the overall health of the cooperative movement are difficult to find. Nonetheless, a good analysis was done in 1985 by Peter Marion who analyzed the financial viability of eighty affiliates of the Guatemalan Credit Union Federation (FENACOAC) and concluded that only sixteen (20 percent) could be considered type A credit unions.

Table V.1

MEMBERSHIP IN COOPERATIVES, BY TYPE, BY REGION, 31-10-1988

REGIONS	AGRICULT.	CRE. UNIONS	PRODUCTION	CONSUMPTION	HOUSING	TRANSPORT	OTHER	TOTAL
I METROPOLITAN	1,186	23,887	456	19,042	5,787	1,941	238	52,537
II NORTE	8,462	11,979	133	681	81	142		21,478
III NOR-ORIENTE	2,630	23,119	47	90	308			26,194
IV SUR-ORIENTE	3,807	6,722	43	230	24	98		10,924
V CENTRAL	9,539	10,321	326	459	1,059	73	20	21,797
VI SUR-OCCIDENTE	14,158	26,599	1,247	2,106	1,126	25		45,261
VII NOR-OCCIDENTE	10,861	25,356	667	493	401			37,778
VIII PETEN	1,636	820		170				2,626
TOTAL REGIONES	52,279	128,803	2,919	23,271	8,786	2,279	258	218,595

Source: CONFECOOP

Table V.2

NUMBER OF COOPERATIVES, BY TYPE, BY REGION, 31-10-1988

REGIONS	AGRICULT.	CRE. UNIONS	PRODUCTION	CONSUMPTION	HOUSING	TRANSPORT	OTHER	TOTAL
I METROPOLITAN	22	67	13	44	37	23	4	210
II NORTE	77	10	6	15	3	3	0	114
III NOR-ORIENTE	36	21	2	2	2	0	0	63
IV SUR-ORIENTE	44	10	2	4	1	2	0	63
V CENTRAL	75	11	9	11	10	2	1	119
VI SUR-OCCIDENTE	102	46	24	46	14	1	0	233
VII NOR-OCCIDENTE	93	32	16	12	6	1	0	160
VIII PETEN	36	7	0	3	0	0	0	46
TOTAL REGIONES	485	204	72	137	73	32	5	1,008

Source: CONFECOOP

(Type A credit unions are classified as solvent and well functioning.) He concluded that thirty-seven (46 percent) credit unions were insolvent and subject to liquidation and the remaining twenty-seven (34 percent) were salvageable given the right kind of support (Table V.4). These results were informally corroborated by technicians in various cooperative support and regulatory institutions. Most agreed, off-the-record, that no more than 10 to 15 percent of all cooperatives were well-run, viable institutions, though many others, according to these informants, could be rehabilitated with the right assistance.

The "Best 100" Cooperatives

After in depth but informal discussions with technicians from several organizations, a list of the "Best 100" cooperatives in Guatemala was developed, and the recent financial performance of these cooperatives was examined as a base for understanding the potential of the cooperative movement for financing rural development activities. This list is neither scientific nor representative in a statistical sense. Nonetheless, the cooperatives that were put on this list had been mentioned by technicians from different organizations so that the list does have validity at least in terms of representing informed opinions from different sources.

Total membership of the "Best 100" cooperatives (122,041) compared to total membership of all 1008 cooperatives in Guatemala (218,595) shows that 56 percent of all cooperative members belong to the "Best 100" cooperatives (Table V.5). In fact, the "Top 40" cooperatives, which represent only 4 percent of the cooperatives in Guatemala, have a membership that equals 40 percent of total cooperative membership. Moreover, of the 84,886 members of the "Top 40" cooperatives, only 3,165 (3.7 percent) are members of urban cooperatives. If 122,041 members belong to the "Best 100" cooperatives, then 96,554 members belong to the other 909 cooperatives for an average of 106 members per cooperative. If, according to most informed estimates, 35 percent of all cooperatives are completely insolvent and unsalvageable, then about 37,400 members would have to be subtracted from total cooperative membership of 218,595. This would leave 59,154 members in the remaining cooperatives. If, as more pessimistic informed sources indicate, 50 percent of all cooperatives are completely insolvent, then there would be only 43,130 members in the remaining cooperatives. This implies that the "Best 100" cooperatives represent anywhere between 67 and 74 percent of the membership of viable cooperatives.

Total Assets of the "Best 100" Cooperatives. The total assets of the "Best 100" cooperatives were valued at approximately 83 million quetzales using available year-end balance sheet data from 1988 (Table V.6). Credit unions dominate, accounting for 50

Table V.3

PERCENTAGE DISTRIBUTION OF COOPERATIVES AND MEMBERS FOR URBAN AND RURAL COOPERATIVES, BY TYPE, 1988

		AGRICULT.	CRE. UNIONS	PRODUCTION	CONSUMPTION	HOUSING	TRANSPORT	OTHER	TOTAL
TOTAL MEMBERS		52,279	128,803	2,919	23,271	8,786	2,279	258	218,595
	(%)	24	59	1	11	4	1	0	100
URBAN		1,186	23,887	456	19,042	5,787	1,941	238	52,537
	(%)	2	45	1	36	11	4	0	100
RURAL		51,093	104,916	2,463	4,229	2,999	338	20	166,058
	(%)	31	63	1	3	2	0	0	100
TOTAL COOPERATIVES		485	204	72	137	73	32	5	1,008
	(%)	48	20	7	14	7	3	0	100
URBAN		22	67	13	44	37	23	4	210
	(%)	10	32	6	21	18	11	2	100
RURAL		463	137	59	93	36	9	1	798
	(%)	58	17	7	12	5	1	0	100

Table V.4

CLASSIFICATION OF CREDIT UNIONS AFFILIATED WITH FENACDAC

REGIONS	NUMBER OF EACH TYPE OF CREDIT UNION				
	A	B	C	OTHER	TOTAL
I	3	5	6	3	17
II	4	3	7	0	14
III	1	6	2	2	11
IV	3	8	10	1	22
V	3	4	3	0	10
VI	2	0	3	0	5
TOTAL	16	26	31	6	79
PERCENT	20	33	39	8	100

Source: Marion, 1985

Table V.5

MEMBERSHIP OF COOPERATIVE MOVEMENT AND "BEST 100" COOPERATIVES, BY REGION, 1988

REGIONS	NUMBER OF COOPERATIVES GLOBAL (#)	BEST 100 (#)	BEST 100 (%)	TOTAL MEMBERSHIP GLOBAL (#)	BEST 100 (#)	BEST 100 (%)
I METROPOLITAN	210	14	7	52,537	14,298	27
II NORTE	114	8	7	21,441	10,344	48
III NOR-ORIENTE	63	12	19	26,194	26,330	101
IV SUR-ORIENTE	63	3	5	10,924	2,679	25
V CENTRAL	119	21	18	21,797	13,183	60
VI SUR-OCCIDENTE	233	30	13	45,261	30,427	67
VII NOR-OCCIDENTE	160	8	5	37,778	24,424	65
VIII PETEN	46	3	7	2,626	356	14
TOTAL REGIONES	1,008	99	10	218,558	122,041	56

Source: Comparative Balance Sheet and Income Statements of cooperatives

Table V.6

TOTAL ASSETS OF "BEST 100" COOPERATIVES, BY TYPE, BY REGION, 1988
(in thousands of quetzales)

REGIONS	AGRICULT. CRE. UNIONS	PRODUCTION	CONSUMPTION	HOUSING	TRANSPORT	OTHER	TOTAL	(%)
I METROPOLITAN	4,424	7,330	1,329	1,685			14,768	18
II NORTE	194	6,178	35		43		6,450	8
III NOR-ORIENTE	2,837	16,265					19,102	23
IV SUR-ORIENTE	1,556	816					2,372	3
V CENTRAL	9,313	3,387		1,267			13,967	17
VI SUR-OCCIDENTE	5,613	8,69[illegible]	65 465	1,730			16,564	20
VII NOR-OCCIDENTE	2,413	7,220	55				9,688	12
VIII PETEN	44	160				18	222	0
TOTAL REGIONES	26,394	50,047	65 1,884	4,682	43	18	83,133	100

Source: Comparative Balance Sheet and Income Statements of cooperatives

million quetzales in assets (60 percent), while agricultural cooperatives accounted for more than 26 million quetzales in assets (32 percent). All other types of cooperatives accounted for only 6.7 million quetzales in assets (8 percent). Rural cooperatives had assets totalling 68 million quetzales (82 percent). Considering only agricultural cooperatives and credit unions, 86 percent of their assets are located in rural areas. In the case of credit unions, this figure is probably even higher due to the two large Guatemala City credit unions already mentioned that are actually rural based. If the "Best 100" selection represents between 67 and 74 percent of the members of viable cooperatives, then the total assets of the viable cooperative movement would be somewhere between 112 and 124 million quetzales.

Total Loan Portfolio of "Best 100" Cooperatives. The total loan portfolio of the "Best 100" cooperatives equaled 42.7 million quetzales at year-end 1988 (Table V.7). Again, rural cooperative predominate, accounting for 38 million quetzales (87 percent) of the total. Credit unions had a total loan portfolio of 29 million quetzales (69 percent), while agricultural cooperatives had a total of 10 million quetzales (24 percent). All other cooperatives had a total loan portfolio of 3 million quetzales (7 percent). Again, if the "Best 100" cooperatives represent between 67 and 74 percent of the members of viable cooperatives, then the total loan portfolio of the viable cooperative movement would be somewhere between 58 and 64 million quetzales.

Other than commercial banks, the major formal lender in rural areas for productive activities is BANDESA, Guatemala's agricultural development bank. BANDESA has a portfolio of almost 200 million quetzales, of which 110 million quetzales can be classified as fully performing on time portfolio. Another 34 million quetzales has been classified as portfolio with some late payments. The remaining 56 million quetzales are problem loans, much of which BANDESA states is ultimately recoverable. The total loan portfolio of the "Best 100" cooperatives amounts to almost 40 percent of the value of BANDESA'S healthy portfolio. Table V.8 shows the distribution by region of BANDESA'S healthy loan portfolio in comparison with the "Best 100" total loan portfolio. BANDESA lent over 95 million quetzales during 1988, with almost one third going to the Sixth Region (Quetzaltenango). The pattern of lending during 1988 closely reflects the distribution of the entire portfolio as can be seen from Table V.9. The total lent by the "Best 100" cooperatives was not available.

Liabilities and Capital Structure of "Best 100" Cooperatives. In the sample of the "Best 100" cooperatives, member share capital and undistributed earnings are equal to about half of total liabilities and capital. In other words, about half of total cooperative assets are financed by member share capital. Liabilities constitute the other half (Table V.10). While the capital structure does not vary significantly by type of

Table V.7
TOTAL LOAN PORTFOLIO OF "BEST 100" COOPERATIVES, BY TYPE, BY REGION, 1988
(in thousands of quetzales)

REGIONS	AGRICULT.	CRE. UNIONS	PRODUCTION	CONSUMPTION	HOUSING	TRANSPORT	OTHER	TOTAL	(%)
I METROPOLITAN	343	4,190		62	1,006			5,601	13
II NORTE	49	2,129		17		15		2,210	5
III NOR-ORIENTE	1,028	7,722						8,750	20
IV SUR-ORIENTE	951	376						1,327	3
V CENTRAL	3,884	2,451			709			7,044	16
VI SUR-OCCIDENTE	2,302	6,005	11	358	935			9,611	23
VII NOR-OCCIDENTE	1,592	6,349		0				7,941	19
VIII PETEN	15	153					45	213	0
TOTAL REGIONES	10,164	29,375	11	437	2,650	15	45	42,697	100

Source: Comparative Balance Sheet and Income Statements of cooperatives

Table V.8

COMPARISON OF BANDESA "HEALTHY" PORTFOLIO AND "BEST 100" COOPERATIVE PORTFOLIOS

REGIONS	B A N D E S A (Q 000)	(%)	"BEST 100" COOPERATIVES (Q 000)	(% all coops	(% AG. Coops
I METROPOLITAN	17,023 *	15	5,601	13	3
II NORTE	9,303	8	2,210	5	1
III NOR-ORIENTE	10,778	10	8,750	20	10
IV SUR-ORIENTE	18,059	16	1,327	3	9
V CENTRAL	25,448	23	7,044	16	38
VI SUR-OCCIDENTE	12,179	11	9,611	23	23
VII NOR-OCCIDENTE	11,212	10	7,941	19	16
VIII PETEN	6,163	6	213	0	0
TOTAL REGIONES	110,165	100	42,697	100	100

* home office loans to other regions included

Source: BANDESA, 10-1989

LOANS GRANTED BY BANDESA DURING 1988, BY REGION

REGIONS	FIDECOMISO (Q 000)	FIDECOMISO (%)	BANCARIO (Q 000)	BANCARIO (%)	TOTAL (Q 000)	TOTAL (%)
I METROPOLITAN	503	1	1,246	2	1,749	2
II NORTE	3,164	8	5,457	9	8,621	9
III NOR-ORIENTE	3,103	8	6,788	12	9,891	10
IV SUR-ORIENTE	5,699	15	15,305	26	21,004	22
V CENTRAL	3,290	9	7,385	13	10,675	11
VI SUR-OCCIDENTE	13,239	35	16,029	28	29,268	31
VII NOR-OCCIDENTE	5,992	16	3,508	6	9,500	10
VIII PETEN	2,447	7	2,182	4	4,629	5
TOTAL REGIONES	37,437	100	57,900	100	95,337	100

Source: BANDESA, 1988

Table V.10

CAPITAL AND LIABILITIES STRUCTURE OF "BEST 100" COOPERATIVES, BY COOPERATIVE TYPE, 1988

	AGRICULT. CRE. UNIONS	CONSUMPTION	HOUSING	OTHER	TOTAL
LIABILITIES	12,574	25,638	547	3,774	60	42,593
LOANS	8,720	13,741	31	3,171	1	25,664
SAVINGS	214	8,903	64	11	8	9,200
OTHER	3,640	2,994	452	592	51	7,729
CAPITAL	12,820	24,003	1,336	1,168	93	39,420
DONATIONS	945	368	24	67	23	1,427
SHARE CAPITAL	11,345	20,059	1,055	824	40	33,323
UNDISTR. EARNINGS	530	3,576	257	277	30	4,670
TOTAL CAPITAL AND LIABILITIES	25,394	49,641	1,883	4,942	153	82,013

Source: Cooperatives Balance sheet and income statements

cooperative, the liabilities structure does. For agricultural cooperatives, loans to cooperatives constitute almost 70 percent of total liabilities, while for credit unions loans constitute only 54 percent. While member savings are insignificant for agricultural cooperatives (2 percent), they constitute a vital source of funds for credit unions (35 percent). This difference is even more marked when it is noted that other liabilities are mostly goods on consignment. Adjusting for this, 98 percent of agricultural cooperative liabilities come in the form of loans, while only 65 percent of credit union liabilities originate from external lenders.

External Finance for the Cooperative Movement

According to CONFECOOP, the confederation of Guatemalan cooperative federations, the Guatemalan Government has invested over 51 million quetzales in the cooperative movement (Table V.11). Approximately 30 million quetzales has been channelled through BANDESA, 11.5 million quetzales through BANVI, almost 9 million quetzales through CORFINA, and 0.7 million quetzales through CHN. Almost the entire CORFINA portfolio (98 percent) is currently in arrears and under renegotiation while almost the entire BANVI and CHN portfolios (98 percent) are healthy. Both BANDESA and CORFINA lend for productive purposes, mostly for agriculture and mostly to agricultural cooperatives. Credit unions currently receive outside funding from the IDB through COLAC in a US$6 million loan which begins to be amortized during 1990.

BANDESA has been the primary lender to the agricultural cooperative movement during most of the last 15 years. Table V.12 tracks total loans made by BANDESA to the cooperative movement since 1971. Clearly, the peak years were between 1976 and 1981 with a brief upsurge again in 1984. During each of these years, BANDESA disbursed between 3 and 8 million quetzales to cooperatives, but in later years this amount has fallen to less than 2 million quetzales annually.

Currently, 13 percent of the entire BANDESA portfolio is placed with the cooperative movement (Table V.13). Approximately 32 percent of BANDESA's cooperative portfolio is in arrears, compared to 27 percent of its total portfolio, so that on average BANDESA's cooperative portfolio performs only slightly worse than its entire portfolio. In addition, it appears that BANDESA direct loans to cooperatives are more risky (44 percent in arrears) than loans made to federations and other group organizations (25 percent in arrears). Nevertheless, BANDESA loans to cooperative federations and other groups are relatively recent and long term, while loans to cooperatives are relatively older. Since BANDESA does not consider a loan to be delinquent unless its term has expired, the BANDESA loans to cooperative federations and other groups may not necessarily perform better in the longer run.

Table V.11

STATE FINANCING OF COOPERATIVE MOVEMENT, 31-4-1980

INSTITUTION	TOTAL PORTFOLIO	CURRENT	LATE	LOAN LOSSES
	(thousands of Quetzales)			
BANDESA	30,277	13,057	12,068	5,152
CORFINA	8,762	165	8,285	312
BANVI	11,461	11,266	195	0
CHN	719	719	0	0
TOTAL	51,219	25,207	20,548	5,464

Source: CONFECOOP

Table V.12

TOTAL LOANS TO COOPERATIVE MOVEMENT BY BANDESA

YEAR	NUMBER	(Q 000)	AVERAGE
1971	13	613	47
1972	16	1,497	94
1973	19	1,790	94
1974	39	3,290	84
1975	37	3,914	106
1976	55	8,160	148
1977	29	3,326	115
1978	35	6,632	189
1979	20	6,462	323
1980	20	2,783	139
1981	25	3,633	145
1982	25	1,275	51
1983	33	2,460	75
1984	33	5,895	179
1985	55	1,028	19
1986	132	1,422	11
1987	78	2,047	26
TOTAL	664	56,227	85

A more detailed analysis of BANDESA's cooperative portfolio, carried out in May 1988, indicates that only 23 percent of loans were effectively on time (Table V.14). Meanwhile, 22 percent had been given time extensions to be on time, while 3 percent needed both more time and new financing to be on time. Fully 51 percent were considered to be problem loans, more than half of which were either already being written off or in the process of recovery through legal means.

Potential of Cooperatives for Financing Rural Development

Rural areas in Guatemala have enormous financial potential, in spite of the generally low incomes of most families. Rural Guatemala may have even greater levels of liquidity than rural areas in most other Latin American countries because of the importance of remittances from family members who work outside of the country, mainly in the United States. Preliminary data from a marketing study undertaken for FENACOAC affiliates show that in some areas as many as 40 percent of rural families receive remittances (Table V.15). Remittances averaged Q1,598 annually for the eight areas studied, and on average 20 percent of families studied received this type of support. To put this in perspective, average loan sizes for credit union members in the same eight communities was Q1,918, and 34 percent of members currently had loans.

Small borrowers in rural Guatemala do not have many options to finance productive activities. This same marketing study revealed that even credit union members had to resort mostly to internal finance through savings or to borrowing from informal lenders to purchase farms or to start microbusinesses. Non-credit union members had virtually no alternatives other than self-generated savings or informal lenders. Almost 70 percent of credit union members financed their land purchases with personal savings (56 percent), loans from private individuals (6 percent) or other sources (7 percent). Eighty-six percent of non-credit union members financed their land purchases with personal savings (78 percent) or other sources (8 percent) (Table V.16). Only 10 percent of credit union members and non-members financed such purchases through BANDESA, and virtually none (2 percent) had access to private bank loans (Table V.17).

Of the forty-five credit union members who had loans for agricultural production, twenty-eight borrowed from credit unions and only four borrowed from banks. Eleven (24 percent) borrowed from informal lenders. Of the twenty-six non-members, fourteen (54 percent) borrowed from informal lenders and ten (39 percent) borrowed from banks (Table V.17). Even less formal credit is available outside of credit unions for the start-up of microbusinesses. Of the 62 individuals with loans for the start

Table V.13

RELATIVE PARTICIPATION AND PERFORMANCE OF COOPERATIVE PORTFOLIO WITHIN BANDESA
TOTAL PORTFOLIO, 31-9-89
(millions of Quetzales)

STATUS	TOTAL BANDESA PORTFOLIO	LOANS TO COOP MOVEMENT	TO COOPS	TO FEDERATION	TO GROUPS
CURRENT	140	18	6	11	1
IN DEFAULT	51	8	5	4	0
TOTAL PORTFOLIO	191	26	10	15	1
DEFAULT PERCENT	27	32	44	25	25

Source: BANDESA

Table V.14

STATUS OF BANDESA LOANS TO COOPERATIVES, BY PROGRAM FUND, 31-5-1988

PROGRAM FUND	A ON-TIME	B EXTEND TIME	C MORE TIME NEW FINANCE	D LEGAL PROCEEDINGS	E LOAN LOSSES WRITTEN OFF	NE NOT INCLUDED	TOTAL LOANS
030	1	0	1	0	0	0	2
036	18	21	1	14	10	18	82
058	3	1	1	0	0	2	7
204	0	1	0	0	1	0	2
460	2	2	0	4	2	1	11
520	2	7	0	6	10	7	32
630	3	5	2	1	1	4	16
BANC	3	2	0	0	5	1	11
BID	10	1	0	2	0	0	13
BNA	0	0	0	0	3	3	6
COOP	0	4	1	1	0	0	6
FEER	11	1	0	1	0	0	13
FE	0	3	0	1	3	0	7
LIC	2	4	1	3	2	0	12
SCICAS	0	1	1	3	1	16	22
TOTAL LOANS	55	53	8	36	38	52	242
PERCENT	23	22	3	15	16	21	100
OUTSTANDING BALANCES	3,000	2,727	693	1,112	1,449	1,004	9,985
PERCENT	30	27	7	11	15	10	100

Source: Diagnostico de la Cartera BANDESA-Movimiento Cooperativo, CONFECOOP, INACOOP, BNADESA

REMITTANCES RECEIVED FROM FAMILY MEMBERS WORKING AND LIVING OUT OF THE RURAL HOME, OCTOBER 1989

REGION/MUNICIPIO	AVERAGE REMITTANCES	AVERAGE LOAN SIZE	PERCENT FAMILIES RECEIVING REMITTANCES	PERCENT MEMB RECEIVING LO
VI SALCAJA	1,207	1,865	38	48
VI SOLOLA	500	655	13	67
VI MAZATENANGO	2,422	2,050	9	21
V TIQUISATE	1,848	902	56	12
I AMATITLAN	1,176	2,133	22	8
III TECULATAN	4,218	1,887	6	58
III ESQUIPULAS	1,356	5,538	20	34
II COBAN	275	930	6	20
TOTAL AVERAGE	1,598	1,918	19	34

Source: Richards, 1989

Table V.16

SOURCES OF CAPITAL FOR LAND PURCHASE IN RURAL GUATEMALA, 1989

SOURCE	C.U. MEMBERS	NON-MEMBERS	AVERAGE LOAN (Q 000)
PERSONAL SAVINGS	30	39	
LOANS			
COOPERATIVE	11	1	1,882
BANDESA	5	5	1,525
PRIVATE BANK	1	1	3,625
INFORMAL LENDERS	3	2	850
OTHER	4	2	
TOTAL SOURCES	54	50	

Source: Richards, 1989

up of microbusiness, 24 (39 percent) borrowed from credit unions and 34 (55 percent) borrowed from informal lenders. The remaining 4 (6.5 percent) borrowed from banks or other cooperatives (Table V.17). Of the 291 microbusinesses included in the study, 75 percent were started exclusively with the personal savings of the owner.

In rural areas, BANDESA's portfolio for agricultural production (198 million quetzales) is far greater than the cooperative movement's (between 26 and 35 million quetzales). BANDESA's infrastructure for capturing time and savings deposits is also far greater. In many small rural towns, the BANDESA branch offices exists solely for the purpose of receiving deposits and is the only viable formal financial institution that exists. Time and savings deposit data for BANDESA show that it has mobilized savings of over 117 million quetzales, 70 percent of which come from rural branch offices (Table V.18). Time and savings deposits finance 60 percent of BANDESA's loan portfolio.

The "Best 100" cooperatives had mobilized only 9 million quetzales in member savings, apart from the almost 40 million quetzales in member share capital. However, share capital should not really be considered as voluntary savings since it represents a claim on future services (e.g., a latent demand for loans). Nevertheless, the cooperative movement, especially the "Best 100" cooperatives, represents an important contribution to agricultural lending for small borrowers. What may be even more important, however, is the role cooperatives play in financing non-agricultural rural activities, many of which are productive. Development specialists have long underestimated the importance of non-farm productive activities. In the FENACOAC marketing study, the author actually found more non-farming productive activities than farming activities. There are virtually no other formal financial institutions besides cooperatives available in rural areas to finance these non-farm activities.

A Strategy for Deepening Rural Financial Markets Through Cooperatives

Guatemala possess from one to two hundred well functioning, solvent cooperatives in rural areas. These cooperatives account for a sizeable percentage of rural lending by formal financial intermediaries and have the potential, with the right kind of support, to reach even greater numbers of small borrowers. This support must, however, be carefully crafted and judiciously applied and should be given only to those who are truly ready and interested in receiving it. Those who wish to provide effective assistance will have to distance themselves from the official cooperative movement, which is not healthy, and focus on those individual cooperatives within the movement that are healthy. Only then will the cooperative concept be able to survive and prosper.

Table V.17
SOURCES OF LOANS FOR POOR BORROWER'S PRODUCTIVE ACTIVITIES IN RURAL G

SOURCES	AGRICULTURAL PRODUCTION		MICRO-BUSINESS START-UP
	C.U. MEMBERS	NON-MEMBERS	
CREDIT UNION	28	0	24
OTHER COOP	2	2	2
BANKS	4	10	2
INFORMAL LENDERS	11	14	34
TOTAL SOURCES	45	26	62

Source: Richards, 1989

Table V.18
SAVINGS AND TIME DEPOSITS IN BANDESA, BY REGION, 31-9-1989

REGIONS	SAVINGS ACCOUNTS NUMBER	SAVINGS ACCOUNTS (Q 000)	TIME DEPOSITS NUMBER	TIME DEPOSITS (Q 000)	TOTAL DEPOSITS NUMBER	TOTAL DEPOSITS (Q 000)
I METROPOLITAN	906	481	570	793	1,476	1,274
Central Office	5,524	23,065	4,760	13,567	10,284	36,632
II NORTE	6,098	5,209	760	1,300	6,858	6,509
III NOR-ORIENTE	11,028	16,056	960	1,914	11,988	17,970
IV SUR-ORIENTE	14,609	20,831	1,090	2,189	15,699	23,020
V CENTRAL	6,726	7,418	829	2,423	7,555	9,841
VI SUR-OCCIDENTE	7,892	7,429	1,524	2,402	9,416	9,831
VII NOR-OCCIDENTE	3,772	4,630	645	786	4,417	5,416
VIII PETEN	2,351	1,885	656	1,188	3,007	3,073
TOTAL REGIONES	58,906	87,004	11,794	26,562	70,700	113,566

Source: BANDESA

First, the best cooperatives must be identified on the basis of several factors. The best cooperatives have a strong participation base in which the members share common economic interests and a desire to work in common to advance those interests. They have a clear focus and are not distracted by a myriad of interesting, but not central, services that often cost more than they generate in revenue.

One clear example of this in Guatemala is the relative success of the fertilizer cooperatives associated with FECOAR. These six cooperatives are all included within the "Best 100" cooperatives. The best of these six cooperatives, the "12 de Octubre," does almost everything right that is necessary in order to have a healthy institution. The "12 de Octubre" is managed like a business and actually shows a profit. The "12 de Octubre" feels its role is to provide a service and provide it well. That service is the provision of fertilizer and a better quality for a good price. Although it also provides minimal threshing services and sales of agricultural inputs, management expresses reservations about expanding these services. They feel comfortable with what they are doing -- which is ultimately the best support any institution can provide to its clients.

Management claims a zero default rate for loans granted during the four years since the cooperative took drastic actions to improve its portfolio performance. It has achieved these results by sticking to the basics and by incorporating an effective, community based borrower selection and loan repayment mechanism. The cooperative formed solidarity groups on a community level that approve loans to group members and collect payments, pressuring for repayment in the case of tardiness. The group does not receive a new loan if it has not repaid its prior obligation in full. If someone does not repay, the group pays that person's part and may then eliminate him from future loans. This mechanism is effective because the group chooses its own members and approves the loans. Members of a rural community are far more capable of evaluating a member's willingness and ability to repay than is a city based agronomist or community worker. This mechanism has successfully been used around the world in microbusiness credit programs which reach landless rural poor or urban street vendors with no collateral.

The credit union movement has some of the best cooperatives in Guatemala. Some of these are even sometimes referred to as banks. Technicians claimed that two or three of the best credit unions had actually driven the banking competition out of their respective towns. This implies that these credit unions have understood their nature as financial intermediaries, mobilizing savings and making loans, putting together net savers with net borrowers. Most credit unions fail because members wish to be net borrowers, and the credit union is unwilling to implement the

policies necessary to attract the savings of net savers among members, preferring instead to seek external financing through the international cooperative movement or the public sector.

If development institutions wish to strengthen the cooperative movement then they must jettison those cooperatives that do not understand the fundamental principles of sound cooperativism. Cooperatives must grow from the ground up and not as a result of some external offer of free or low cost resources. Start up or bail out funds should be used with extreme caution and only where success is virtually guaranteed because of the strength of the cooperative group and the broad base of participation enjoyed by its membership.

Each actor should stick to fundamentals. Cooperatives are simply businesses that have been formed to provide services which, for specific reasons, have not been provided by individualistic market forces. Cooperative federations are groups of cooperatives banded together to lobby on behalf of their members. Cooperative confederations are groups of federations banded together to lobby on behalf of the entire cooperative sector. Federations and confederations are essentially political organizations, not financial intermediaries. When they are used as financial intermediaries, they will frequently make distributive choices about the funds that they manage on political bases and not on technical merit. Financial intermediaries should be technical organizations that decide distributive questions on strict technical merit. There are no independent, technically managed financial intermediaries in Guatemala for cooperatives.

Organizations, such as INGECOOP, that are created to regulate cooperatives must have the power and the political support to carry out their functions effectively. Cooperatives that act as financial intermediaries by mobilizing savings and making loans cannot be expected to regulate themselves, as they can be subject to the same potential problems as banks if left unregulated and unsupervised. Nonetheless, the government institutions that may be assigned the roles of regulation and supervision for credit unions and other types of cooperatives have no particular reason to provide financial services to them. A lender of last resort function is possible, like that normally carried out by central banks, but considerable caution must be used not to fall into the trap of attempting to bail out insolvent financial institutions as so many central banks have.

Donors who wish to deepen rural financial markets through the cooperative movement should realize that infusions of capital into the movement is not necessarily the best alternative. In the first stage, donors should focus attention on projects designed to modernize the cooperative sector and strengthen the already strongest among the cooperatives. Even the relative strongest are typically less well managed than an average bank or finance company. Once there is a solid management base, a workable understanding on the part of cooperative

membership of basic philosophical and management principles, and involved and dynamic leadership, then external financing can be effective. However, such external financing should never exceed a predetermined percentage of member capital and savings in order not to undermine the basic incentives that maintain a well-functioning group free of opportunistic behavior.

In summary, the cooperative movement in Guatemala has important potential for deepening rural financial markets, and this potential can be effectively supported if donor agencies focus on the best among those operating outside of Guatemala City. The process will be medium term (three to five years) and politically difficult since it will mean providing minimal support to the most needy. The potential of the most needy cooperatives to survive is nonetheless so limited that the resources would be completely wasted and ultimately the best cooperatives would be dragged down with the mediocre ones. Moreover, those cooperatives that are viable within the cooperative movement probably represent the only significant formal sector financial option in rural areas that is available for many development activities involving small scale producers.

CHAPTER VI

INFORMAL FINANCE IN LARGER RURAL CENTERS

Introduction

As a number of studies on informal financial markets have indicated, informal financial activity in urban areas (Guatemala City) is well developed and widespread. Whether informal financial markets have the same importance in rural areas outside the capital was yet undetermined. Thus this study attempted firstly to discover whether informal financial markets play the same important role that they apparently play in urban areas. As to determine the extent and magnitude of informal financial markets the investigation team of this segment of the informal financial markets assessment sought to find larger informal financial institutions, i.e. those institutions making relatively large numbers of transactions (at least 100 per year) and lending relatively large amounts (lending in thousands of quetzales). For these reasons the study concentrated on locating informal financial institutions in the larger towns and cities of rural Guatemala including capitals of departments and representative economic capitals of certain regions.

Additionally, in an attempt to discover any inter-regional differences in the degree of informal financial activity and the modes of operation of informal financial institutions the study assumed a broader scope by selecting towns and cities from various different regions and departments of the country. Consequently, the study investigated informal financial institutions of towns and cities in four regions of Guatemala: the west, the north, the east, and the central. From the western region Quezaltenango, Almolonga, and Coatepeque were recognized as representative capitals. In the North near the Peten, Coban and Salama were studied. The Eastern portion of the study included Jutiapa, Asuncion-Mita, Jalapa, and El Progreso. In the central region, in the department of Santa Rosa, Barbarena, Cuilapa, and Chiquimulilla were visited.

Information was collected through a series of interviews with both clients and operators of informal financial institutions. Generally, initial interviews were held with individuals who had used informal financial services themselves or individuals who had knowledge of others who had used informal financial services. With the information obtained during initial interviews, operators of informal financial institutions were then located and interviewed. Specifically, among those interviewed were marketing agents, marketing representatives of exporters, farmers, government workers, professional moneylenders, microentrepreneurs, lawyers, accountants, and local merchants.

Clients and past clients of informal financial institutions

rarely hesitated to give information about their transactions with informal agents. In certain towns, however, arrangements of interviews with operators of informal financial institutions were made more difficult as some feared the consequences of disclosing information concerning their operations despite assurances that there would be no consequences. In many cases, however, particularly in the eastern region, operators were quite open in revealing information concerning their operations. Thus the process of collecting information varied somewhat from region to region in that information from certain areas reflected more the experiences of clients as opposed to operators. These differences will be indicated throughout the chapter.

Initial questions posed in interviews were generally open ended in order to facilitate a non-bias response. Each question was phrased differently in accordance with the appropriate situation but essentially the initial question asked, How do individuals finance themselves when they do not use the services of formal banks? This question typically produced a lengthy response explaining all alternatives that existed. Additional questions were then asked based on prior responses given that asked for more details in describing the financial transactions. Additional questions focused specifically on terms and conditions of loans, techniques employed by lender in client selection and loan recovery, sources of financing, and factors that contributed to the attractiveness of the transaction for the client.

Marketing Agents

Coffee constitutes 60 percent of the total annual exports of Guatemala. Costs of production are relatively substantial. Crops must be shaded and pruned, fertilizers and chemicals must be applied and product must be harvested. Consequently, most coffee producers seek financial services during each planting season. A significant number of these financial services are provided by marketing agents. Every marketing agent interviewed offered informal credit to producers. Financial services provided by marketing agents are important not only to producers but also to marketing agents because in providing financial services they attract more producers to sell to them that provides them with substantial supply at harvest. For purposes of comparison, this section will first discuss coffee marketing agents and then discuss non-coffee marketing agents.

Coffee Marketing Agents. Information concerning marketing agents in Salama was collected from various individuals who had worked in government programs and also for BANDESA to finance producers in Salama. Though they had been involved in formal finance, they had extensive knowledge from working closely with producers of the informal channels of financing that existed for producers in Salama. Informal financial transactions in Salama

provide good examples of the flow of capital from exporters to marketing agents to producers that occurs frequently in coffee producing sectors of Guatemala. The flow initiates when large exporters provide financing to independent marketing agents. Interest rates on these loans vary between 20 percent and 24 percent annually over the total amount of the loan. Loans are paid back in kind with one payment at the harvest. Amounts of the loans from exporters to marketers varied between 20,000 and 100,000 Quetzales. Independent marketing agents who receive these loans are predominantly medium to large scale marketing agents most of whom own processors that process ripe coffee into pergamino.

Exporters determine whether a marketing agent is creditworthy based upon the history of their working relationship with the marketing agent. In the majority of cases these working relationships have been well-established over a number of years. Knowledge of dependability founded on an established working relationship is one form of guarantee for the exporter. In addition, in cases where loans are larger, exporters demand a title of property worth at least the value of the loan. In certain cases, when exporters have virtually no information about a particular marketing agent who is asking for a large loan exporters demand titles worth double the amount of the loan.

Marketing agents then lend these funds to medium and small scale producers at interest rates between 3 percent and 5 percent compounded monthly over the initial principal of the loan. Loans are given out in one payment at the beginning of the planting season. Despite the monthly charge loans are not repaid in monthly installments but are paid back in one payment in kind at harvest. Amounts of the loans ranged between 5,000 and 20,000 Quetzales.

Methods of client selection used by marketing agents focus on what is locally termed confidence which is an alternative way of stating that marketing agents, because of their pre-established economic and social relationship with their clients, already have the vital information necessary to determine whether a client is worthy of credit. In certain cases, particularly in cases when a working relationship had not been sufficiently developed or in cases when loans involved larger sums, marketing agents would ask to retain a title to the producer's farm for the duration of the loan. In some isolated cases, when risk was unusually high because of lack of sufficient information about clients and amounts of loans were large, marketing agents would require signed blank checks.

Marketing agents select clients based on information received during years of buying from the same producers. Interviewees indicated that if producers are not producing expected quantities of product perhaps because they have not used the proper fertilization techniques and have not been applying necessary chemicals, marketing agents know. In addition, marketing agents

are primarily buyers and sellers of product and consequently have substantial knowledge to draw upon in evaluating the quality and market value of crops. Marketing agents also gather information about potential clients by word of mouth. The collection of accurate information is crucial to the success of the informal lending operation and in many cases marketing agents have already obtained it through the knowledge they have from being primarily marketing agents.

In Quezaltenango, the largest city in the western region of Guatemala, interviews concerning coffee marketing agents were held with several individuals who had experience in conducting financial transactions with marketing agents or who had relatives or friends who had negotiated with marketing agents. The marketing agents discussed in interviews operate similarly to marketing agents in other regions, but their lending technique includes one significant difference. In Quezaltenango, marketing agents provided credit to producers but with an added component. Similar to those in other regions, interest rates on loans are 5 percent monthly over the total amount of the loan but in addition to the interest rate a pricing mechanism is included. Producers paying back loans in kind at harvest are obligated to sell their coffee to the buyer who lent to them at a certain amount of quetzales per quintal below the open market price for coffee. The pricing mechanism enables marketing agents to protect themselves from the risk of potential losses due to coffee price fluctuations by guaranteeing that they receive coffee at a low price.

The pricing mechanism is put into place by a written contract which in some cases also includes information concerning the guarantee for the loan, the title of property. In these cases, lenders would retain the title for the duration of the loan. Amounts of the loans given to medium scale and some small scale producers ranged between 10,000 and 50,000 quetzales. Loans are processed quickly as an application for a large loan is processed in one day.

Marketing agents are able to lend quickly because their systems for gathering information on potential clients are efficient. In most cases information is already obtained because marketing agents know their clients from buying their product year after year. Marketing agents thus experience significant economies of scope in lending to producers because they obtain through their primary marketing business, information about potential clients concerning cash flow and other vital borrower characteristics such as dependability. New clients need references from another producer who has a history of borrowing from the same agent. Thus marketing agents in Quezaltenango have fairly developed systems of risk management with one of the important factors in this system being the flexible pricing mechanism.

In Coatepeque, another western town located closer to the

coast than Quezaltenango, interviews were held with coffee marketing agents who lent to medium and large scale producers. Interviews were also held with members of BANDESA staff who had extensive knowledge of the operations of marketing agents in and near Coatepeque. Questions to marketing agents initially concerned the operations of the marketing agents themselves. Marketing agents stated that in fact many marketing agents operated in the same manner that they had.

In Coatepeque, large marketing agents, those who sell directly to exporters, have developed another mechanism through which to manage risk. Since the beginning of 1989, certain marketing agents have been giving loans exclusively in U.S. dollars. Some marketing agents in Coatepeque receive their funds for lending from exporters in dollars. Marketing agents must then repay these loans in dollars. Marketing agents were lending this money to producers in quetzales at the planting season. At harvest when it was time for the producers to pay back the loans, the fluctuations in the value of the quetzal against the dollar made it so that marketing agents had received all repayment for the loans in quetzales, but when it was time to pay the exporters back for their loans in dollars marketing agents had fewer quetzales with which to pay back the exporters. Becuuse of this, many marketing agents experienced losses from their lending operations. Consequently, to prevent such a scenario from occurring again, marketing agents have stopped lending in quetzales entirely. Producers borrow in dollars at an interest rate of 22 percent annually. Loans are paid back in one payment in kind at harvest. The durations of these loans is on the average one year. As guarantee, when marketing agents were lending larger amounts they required a title for land worth at least the amount of the loan.

In addition to the financial services provided by marketing agents, some coffee marketing agents in Coatepeque also offered another complimentary service where producers could store coffee in the marketing agents warehouse until they wanted to sell their product i.e. when market prices were most favorable. Thus there is flexibility in the repayment schedule in that the producer makes the decision as to when he will sell his product and pay back his loan. These services offered by certain marketing agents are an outgrowth of competition that exists among marketing agents for supply from producers.

In Barbarena, one of the larger towns in the department of Santa Rosa, interviews were held with two coffee marketing agents both of whom had knowledge of how other marketing agents in Barbarena operated. Marketing representatives of exporters in Barbarena finance small producers and other smaller independent buyers who have the technology to process ripe coffee into pergamino. They give loans in quetzales at an interest rate of 24 percent annually. Guarantees for marketing representatives is a title of land worth twice the amount of the loan. Marketing agents

retain the document until the loan is fully repaid. Client selection is based on the information marketing representatives have received from other well-known clients and from their own experiences with the client during their marketing transactions.

Marketing Agents for Other Crops. In Jutiapa, interviews were conducted with BANDESA officials, with producers who had borrowed from marketing agents, with long-time individual citizens of Jutiapa who had substantial knowledge of the financial operations of clients and with a rice marketing agent who also did some professional moneylending. In Jutiapa, rice and bean marketing agents finance small producers. These marketing agents typically lend small amounts to producers at an interest rate of 10 percent a month over the total amount of the loan. Marketing agents of rice lent only amounts which corresponded to the amount of rice to be sold. For example, if a farmer had five manzanas he would be eligible for a loan of no more than 500 quetzales. In lending only appropriate amounts to clients lenders increased loan recovery rates.

To ensure that loans would be repaid, perhaps because small farmers did not have titled land, this lender used a letra de cambio which is a common legal document used for many types of transactions in Guatemala. The document states the amount of the loan and the amount of interest to be paid. In most cases, one letra is made for each payment which is monthly. To avoid stating the actual interest rate paid on the loan, which are too high according to the civil commercial code of Guatemala, the amount of the loan is made larger than it actually is to compensate for the lower interest rate that must appear on the letra to make it legally binding. Those who do not pay back loans transacted through letras de cambio are to be arrested forty-eight hours after a breach in the arrangement has occurred, although it is not clear whether this is actually enforced. Modification of the numbers on the document to avoid stating the actual rate of interest on loans is a manifestation of regulatory avoidance, testimony that the regulations in the civil commercial code which state that interest rates in civil transactions may not exceed 6 percent annually are not being observed and should be considered for change to facilitate financial activity.

In Almolonga, a town in a valley near Quetzaltenango recognized by many as home to a large number of non-coffee marketing agents, there is a significant amount of informal financial activity. Interviews here were conducted directly with various marketing agents. The informal financial arrangements they described involved relatively larger amounts of capital than was discovered elsewhere.

Informal lenders are primarily prosperous grain truckers with surplus capital. The most common loan discussed was for capital to purchase a truck. The amounts of the loans varied between

20,000 and 50,000 quetzales. The interest rate on loans ranged between 3 percent and 5 percent monthly over the total amount of the loan and the duration was flexible. The guarantee for loans was a title of property worth the amount of the loan and in some cases an amount just below the amount of the loan (if the individual's title was close to the amount of the loan he would granted an exception). In other cases when lenders knew very little about clients or their past credit history the guarantees were double the amount of the loan. The differences in the guarantees were attributed to the varying degrees of confidence the lender had in the borrower.

In addition to providing financial services to fellow marketing agents, marketing agents in Almolonga also provide financial services to medium scale and small scale producers. The interest rates on loans to producers varied between 3 percent and 5 percent depending on the amount lent. For amounts more than 5000 quetzales the interest rate was 3 percent monthly over the principal of the loan. A loan between 1000 and 5000 quetzales would have an interest rate of 4 percent monthly over the principal of the loan. If the amount were less than 1000 quetzales the interest rate would be 5 percent monthly over the principal of the loan. Interest rates were staggered in such a manner in order to cover the fixed costs of the loan.

Large producers also finance marketing agents. Loans for marketing agents from producers were especially frequent in cases where marketing agents had exhausted their capital on the purchase of their vehicle and consequently needed loans for working capital to purchase product. In certain cases, producers wanted their produce to be transported to El Salvador or Mexico but had no marketing agent to buy and transport this produce. Thus a producer would give produce with a guarantee that the agent would bring back a fixed amount. The amounts of these loans that were made in kind were generally between 2000 and 4000 quetzales. In other cases producers would lend to marketing agents in cash. The amounts of loans were the same, between 2000 and 5000 quetzales. Interest rates charged by producers were 3 percent monthly over the principal of the loan. In lending to marketing agents producers are guaranteeing the sale of their product. Loans between producers and marketing agents are an outgrowth of the economic relationship producers have with marketing agents, because both lenders and borrowers benefit from the transaction.

Input Suppliers

Because of the interest marketing agents have in high yields from their producers, marketing agents in the majority of cases are also providers of inputs for their producers. Inputs are sold on credit to producers under the same conditions as cash loans. In some cases the value of the inputs is included in a mixed loan

which also includes a cash portion. In some other cases cash loans are given with the expectation that funds will be used for inputs. The terms of mixed loans, those whose value is the combination of inputs sold on credit and cash, are the same as those that apply to the overall loans. In addition to marketing agents that finance the purchase of inputs, input stores finance purchases of inputs by selling to medium and small scale producers on credit, but they are not the primary providers of inputs.

In Chiquimulilla, one of the larger towns in the department of Santa Rosa, employees working at input stores were interviewed. According to one employee there are six input stores in Chiquimulilla that each do approximately 150,000 quetzales of net sales annually. Input stores offer mostly short-term credit between 15 and 45 days only to clients whom they have known for years through conducting business and consequently have compiled characteristics concerning their dependability. No interest is paid on the loans. The reason given for charging no interest was to stimulate sales. Their personal knowledge of the client and the type of purchases the client has made in the past are information that is useful to the store manager in analyzing whether the client is worthy of credit. The value of the inputs sold on credit range between 100 and 2000 quetzales.

Input stores in Coatepeque also sell on credit to small producers. The duration of repayment on the loans is 15-30 days and no interest is charged. No physical guarantees or written documents are required, but the manager of the store only gives credit to those who he knows well. The guarantee in this case rests entirely on client selection and the information the lender has regarding the borrower. The amount of the loans averaged between 500-800 quetzales.

In Quetzaltenango, input stores offered credit with longer periods of repayment, up to four months. Certain stores demanded that a physical guarantee, usually an amount of product such as one quintal of coffee from the prior harvest worth at least the value of the loan, be left as a deposit. The store then charged an interest rate of 2 percent monthly over the total amount of the purchase. Storeowners only created such an arrangement if it was made with a long term patron of the store about whom they had sufficient information. Input suppliers thus do offer credit to producers but only to producers with whom they have conducted a sufficient number of transactions.

In El Progreso marketing agents supplied inputs under a guarantee that a producer would sell his anticipated product to the agent at harvest at a set lower price. The price at which anticipated product would be sold varied between two or five quetzales below per unit. This type of arrangement most frequently occurred when in the middle of the growing season a producer would be in need of some herbicide but had no means to purchase it. In

some of these arrangements contracts were used to guarantee the sale of a certain amount of product at a certain price. Client selection by the marketing agent is based on the confidence that the marketing agent has developed in the producer from the previous years of making transactions. The important aspect of this loan is that it is made quickly when the producer needs the loan and not after he needs the loan which would bring great losses to the producer. By giving producers quick access to credit, marketing agents are not only allowing producers to avert disaster but are also assisting their own marketing business by contributing to the size of their own supply at harvest. Thus common interests between marketing agents and producers result in quick necessary transactions.

One of the points worth noting with regards to input supplying in rural Guatemala is that in the vast majority of cases it is one of the services that marketings agent provide and not a separate, autonomous operation. Because marketing agents' principle concern is marketing they are consequently inclined to provide easy access to inputs so that their supply at harvest will be greater and their revenues higher. It is because this provider of inputs is principally a marketing agent that the incentives to give quick credit exist. Input supplying thus is, as financial services also are, a complimentary service provided by marketing agents. Marketing agents input supplying operations and financial operations are sustainable because they are dictated not by benevolence but rather by the desire of the marketing agent to achieve efficiency and profitability in all their operations combined. This includes covering total costs of all transactions, being flexible to demands of his producers so that they may continue to purchase their supply from their producers, and maintaining sound techniques of client selection to reduce risk and losses.

Non-regulated Financial Institutions and Individual Moneylenders

In the towns and cities essentially two types of moneylending operations were identified. One type is the highly formalized, non-regulated financial institutions (NFIs). These types of operations usually transact a relatively high volume of loans, operate out of offices, have working staff members and more frequently mobilize deposits from higher income individuals in their areas. The second type are the traditional individual moneylenders who typically have smaller portfolios, lend smaller amounts and operate more frequently in the field, i.e., these lenders may be seen on the streets or in farming villages seeking out new clients and collecting from current ones. An important point to note with regards to both types of operations is that they both engage primarily in the providing of financial services as compared to marketing agents whose primary activity is marketing and whose complimentary activity is financial services.

From initial working capital for entrepreneurs to consumer finance, NFIs and individual moneylenders provide services for a wide spectrum of purposes. Their list of clients includes microentrepreneurs, agricultural producers, government workers, and medium sized merchants. In lending to a wide spectrum of the population, these informal lenders make a substantial impact on their local economies. Their services are typically fast, convenient, frequently used and consequently play a vital role in the economies of rural towns in Guatemala.

In Quezaltenango several operators of NFIs and their clients were interviewed. Because of the legal restrictions against them, NFIs are compelled to maintain operations underground. Despite this it was discovered that they do operate but behind the name of Oficina de Tramite, office of transactions. There are a substantial number of these offices in operation in Quetzaltenango.

All institutions visited lent small and large amounts from 200 to 25,000 quetzales. Although these offices had the capacity to lend large amounts, most of the offices were negotiating a high volume of smaller loans. Offices appeared to have a significant degree of activity as the interviews always kept clients waiting. They lent at interest rates of 3, 5, and 10 percent monthly over the total amount of the loan depending on the size of the loan. If the loan were less than a thousand quetzales, the interest rate would be 10 percent monthly over the total amount. If the loan was between 1000 and 5000 quetzales, then the interest rate would be 5 percent monthly over the total amount of the loan. Loans of more than 5000 had interest rates of 3 percent monthly over the total amount of the loan. The system of differing interest rates was designed to cover the fixed costs of maintaining a lending operation, i.e., costs of loan processing, legal counsel and staff.

Guarantees were similar in that they also varied with the amount of the loan. For loans of less than 1000 quetzales, the guarantee was two checks, one from the borrower and one from a co-signer, each for the total amount of the loan. Guarantee for loans exceeding 1000 quetzales was a title to property worth at least the value of the loan. If there was an added risk because the NFI was lending a large amount of money, the required value of the title be double the amount of the loan. This aspect of the loan was contingent upon the level of confidence the lender had in the borrower. Confidence as stated previously is developed through the completion of successful transactions with the lender. Most lenders if they were not lawyers themselves had close ties to lawyers as to facilitate the completion of the legal work involved in the use of real guarantees.

The source of financing for some NFI's was funds accumulated from depositors. Depositors received 2 percent monthly for the use of their funds. NFI's would then take these funds and lend them

at 3, 5, and 10 percent monthly. In other cases NFI's would serve as a link between those individuals in need of capital and those in need of an investment. In these cases depositors would only deposit their money when there was a loan to be made. The intermediary would then lend the amount to the borrower at 5 percent monthly over the principal of the loan with the money he had recently received from the investor at 3 percent. The intermediary would thus earn 2 percent for his efforts as an intermediary. Individuals who deposited funds into NFI's were individuals seeking a better investment than the ones offered by the formal financial institutions. In other cases managers of informal institutions stated that they were using their own capital. The role of informal financial institutions as financial intermediaries is fairly developed in Quezaltenango

Traditional moneylenders that did not have offices of transaction in the commercial zones of Quetzaltenango existed. These moneylenders generally operated on the streets, in the farming villages and out of their homes. Most of these lenders lent at a 5 percent monthly interest rate. These lenders did not require real guarantees but instead required a check for the amount of the loan if the client had successfully completed loans before and two checks for the amount of the loan if the client was new. Loans were given mostly to clients about whom lenders had prior knowledge because of previous transactions. New clients had to prove that they had a good credit history by giving references. If they did not have references lenders might lend to them a small amount, 1000 quetzales, to see if they could repay. If they repay those loans then they will qualify for larger loans and so forth. One of the important characteristics of this operation is managing risk without turning away clients because they do not have real guarantees. The requirements are necessary requirements to control risk and not restrictive ones that exclude clients from having access to financial services.

Another lender who also lent at 5 percent monthly over the total amount of the loan had his own means of charging more for his money by arguing that because the quetzal was going to depreciate this should be calculated into the loan. This lender calculated the estimated future foreign exchange rate into the amount of the loan before he charged the 5 percent interest rate. For example, if the client wanted a loan of 5000 quetzales and the current exchange rate against the U.S. dollar was 2.7 quetzales per dollar, then the lender predicted that during the three months that was the duration of the loan the dollar would increase .3 quetzales. From this estimate the lender then increased the value of the loan from 5000 to approximately 5500 quetzales. The 5 percent interest a month over approximately 5500 quetzales was then charged to the client.

Financial services of informal financial institutions allow investment by entrepreneurs in Quetzaltenango. One government

worker, who also owned a small general store, a meat market, and a typewriting school, had purchased typewriters but needed them modified for Spanish. The cost of the modification was 1500 quetzales. The bank, he stated, would have taken months to give him a loan if it would give him a loan at all. Through the services of an informal lender he was able to receive financing necessary to get his school functioning quickly.

Microentrepreneurs benefit from the services of informal financial institutions as well. In a small Indian village on the outskirts of Quetzaltenango an individual wanted a corn processor to process corn into dough to make tortillas. With the processor he had hoped to start a business selling the dough to his village. He had heard that there was one for sale for 800 quetzales. He needed 500 quetzales to make the transaction. The informal financial institution lent him 500 quetzales at 2 percent monthly over the total amount of the loan. He paid back the loan with no problems and now owns a piece of machinery that serves him and his community. Now villagers do not spend productive time walking to town to get dough for tortillas. In supporting microentrepreneurs, informal financial institutions give opportunities that without them would not exist.

Informal financial activity was more difficult to encounter in Coban, but some operations similar to the ones discovered in Quetzaltenango were found. Informal lending operations could be found in some oficinas de tramite. One client, a manager of a relatively large store in Coban, used the services of one of these offices to pay medicine suppliers for a pharmacy which was also owned by the store. In this case 10,000 quetzales was borrowed at 7 percent interest monthly over the principal of the loan. All of the interest was paid in advance. The effective rate is thus higher than 7 percent because the borrower only received 9,300 quetzales at the beginning of the transaction and the interest rate was charged over 10,000 quetzales. Clients were also obligated to pay all legal fees associated with the transaction.

The guarantee used in the transaction was two checks for the total amount of the loan which were post-dated to the date that the final payment was to be made. Though checks were used for this transaction, this lender more commonly used titles of property as guarantee. The title was required to be legally sold to the lender with a sale and repurchase agreement document before a lawyer. The title is legally registered in the name of the lender. After the loan was recovered then legal arrangements would be made to place ownership back in the hands of the borrower. Most of the clients of this lender were not large stores in need of funds to overcome cash-flow problems but rather were medium and small scale producers of coffee, cardamon, and livestock whose farms were located north of Coban. Loans were made at 10 percent monthly over the principal of the loan. Amounts of loans made to producers ranged between 10,000 quetzales and 50,000 quetzales. Further information

regarding the sources of financing was never discovered as this lender successfully evaded the investigation team.

Other smaller scale lenders could be found in and near Coban that lend to various individuals amounts between 2000 and 500 quetzales at 10 percent monthly over the total amount of the loan. Guarantees for loans were largely based on personal knowledge the lender had of the borrower. If a lender did not know a client he would rarely lend to him. If he knew the client personally, for example, if they had grown up in the same village, then the confidence level was higher and this would facilitate a transaction. Sources of financing were provided by savings deposits. Some lenders were offering 10 percent monthly to investors for amounts between 5000 and 10,000 quetzales. These type of savings and lending operations also existed in outlying Indian villages.

Informal financial institutions in Jutiapa provide an example of the potential for more savings and lending institutions in rural areas. Individuals in Jutiapa -- mainly lawyers, accountants, and prosperous businessmen -- seek better saving opportunities than those offered by formal financial institutions. They invest in the informal financial market through lending their money to individual moneylenders at 2.5 percent to 3 percent monthly over the principal of the loan. The rates of interest they receive in the informal market are considerably more attractive than the formal interest rates. The guarantee on these investments for the investor is his knowledge of the individual moneylender as well as a real guarantee, a title to the moneylender's property. The value of the property must exceed the value of the loan.

Individual moneylenders then lend the funds acquired at 2.5 and 3 percent at 5 percent monthly to individuals in their immediate areas, including producers. If moneylenders do not have sufficient knowledge of a client, guarantee is a title of property worth the value of the loan. In some arrangements, if moneylenders have no information regarding a client they will demand that the title be worth double the amount of the loan. Individual moneylenders act as financial intermediaries between those seeking more attractive saving mechanisms and those seeking access to credit. Informal financial institutions, in addition to providing financial services to many who otherwise would not have them, are also significant for their prevention of capital flight. Through informal financial arrangements, high income individuals in Jutiapa maintain their capital in Jutiapa which ultimately contributes to the local economy.

Informal financial services provided by the funds acquired through savings deposits contribute to the overall development of Jutiapa, particularly through their impact on microenterprise finance. An aspiring entrepreneur who wanted to build three carts to be used by locals to transport goods, often agricultural

produce, to and from the marketplace and begin a cart rental service went to an informal financial source and borrowed 1000 quetzales at 5 percent monthly over the principal of the loan that was to be paid in ten payments of 150 quetzales. The entrepreneur built his three carts, rented each one out for 5 quetzales a day and brought in 15 quetzales a day. He paid back the loan and continues to manage his microenterprise. In this manner, informal lenders are an important source of assistance for microentrepreneurs in Jutiapa.

In Jalapa, a town in the eastern region of Guatemala, various operators of NFI's were located and interviewed. These operators were very open in interviews. NFI's are an integral component of the local economy. These informal financial operations have impressive portfolios with large numbers of clients and large amounts of capital and are managed mostly by local merchants and attorneys. It is important to note that these individuals are highly respected members of the community, father-like figures to the community known and greeted by seemingly every individual in their part of town. In some cases they are asked to be godfathers of their clients' children although they have no personal relationship other than the one created by their transactions. The prestige they have in their community emanates from their providing of financial services when clients are in dire need of funds for medical emergencies or other unexpected traumatic occurrences. Managers of these operations will often lower the interest rate on loans made for medical emergencies.

Loans made by NFI's varied between 2000 and 40,000 quetzales. Certain lenders focused on smaller loans and others on larger loans. One NFI that lent between 2000 and 15,000 quetzales had approximately 121 current clients and had approximately 250,000 quetzales out in loans. Interest rates charged on loans were 5 percent monthly over the principal of the loan unless the loan involved a medical emergency in which case interest rates were lowered to 2 percent monthly.

This particular lender used co-signers as guarantees for all loans. Co-signers must write a check equal to the amount of the loan. If borrowers do not repay the loan, then the check is deposited in the lender's account. Client selection was based upon the prior information the lender had received about the client from years of living in the same community. The duration of loan processing was usually one day. The longest a client would wait for a response was three days. Efficiency in loan processing is one attractive feature of informal financial services.

Other lenders particularly ones lending larger amounts use real guarantees. Another lender, a businessman, who specialized in lending amounts between 5000 and 40,000 quetzales used real guarantees. The title of property used as guarantee was required to be worth at least the value of the loan. This property was

registered by a lawyer in the name of the lender. This lender had approximately 500,000 quetzales currently out in loans to 75 clients. Interest rates on loans were 4 percent monthly over the total amount of the loan. Loans were processed quickly, as the lender was capable of lending 40,000 quetzales in as fast as two hours if the borrowers brought the right papers. Rapid loan processing occurs because client selection is efficient. Client selection essentially relies on the personal knowledge of borrowers which may be obtained from other clients with good credit histories. The source of capital for lending was his own funds which he had obtained from his business and his prior financial transactions.

The volume of services provided by informal financial sources in Jalapa is extensive. Though no accurate assessment without more comprehensive study can be made with regards to the actual volume of these services, it may be stated that their services make a significant impact on their community. After a preliminary investigation it became apparent that without these services many individuals, particularly owners of small and medium enterprises, would encounter extreme difficulty initiating and maintaining their businesses. Not only do informal services provide financing for inventories of enterprises, but they also provide consumer finance to many individuals that are potential customers. These informal financial institutions located in the offices of attorneys and businesses are for many individuals in Jalapa the primary source of financing.

Rotating Savings and Credit Associations (ROSCAs)

ROSCAs, known more commonly in Guatemala as "cuchuvales", are common arrangements found throughout Guatemala. Participants include teachers, employees of government agencies, and employees of medium and large enterprises. Most cuchuvales operate in a system wherein each member deposits a predetermined amount each month and in a predetermined month they are given the total amount deposited by that group for that month. The monthly fund is allocated to members on the basis of the time that they have participated in the cuchuvale. In many cuchuvales, upon entering each member must sign a formal act which states how much each monthly payment will be and also to whom the funds will be allocated each month. If there is a necessity to change the rotation, perhaps because of some type of emergency, the decision to change the rotation must be approved by the group. Cuchuvales were known and discussed in interviews in Quetzaltenango, Coban, Jalapa, which suggests that cuchuvales among professionals are most likely widespread. Although the amounts involved in them may sometimes not be large, their existence suggests a demand for liquidity management.

Regional Differences

Essentially, there were three levels of informal finance in the study. In the Eastern region in the cities of Jutiapa and Jalapa informal finance appeared to be quite widespread. In these towns moneylenders and operators of non-regulated financial institutions were very open about their activities. Informal financial institutions were easily located. Citizens of these towns respected informal financial agents because they provided many important financial services to the community. Informal financial institutions appeared to be more established. For these reasons, if the possibility of linking formal financial institutions to informal financial institutions is pursued, then this region should be investigated as a prospective location for the initiation of such an undertaking.

In Coban, perhaps because of the conflict in the area or because of its distance to the capital, informal financial activity took a different shape. First, informal financial agents seemed to be more scarce. When the investigative team interviewed individuals in Coban, five of the interviewees, each of whom had different occupations and incomes, spoke of one moneylender who operated out of her home. In all other regions rarely was the same lender mentioned more than once, suggesting that there were a larger number of lenders and NFI's in those regions. Also informal financial agents were more apprehensive about discussing their transactions. When the team arrived to be granted its pre-scheduled interview, the one moneylender that had been continually discussed in interviews was nowhere to be found. Fear of interference appeared to be greater in Coban, for informal financial institutions were more clandestine in their operations. In addition, interest rates charged on loans in Coban were considerably higher than in any other region of the country as all moneylenders were charging in most cases 10 percent monthly over the principal of the loan. Reasons for higher interest rates could be the distance to Guatemala City that could make capital more scarce and consequently more expensive. In addition there could be higher risks involved in operating in an area with more conflict.

The western region appeared to be in between the two other regions in terms of volume of informal financial activity. Quetzaltenango appeared to be more similar to Jutiapa and Jalapa than to Coban. Loans being transacted on the whole by NFI's appeared to be smaller than the ones being given by the NFI's in Jalapa and Jutiapa, but the volume of activity was equal to that of Jalapa and Jutiapa. The differences between informal financial transactions between the eastern region and the western region are significantly less pronounced than the differences between Coban and the other two regions.

Conclusions

There are three essential points concerning informal financial markets in rural Guatemala. First, it is evident from the study that indeed informal financial markets are widespread in rural areas. The absence of formal financial institutions in certain areas does not necessarily indicate that no financial services are demanded in the area. Financial services are instead supplied by informal financial institutions. These services are provided by agents who, in the case of marketing agents and input suppliers, are not primarily engaged in financial transactions. There are also, however, non-regulated financial institutions and individual moneylenders located in the larger cities and towns whose primary activity is financial.

Second, one of the most notable features of informal financial institutions in rural areas is their ability to remain in operation serving the financial needs of producers, microentrepreneurs, consumers, and other individuals despite the fact that they are operating in unstable environments influenced by fluctuations in prices, rates of inflation and exchange rates. Several important characteristics and techniques contribute to this viability, and consequently there are many lessons to be learned by formal financial institutions and characteristics to be acquired from informal financial agents with regards to the providing of services in rural areas.

Informal financial markets with their pervasive ability to emerge wherever demand for financial services exists serve in providing valuable information regarding the management of self-sufficiency and viability in all financial institutions. Several characteristics of informal financial institutions illustrate this. Informal financial institutions are flexible in designing effective risk management systems. Informal institutions make necessary policy changes even when the changes are immediate. For example, when it became evident that the Quetzal might begin to fall sharply against the U.S. dollar, certain marketing agents in Coatepeque took action to protect themselves by stating that all future loans would be made in dollars. The important aspect of this is that marketing agents took immediate action to protect themselves against losses. Other marketing agents protected themselves through guaranteeing that product would be sold to them by their borrowers at lower prices. Other manifestations of flexibility in risk management may also be seen in the operations of professional money lenders in Quetzaltenango who had three interest rates (3, 5, and 10 percent) for different size loans. Thus part of informal financial institutions' ability to remain viable is due to the freedom which they have and utilize to adjust the terms and conditions of their loans to the situations they confront.

In addition, interest rates charged by informal financial institutions always reflect the total costs of operations. This

is particularly important in the cases of marketing agents because in addition to the financial costs there are also transportation costs in taking the product to the market, and in a country with the topography of Guatemala transportation can be risky and costly. With respect to the claim that interest rates charged by marketing agents are excessive, when implied transportation costs are considered interest rates do not appear to be so high.

Informal financial institutions also demonstrate flexibility in catering to the needs of their clients. Producers may pay back loans to marketing agents in kind. Certain marketing agents allow them to save their product in their warehouses until market prices are favorable. Most importantly, informal financial services are typically fast, timely, and convenient. On numerous occasions throughout the study one would hear iterations concerning the tremendous delays experienced when dealing with formal financial institutions. At least six weeks and sometimes six months to a year were the most common statements given with regards to the duration of loan processing at formal financial institutions.

Timely financial services provided by informal financial institutions are extremely valuable to clients. Timely access to credit is always important for entrepreneurs who might have a temporary cash flow problem but see an opportunity to purchase an item or product at a low price, but in an agriculturally dominant economy timeliness is even more crucial. If a producer does not have enough inputs during the correct planting season he will not maximize the returns from his land. If insects suddenly are threatening to ruin a producers crops and insecticide is needed immediately but there are no funds to purchase insecticide a producer may seek the services of an informal lender. If it is the harvest and a producer discovers that he does not have sufficient funds to pay workers to harvest his product at the appropriate time, he will also seek the timely services of informal lenders. In these cases and many others, timely access to credit provided by informal financial institutions proves to be indispensable to many individuals in rural areas of Guatemala.

Despite fast loan processing, loan recovery in informal financial institutions appeared to be high. When asked, informal financial agents stated that they had never had loan recovery problems. High loan recovery is due in part to excellent client selection that is based on informal lenders ability to obtain accurate information about potential borrowers. Information obtained is time and cost efficient because, in most cases, informal lenders, especially if they are marketing agents, already have valuable information about clients cash-flow and dependability from prior transactions with the potential clients. Informal lenders also obtain information from living in the same communities as their borrowers where they consequently learn much about their clients through word of mouth. Informal lenders also obtain information about potential clients from their current clients.

Thus it is the valuable asset of information that informal lenders are able to obtain efficiently which contributes to the maintenance of high loan recovery rates.

Though a more comprehensive study would be required to determine their actual impact, financial services provided by informal financial institutions clearly have a significant impact on their respective communities. With the financial services they provide microentrapreneurs in small Indian villages can realize their opportunities and subsequently provide a service to a whole village. Small and medium scale producers can maximize their output by having timely access to credit. In certain areas, particularly in the eastern region, high income individuals have a financial institution where they can save and receive higher yields for the services of their capital while at the same time invest in their own community as opposed to contributing to capital flight. If formal institutions could learn from informal institutions, adopt some of the more valuable characteristics of their operations, and create links with appropriate informal institutions perhaps they also could assist in increasing the highly demanded supply of financial services in rural areas of Guatemala. Additionally, legal measures to enhance and promote, as opposed to measures that suppress the activities of informal financial agents in rural areas, could be taken to assist in the development and expansion of financial services in rural areas of Guatemala.

The third point concerns the possibility of future assistance to informal financial institutions in rural areas. Providing more financial services to marketing agents would make rural financial markets more competitive as there would be more choices for the producer. In addition, increasing access to funds for marketing agents would allow financial services to reach individuals who otherwise would not be reached by formal financial institutions.

CHAPTER VII

INFORMAL FINANCE AT THE VILLAGE LEVEL

Introduction

This chapter summarizes data collected during a month-long study of informal financial contracts and markets involving small-scale agricultural producers in Guatemala. The report is based on direct interviews with cultivators in five provinces (departamentos) representative of four broad socio-ecological regions: the highlands, the boca costa, the southern or pacific coast, and Eastern Guatemala near the Salvadoran border. These regions were investigated in varying degrees, with the highlands researched most thoroughly, and the boca costa the least.

Methodologically, the unit of analysis was usually the village (aldea, canton, caserio, finca, (non-commercial) paraje, asentamiento, polo de desarollo, etc.). Approximately one hundred villages were covered. The study relied primarily on structured interviews, conducted with cultivators who were both knowledgeable about economic life of their own and nearby communities and who were also willing to speak forthrightly.

These informants consisted of agricultural ministry (DIGESA and DIGISEPE), guides and representatives, "integrated development" activists, labor contractors, moneylenders, and other personal contacts. In addition, information was obtained from agricultural ministry officials and local independent agronomists.

Within the flexibility afforded by circumstances, villages were chosen for diversity. The study covered as many variables as possible regarding: technologies (bullocks or lack thereof, irrigation, tractors, HYV seeds), crops (maize and beans, wheat, plantain, coffee, panel (semi-refined sugar cane), cattle, (very little), vegetables, fruits, non-traditional crops, and tenancy arrangements (attached laborers, sharecroppers, renters, communal holdings, and independent producers).

Data were collected for all variables concerning input and output markets, tenancy and distribution of land, production costs and productivity, income sources and sizes, consumption items, and all aspects of credit markets and transactions in cash or in kind (amounts, term structure, purpose, interest rates, collateral requirements, arrears, default, and foreclosures). The purpose of this chapter is to provide a summary of both the broadly-discernible patterns and points of interest regarding finance and credit among the small producers in the villages studied.

Interlinked Credit: Tenancy-tied

Highlands. Tenancy in the marginal highland province (departamento) of focus consists primarily of small scale independent sub-subsistence basic grain producers, attached subsistence producers on large scale "non-productive" farms (colonos), and landless peasants, with all groups migrating in large numbers to work in the commercial export crop harvests on the southern coast and "boca costa." Land rental is not as common as in Eastern Guatemala, where landlessness is much more predominant. Attached producers seem never to borrow from their landlords, and tenancy-tied arrangements appear limited to a few pockets of share cropping communities. In this regard, it is interesting to note that the only district ("municipio") predominated by sharecropping is an isolated frontier area colonized by Ladinos.

While the producers in the approximately twenty villages examined in this district tend in general to incur cash indebtedness regularly, tenancy-linked debt contracts are not the norm. Some villages consisting entirely of sharecroppers reported no loans from patron landlords.

Sharecropper-borrowers in this district can be broken down into roughly two groups: a large group of subsistence producers who are also usually migrant laborers, and a smaller group of small scale "commercial" sharecroppers, who hire day laborers to work the land and sell their half of the product (corn) to wholesalers. These latter may also double as labor contractors or work in the towns as carpenters.

The former group will tend to borrow up to 1000-2000 Quetzales for which some type of formal document and collateral is required. The landlord covers half of fertilizer expenses and recovers either 5 percent or 10 percent over approximately six months depending on locale. In one case, the interest rate was 8 percent for those with flawless credit histories and 10 percent for those with histories of arrears. These "sharecropping capitalists," in turn, were likely to make small scale in kind no interest loans of corn to get their workers (usually landless peasants not fortunate enough to find land to sharecrop) through the harvest period.

The latter group tended to borrow about 50-200 Quetzales, primarily for fertilizer costs, of which the landlord also covers half. While these loans are also generally for the same six month period, they are frequently rolled over if the harvest does not meet subsistence needs and are paid upon return from migratory harvest work, with the interest incurred during that time being added to the principal.

Sharecroppers with homes on landlords' property rarely used them as collateral, but instead incurred the implicit threat, rarely executed, of foreclosure on their share of the harvest,

which tended to be of greater value than their homes anyway. This group was more likely to pay only 5 percent monthly interest. In addition to rendering half of their harvest, these producers are also generally obligated to perform some additional day labor for their landlord at wage rates 1/5 to 1/4 below the prevailing rate.

Eastern Guatemala. The eastern province of focus is characterized by landlessness and subsequently by a wide array of rental and sharecropping arrangements. Only the most technically-advanced and most commercial of districts, however, is characterized by tenancy-tied credit arrangements. As in the highlands, credit interlinkage here arises principally in share contracts, but more frequently between landlords and commercial renters.

Unlike the highlands, however, interlinked loans are made for large-scale, highly-technified, non-traditional commercial crop production. These loans derive originally from one of the few big export houses which make cash and in-kind loans to the landowners for inputs, who in turn lend at relatively low interest rates to sharecropper-capitalists who hire a year round wage labor force and manage the commercial operation.

In addition, the landowner usually provides use of tractors and covers half the costs of fertilizer, but not pesticides. Unfortunately, more detailed data could not be obtained regarding precise contract terms and repayment. In general, however, the entire product is sold to the same buyer, the export house, and cannot easily be sold anywhere else, thus enhancing substantially the landowner's ability to monitor borrower behavior. There seem to be no cases of sharecropper-borrowers absconding, and it would appear that the threat of non-renewal serves share as the principal collateral substitute.

Interlinked Credit: Labor-tied

Highlands. The study of marginal highland communities reveals that a once extremely busy market in labor-tied credit has almost totally dried up over the last decade. Peak demand for harvest labor on the cotton, cane, and coffee estates on the boca costa and southern coast frequently stretches or exceeds available supply, which is comprised largely of sub-subsistence indigenous producers from the highland region. Labor contractors, working for or on behalf of plantation owners, traditionally sought to overcome this uncertainty, which is compounded by the seasonal variations in the timing of harvests. They offer cash advances to migrants in return for guarantees to work on a designated estate at the terms stipulated in a verbal contract. In the past, this advance might have ranged from 50 - 300 Quetzales dispersed several months prior to the harvest with interest and principal discounted (along with food costs) from the workers' payments.

A rough estimate is that in the late 1970s, approximately 85 percent of independent[1] contracted workers received advances of this kind. Today, roughly 5 to 10 percent receive these advances. This study discovered very few villages where migrants had recently received such large advances made so long in advance. Everywhere it is said that, although substantial contractor cash advances were common in the past, they no longer are.

Depending on the village or community, a small percentage (approximately 20 percent) of migrant workers may receive an interest-free advance of up to 15 Quetzales within one week or upon the same day of departure for the harvest. One municipal level agricultural ministry official reported that in some remote (i.e. inaccessible) indigenous communities, the practice of labor-tying advances has persisted in a transformed way. Now, he said, a reduced number of contractees (approximately 15 percent) who enjoy the contractor's special confidence, receive advances larger than those previously dispersed, ranging up to 500 Quetzales, and sometimes renewed over the course of the year.

One knowledgeable non-governmental cooperative/peasant-movement organizer also indicated that year-long contractor loans were common in some highland areas. Nonetheless, the present investigation encountered no independent confirmation of this by anyone with direct and reliable knowledge of their own or nearby villages.

At the micro level, reasons for the collapse of the advance market are fairly clear: default and noncompliance by contractees. Sometime between 1977 and 1983, many contractees began failing to show up for work at their designated plantations, or quitting the harvest prior to the stipulated date, and then refusing to pay back the advances received. Also, many migrant workers contracted with two or more contractors simultaneously. Estimates of noncompliance range between 10 percent and 25 percent. Although most of the loans were eventually recovered by the contractors through recourse to the courts, excessive enforcement costs (payments to judges and municipal officials) came to exceed the commission benefits derived from attracting contractees with cash advances. Contractors essentially ended the practice of labor-tied cash advances. Lending to migrants simply became too hazardous, even though the contractor has direct access to the borrowers' income stream through the plantation payrolls.

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[1] Attached laborers, colonos on non-commercial estates, are obliged to migrate to one of their landlord's commercial estates and work a stipulated time at below-market wages in order to maintain their cultivation rights.

Informants offer three basic explanations for the collapse of the advance market. First, some argue that the increase in default was due to inflation in the early 1980s. The apparent rationale here is that the implicitly-lower interest rates induced individuals to borrow beyond their ability to repay. This is not a particularly convincing explanation.

The second explanation focuses on the political situation during the period in question. On one hand, the no-shows, quits, multiple creditors, and default are said to have represented something of a conscious political or labor action on the part of the migratory work force. Such action was likened to a strike or concerted debtor action which corresponded to general guerrilla and peasant-movement efforts to interfere with the labor flow and other aspects of the agro-export harvests.

On the other hand, the period in question is precisely when government repression in the highlands was at its fiercest. Many people could not pay because they had either been murdered[2] or had sought refuge outside the country. Likewise, safety risks are said to have inhibited overall mobility of highland peoples at this time.

Another explanation is that delinquent workers were simply responding to noncompliance by contractors with respect to availability and remuneration of employment opportunities. Contractors apparently began to indicate that work was available when in fact it was not, or shipped workers to coffee plantations for piece work where the unpicked product was sparse or poorly cared for. This was explained as the result of unscrupulous business practices, rather than by uncertain agricultural or labor market conditions. That is to say, contractors were making promises on which they knew they could not deliver. Given that many contractors borrow their seed money from either landowners or money lenders, it could be hypothesized that inflation-induced reductions in implicit interest rates encouraged reckless behavior among contractors.

A more definitive explanation would require detailed historical study of contractor-borrowing behavior, contractor-landowner relations, and of labor market, agricultural and political conditions during the turbulent period in question. Although labor contracting is not absent from either the southern coast or eastern Guatemala, substantial cash advances do not appear to be either historically or currently very relevant in either

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[2] Contractors did attempt to take widows and surviving kin to court to collect the defaulted advances, but only had legal grounds to do so when the couple was formally married. Since common law marriage is the highland norm, few such collection efforts proved successful.

region. Peasants live close to the plantations and need not be "tied" in the same way as those travelling from the north. However, the one report of a departure day cash advance on the southern coast indicated that it was much larger (25-50 Quetzales) than that received by northern migrants.

Credit Tied to Marketing and Inputs

The study revealed two common varieties of marketing-agent/small producer credit relations. One is the relationship between non-traditional export crop producers on contract with one of the (four of five) commercial export houses, such as ALCOSA and VERDUFREX. The other is the relationship between small coffee producers to input (fertilizer) distributors, who are also frequently themselves either large-scale coffee producers or wholesalers.

Coffee. The latter arrangement seems to characterize virtually all the areas where coffee is grown in small scale, usually interspersed among larger plantations in the coffee-producing regions, particularly in the areas surrounding Lake Atitlan, in the boca costa, and scattered throughout the eastern part of the country near the Salvadoran border.

Typically, these transactions involve no cash. The fertilizer is provided as credit in kind at a stipulated price and repaid with interest after the harvest with the coffee valued at the going market price. In the boca costa, the going interest rate on these input loans is 15 percent per month. According to information received, harvest values are often insufficient to pay off the entire debt incurred. In this case, marketing agents may allow producers to roll over up to half of the past year's debt, adding the unpaid half to the principal, to be repaid with interest the following season. This leads to distress land sales on an annual basis.

In the villages studied most closely, approximately 20 percent of the families have had to relinquish all of their land holdings over the past ten to twelve years. Distress sales are usually made to members of the same community and have resulted in differentiation and in substantial accumulation of land by those more fortunate.[3]

Coffee wholesalers are the only source of in-kind fertilizer credit, and in most communities, their number is limited to two or three representatives from surrounding plantations. This may allow

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[3] Incidentally, the custom in this region is for producers to own their coffee land and rent the land used to meet subsistence needs.

an exercise of market power. Small producers unwilling to incur debt and the risk of land alienation simply choose not to use fertilizer, which results in substantially lower yields. This number has grown over time to include up to 35 percent of producers in some villages. Although they were not studied directly, small-scale commercial vegetable growers in the same region reportedly engage in similar credit arrangements with input supplier-wholesalers.

In Eastern Guatemala, interest rates for small-scale coffee producers are much lower, hovering around 24 percent annually. There it is more common for export agents, rather than large producers, to provide the in-kind credit. Unlike the boca costa, these agents do not provide extensions to debtors in arrears and terminate future transactions after the first failure to pay up. When refused credit by exporters, producers turn to intermediaries, who charge slightly higher interest rates (up to 30 percent annually) and who sell the purchased product, in turn, to the exporters. This arrangement has also led to distress sales. Almost all of the landless families in the eastern coffee community study (about 10 percent) have lost their land in order to pay off their coffee debts.

Non-Traditional Crops. The major commercial export houses are involved country-wide in providing interest-free and/or free inputs (and some technical assistance, often in connection with irrigation projects), to farmers who contract collectively to sell their harvests of broccoli, brussel sprouts, and other non-traditional and export crops. USAID, of course, has been very involved in promoting these crops, and is therefore familiar with their contractual details.

This study revealed difficulties and much dissatisfaction with these operations in all but one village -- of contract tobacco farmers on the southern coast. The pattern which emerged was basically one of success in the first year or two of operation. This tended to be followed by problems of noncompliance by the companies in the subsequent years. Farmers often responded to noncompliance by switching companies, only to encounter similar noncompliance problems. Frequently, disgruntled contract farmers either terminated or reduced their participation in any relationship with the export firms in question.

There were basically two major complaints voiced by technicians, producers, and municipal-level agricultural officials. One problem pertains to the percentage of harvest purchased by the export companies. In addition to the product rejected as stipulated in the contract (at the collection center at the time of the harvest), the companies rejected, and therefore refused to pay for, additional quantities of product deemed unsuitable after the harvest had been taken from the farm. Also, the companies delayed (at times up to several months) far longer in paying for

the product than stipulated in the contract, amounting in essence to interest-free in-kind credit granted by the producers to the company.

In addition, there were reports of poor coordination and communication between farmers and collection trucks, which sometimes arrived too late for the perishable items to be properly stored for resale. Although these operations probably proved as lucrative as other available alternatives, high expectations at the time of the contract were disappointed. In each case, producers felt that they had legal grounds to recover damages, but they rejected the possibility of using the judicial system which they were certain would rule in favor of the exporters, independent of the merits of their case.

In the case of the southern tobacco farmers referred to above, some problems with poorly used credit were encountered in the first (of eight) years of operation, but with the employment of full time supervisors/technical consultants, these problems have been resolved and the operation has proved highly lucrative to all community members with appropriate soil.

Wholesaler Credit

Credit to large scale wholesalers was the only reported credit that was provided to purchasers of peasant produce. In the one wheat producing area of the highland province of focus, wheat credit was given in kind to wholesalers by approximately a third of producers for 10 percent per month, but was usually paid off in about 15 days; 15 day in-kind credit was also provided to garlic wholesalers, and some northern corn buyers paid 4 to 7 percent monthly interest over six months. Maize, which is produced commercially by small producers in large quantities in the south, is reportedly never sold on credit to wholesalers.

Cash credit <u>from</u> fruit wholesalers <u>to</u> small producers was reported in the south. The wholesalers provide from 400-500 Quetzales which is paid pack after one year without explicit interest. However, the price per unit for fruit which the wholesaler-lenders pay is one Quetzal less than the market price, which amounts to 6.25 percent per year.

Fertilizer Credit

Most fertilizer, seeds and pesticides received on credit are provided by cooperatives, non-governmental and para-statal development organizations, the development bank and the agricultural ministry. A few cases of village shops or small producers offering in kind fertilizer credit were reported. One in the north made four month-long loans at 10 percent, while an

eastern village shop required land as collateral and charged 7.15 percent per annum.

Consumption Credit

Borrowing maize for consumption from friends, family and neighbors is very common in both the highland and eastern communities which were studied. These loans are generally not sought on a regular basis, but rather serve an insurance function to cover unforeseen constraints in bad years. A few cases were reported of more well-endowed land holders or sharecropping landlords in highland communities annually providing interest-free corn loans to those who worked for them. A small number of local shops sold maize on credit in Eastern Guatemala, usually interest free, but sometimes at 20 percent interest for a three-month period (6.7 percent).

In the highlands, corn loans may be paid back with work, corn of the same color and type or, in some places, with money. Only loans repaid in cash ever included an interest charged, and this was usually no more than 2 percent per month, with work valued at the going market wage.

Eastern Guatemalan informants, however, reported a wide range of interest rates for borrowed maize. These loans were interest-free in most villages, but in others there were reports of 100 percent in-kind interest over three to six months on loans averaging one hundred pounds (of maize).

Beans are sometimes substituted for this two-to-one loan. In the province of focus, a pound of beans currently sells for three times the value of a pound of maize, which amounts to 200 percent interest, or approximately 33 percent to 68 percent a month. There were also scattered reports of 5 percent, 25 percent, and 50 percent in-kind payments in maize, and of forgiveness of interest payments at the time of principal repayment.

Very few inter-household maize loans were encountered among the peasants of the pacific coast, who generally sell their entire corn harvests. In the few reported cases, such loans might be paid back without interest in either cash or in kind. Most corn loans, like the more frequent loans of beans (which cannot be grown on the coast due to cotton pests) are obtained on credit at village shops. The southern coast is the only place where consumer credit from village shops was found to be the norm. Payment for household necessities (maize, beans, sugar, coffee, etc.) can usually be delayed without charge, or at about 8 to 15 percent per month, for up to 15 days (the pay period on the cane and cotton plantations).

More durable consumer goods can be purchased from larger shops at a variety of interest rates depending upon the locale and term.

In one group of villages, for instance, bicycles may be purchased at 12 percent per month if paid in three months or 25 percent per year if paid within one year.

Moneylenders

Highlands. At least two or three moneylenders reside in well over half the highland communities studied, and through their relations with borrowers in neighboring villages they service approximately three fourths or more of highlands. These lenders are usually well to do farmers or larger landlords. In only a few instances were priests or religious ministers encountered who also made loans, and one of these cases was clearly special, since the priests, who had been involved in various community development projects, charged no interest.

Likewise, many highland people travel to the nearest town to borrow from lenders who tend to dedicate themselves to this profession alone, or perhaps in conjunction with commercial activity or labor contracting.

In general most people borrow between 50 and 300 Quetzales for periods of up to six months in order to purchase fertilizer and, secondarily, to cover other production costs such as harvest labor or bullock rental. The other most important loan uses include loans to contractors to cover transportation and same-day advances (500-1000 Quetzales), loans to set up marketing businesses (500-1000 Quetzales) for truck parts and for seed money to purchase product, cattle loans of up to 2000 Quetzales, and loans of up to 5000 Quetzales to travel to the United States.

This latter appears to be an increasingly important market. At least one village was encountered where the majority of families had at least one member who was either working (or looking for work) in the United States, or who had already been there and returned. Most of these farmers migrate hoping to earn what they need to pay off debts they have incurred debts in Guatemala that they are unable to pay.

Although there were reports of people who had been repeatedly deported and thus were stuck in a cycle of repeated attempts to migrate in order to pay off their migration loans, it would seem that many are successful and have prospered from this investment. These migrants invariably intend to return to their native land and tend to use their savings (or remittances) for home improvements, rather than productive investments. A successful migrant's home is often recognizable by the American style bricks used to rebuild his home. Another common practice is for workers to return with their savings in the form of an automobile, which can be sold for a profit.

Moneylender interest rates in the highlands hover around 5 percent per month, rarely going below that figure, but ranging as high as 10 percent, but never more. In any given case, the interest rate may vary with the term structure (5 percent per month for six months, for instance, and 7 percent for twelve), which is usually 6 months to one year, depending on the purpose of the loan, and also vary according to with whether the borrower is "known" by the lender (5 percent if known, for example, and 10 percent if not; 4, 10, 5, 8, 7, and 10 percent are other examples.)

Moneylenders in the highlands almost invariably require some sort of collateral, preferably a receipt or formal title of land or house ownership. In some areas, lenders would accept nothing less than land, and various areas where people were either landless or did not have formal title were excluded from borrowing. This includes thousands of previously attached peasants on farms that their landlords were forced to abandon and distribute in the face of peasant militancy in the early 1980s. In some neighboring districts, however, money lenders gladly accept cattle, horses and, occasionally, pigs -- and one instance of an individual who has repeatedly offered a mechanical sewing machine as collateral.

Collateral values must always be at least as great as the principal borrowed, but usually range from 150 percent to 300 percent of principal value. Collateralized loans usually entail some written document (at least the title or house receipt), and a few lenders require the presence of one "witness." In addition, many moneylenders accept the collateral of a co-signer, usually a friend of the borrower, who may receive a chicken or one day work in return for the favor.

Very few moneylenders refuse to grant more time to borrowers in arrears. The few cases of strict moneylenders encountered had in fact accumulated substantial land though foreclosure. In general, lenders will grant two extensions of roughly three months prior to taking any action. They rarely raise the interest rate after the initial loan period and rarely seek recourse through the courts. About half the moneylenders compound interest and about half allow for the principal to be paid off independently of the principal.

In general, while arrears are common, default is not high among borrowers. Most moneylenders appear to have seized the cattle, land or homes of at least a handful of borrowers, but lending as a means of land acquisition was limited to a few areas. In two areas, lenders would allow defaulted borrowers to remain on their land as "guardians." Guardians are required to sharecrop the land they once owned and to work one week out of every four on the lender's property at 3/4 the going market wage. Reportedly few people chose this option.

Cash Loans among Family and Friends

Initially, the distinction between loans from moneylenders and loans from family and friends can be somewhat artificial, but informants frequently insisted on distinguishing those who dedicate themselves primarily to lending. While many reported that smaller loans of up to 200 Quetzales (but usually more like 15-50 Quetzales) for fertilizer, illness, and other unforeseen necessities disbursed interest-free, loans from neighbors and friends frequently entailed the same collateral and interest requirements as loans from moneylenders.

Moreover, the most isolated indigenous highland communities, where there is little social differentiation, have the custom of travelling several hours by foot to guarantee inter-household loans in the municipal office buildings in the presence of official notaries. This seems to be true whether or not there is interest charged or collateral required, which there frequently is.

In the south, inter-family loans are much less common, but are usually larger, averaging 100 Quetzales, are interest free, and require only a simple written receipt as guarantee. While there are similarly both villages without inter-familial credit as well as many interest-free inter-familial loans in the east, they nonetheless appear to be more commercialized, with six month loans as low as 100 Quetzales requiring 200 percent collateralization and monthly interest charges of 20 percent. Unlike moneylenders, there were no reports in any of the regions of friends or family strictly enforcing the loan periods, which ranged up to one year. In one instance in the east, interest rates were successively lowered from 20 to 15 percent if the borrower was unable to pay at the stipulated time. Likewise, there were no reported cases of default or foreclosures.

CHAPTER VIII

REVIEW OF USAID RURAL FINANCE PROJECTS

Small Farmer Coffee Improvement Project[1]

The main objective of the Small Farmer Coffee Improvement Project is to increase the incomes of small-scale coffee farmers through increasing their production, productivity and product quality. This is to be achieved through a combination of improved technical assistance and access to credit from formal financial institutions (i.e., BANDESA and participating commercial banks). Lack of access to credit, especially longer-term credit, is identified as a key constraint that prevents small-scale farmers from undertaking investments (i.e., replanting relatively unproductive coffee acreage with new varieties in accordance with recommended techniques) that could increase their production, productivity and product quality and thereby achieve the objectives of the project. To capitalize the credit component of the project, USAID is to provide $300,000 in foreign exchange and the equivalent of $1,200,000 in local currency, while the Guatemalan Government is to contribute the equivalent of $9,250,000 from PL 480 funds during the first five years of the project.

Loans to farmers are to carry market rates of interest, initially 16 percent (the maximum rate permitted on commercial bank loans at the time the project was initiated) with provisions for adjustments to ensure market rates throughout the life of the project. However, there is no specification of how such adjustments are to be determined or implemented, as, for example, under the current situation of no controls over interest rates, and whether such adjustments would apply to already outstanding loans -- an important consideration since loan terms are up to seven years with up to three years of grace on repayment of principal. Project credit funds are to provide loans to farmers adequate to finance the renovation of one manzana (1.6 acres) of old low-yielding coffee over a two year period followed by two years of production credit. In addition, the Guatemalan Government and the participating commercial banks are to agree to continue to provide annual production credit to project beneficiaries after their fourth year of being financed under the project. To be eligible to participate in the project, a farmer must have no more than fifteen manzanas of land with at least two manzanas planted in coffee producing at relatively low yields, and he must also have the capacity to absorb the loss of income during the renovation

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[1]USAID/Guatemala, Small Farmer Coffee Improvement Project Paper, 1989.

period and to meet the obligations imposed by the project loan.[2] In addition, to participate a farmer must be a member of a coffee cooperative or of one of the groups formed by ANACAFE, although neither the cooperatives nor ANACAFE will be lenders under the project.[3]

Project credit funds are to be provided through trust funds placed in participating banks, as this was judged the only way to circumvent legally-imposed collateral requirements and to reduce to acceptable levels the risks perceived by commercial banks in lending to small-scale coffee farmers. Incentives for effective client selection, credit supervision and loan collection are to be maintained by the fact that participating banks will only receive income when interest is actually collected (although participating banks will still have far greater incentives to attempt to assure the collection of loans for which principal as well as interest is at risk). Interest earned on project loans (initially 16 percent) is to be divided as follows: Ministry of Finance, 0.5 percent; participating bank, 6.0 percent; ANACAFE, 5 percent; and creation of reserves for problem loans, 4.5 percent. ANACAFE is not only to take the lead in providing technical assistance to project beneficiaries but is also to play a major role in identifying borrowers, preparing loan documents, supervising credit use and collecting loans. The use of trust funds and the role of ANACAFE are together to overcome the two main barriers that have been identified as preventing banks from lending to small-scale farmers -- high costs and high risks. Moveover, banks are said to be less reluctant to lend to coffee producers because of relatively secure markets and foreign exchange earnings, together with the existing involvement of some banks in coffee processing and marketing. Participating banks are thus supposed to learn through project lending that it can be less costly and risky to lend to small-scale coffee farmers than they had initially feared -- in addition to their commitment to supply short-term production credit to project beneficiaries in later years.

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[2]Credit under the project is also to be made available for nurseries to produce high-yielding and disease-resistant seedlings and to construct or upgrade coffee processing facilities oriented toward small farmers.

[3]Two federations of coffee cooperatives, FEDECOCAGUA and FEDECOVERA, have been identified as potentially useful for technical assistance under the project. However, because of major weaknesses, neither these federations nor their affiliated cooperatives are to be lenders under the project. Given these weaknesses, it is unclear that the benefits of required cooperative (or ANACAFE group) membership for project beneficiaries will outweigh the potential for abuse that exists through this approach to rationing access to credit under the project.

In the design of the credit component of the project considerable attention has been paid to collaboration between ANACAFE and the participating banks that is supposed to allow these banks to reduce costs and risks and thereby remove the main impediments to lending to small-scale producers. However, shared responsibility for client selection and supervision has often led to serious loan recovery problems in credit projects. In addition to the general problem that when two entities are jointly in charge of an activity, no one is in fact in charge, the emphasis on timely credit delivery (which is indeed highly important) may make it difficult for participating banks to review applicants adequately or to deny loans to marginal applicants. Moreover, in spite of the emphasis in project design on enhancing credit delivery mechanisms and improving the operational efficiency of public and private lending programs, it is unclear what is to be done beyond the involvement of ANACAFE in the lending process. This orientation is reflected in the focus of proposed project evaluation on the impact of the project on the farmer beneficiaries rather than on improvements in the efficiency of participating banks and their ability to sustain lending to small-scale producers. In addition, the reporting requirements under the project that are seen as necessary for adequate monitoring and evaluation may impose significant administrative costs on participating banks, as has often happened in similar projects.

Although the project description focuses substantially on the barriers that have inhibited bank lending to small-scale coffee producers, project design focuses primarily on channeling credit to intended beneficiaries, so that the project ultimately to be implemented has become highly similar to the types of traditional directed credit projects that have been criticized in AID's policy paper on Financial Markets Development and elsewhere. In spite of the efforts to induce participation in the project, it remains unclear that the capabilities and incentives for commercial banks to lend to small-scale producers will be permanently enhanced after project funds have been exhausted. Commercial banks may or may not find small-scale coffee producers to be good clients (i.e., low cost and low risk) depending on the success of the collaboration with ANACAFE which, as noted above, may face some significant difficulties. One alternative would have been to focus more directly on reducing lender costs and risks rather than shifting them to ANACAFE and trust funds. Another alternative would be to make greater use of informal sources of credit that already serve many small-scale coffee producers. Although these sources are often seen to be high cost and exploitive of small farmers, it may be possible to enhance competition among them by increasing their access to credit -- which may be less difficult than enhancing the access of small farmers to credit directly. Attention might be paid under the project to marketing and processing agents, in particular, as potential sources of credit for small-scale coffee producers as well as for the lessons that they can provide to formal lenders on client selection and loan recovery techniques.

Moreover, inadequate coffee marketing and processing arrangements have already been identified as barriers to increased producer incomes, and lower producer incomes will undoubtedly have a negative impact on the recovery of loans made under the project.

Agribusiness Development Project[4]

The objectives of the Agribusiness Development Project are to increase rural family incomes and exports of non-traditional crops (e.g., fruits and vegetables) through improved marketing opportunities to be achieved mainly by supporting agribusiness enterprises in rural areas. The project, which began in 1984, has three main components. The Non-Traditional Exporters Guild is to be supported through a grant of US$1 million to strengthen its export and investment promotion activities and to create a market information system. A grant of US$1.3 million has been provided for cooperative strengthening, especially in the areas of handling and marketing fruits and vegetables. The largest component is the credit component which includes a grant of US$0.6 million to the Central Bank of Guatemala for technical assistance and training to enhance the ability of participating financial institutions (including the Central Bank itself) to provide credit services, and a loan of US$9.5 million to the Central Bank, of which US$7.3 million is for on-lending by participating banks and finance companies, US$1.5 million is for on-lending by BANDESA to cooperatives, and US$0.7 million is for technical assistance in the development of rural agribusiness enterprises. Of these amounts, only US$1.4 million in loans had actually been disbursed by late 1987, with an additional US$2.5 million projected for early 1988. Moreover, only limited progress had been made in improving credit analysis at the level of the participating financial intermediaries and in facilitating credit operations at the level of the Central Bank, as little of the training and technical assistance funds had been used. The following discussion of the project and the evaluation of the project carried out in late 1987 focuses primarily on the reasons for the deficiencies in the credit component, as reflected in the slow disbursements, and the recommendations to overcome these deficiencies.

The evaluation presents a variety of reasons for the slowness of disbursements under the credit component of the project. Many potential borrowers are said to lack adequate collateral (for long term loans, banking law requires real estate valued at 200 percent of the amount of the loan), but this often appears to be an excuse rather than a reason as banks are able to find ways around this requirement when they are particularly interested in making a loan. Eligibility criteria for access to USAID loans funds at the Central

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[4]Arthur Young, Agribusiness Development Project: Mid-Term Evaluation, 1987

Bank were also initially quite restrictive as, for example, agricultural processors seeking loans under the project had to buy more than half their crop inputs from small farmers. However, these criteria were later modified so that eligible borrowers had only to satisfy one from among a number of criteria, such as generating foreign exchange, creating employment, processing non-traditional products, or transferring technology to benefit small farmers. In any case, the main reason for slow disbursement seems to have been a lack of attractiveness of the project's credit line relative to more easily available alternatives, together with a lower demand for credit for export oriented agribusinesses activities than had originally been anticipated. On one hand, domestic liquidity was much less tight than when the project was designed, and a number competing credit lines became available from other donor agencies and foreign governments. On the other hand, credit demand seems to have been overestimated because of a failure to analyze adequately the markets for non-traditional agricultural exports -- which were small, not growing and subject to potentially strong competition from neighboring countries.

In short, the credit component of the Agribusiness Development Project reflects many of the typical features -- and problems -- of directed credit programs in general. There often tends to be an underlying assumption that cheap and abundant credit can overcome shortcomings in other markets, such as a lack of adequate demand for non-traditional exports (perhaps stemming from an overvalued exchange rate). Moreover, attempts to target credit to specific beneficiaries and activities lead to the kinds of problems with eligibility criteria noted above, along with other restrictions such as limits on the proportion of working capital that can be financed relative to investments in plant and equipment and restrictions that borrowers not use project loans to refinance outstanding debts. In addition, a strong tendency arises for the Central Bank to take on roles in processing loan applications that delay and substantially increase the costs of lending under directed credit projects. In particular, insistence by the Central Bank on feasibility studies and other detailed information, which the Central Bank subsequently evaluates, reflects the Central Bank's view that it has important responsibilities in the allocation of project funds (and are not simply due to traditions of bureaucratic conservatism as the evaluation tends to emphasize). On the other hand, however, borrowers and financial intermediaries not only complain of costs and delays but also express fears of submitting confidential information to the Central Bank and even suggest that excessive requirements may reflect an adversarial relationship. Duplication -- both of effort and responsibility -- is central not only to the costs and delays but also to the lack of trust among the various parties -- borrowers, financial intermediaries and the Central Bank. Moreover, duplication and the resulting lack of clear responsibility can later cause serious loan recovery problems (something that has not yet arisen in this project) as each party tries to assign the responsibility for

problem loans to one of the other parties.

As the evaluation points out, USAID's efforts have led to greater flexibility in Central Bank operations, and efforts have also been made to enhance communication with financial intermediaries and potential borrowers about the project and especially about improvements in the operation of the credit component. Nonetheless, too much emphasis on promoting the project's credit line, as opposed simply to increasing the availability of information, can also create subsequent problems for loan recovery as beneficiaries become more interested in the potential grant aspects of the loan rather than the loan itself. In addition, the evaluation's recommendation to increase spreads for financial intermediaries, while compensating for the high operating costs of the project's credit line relative to alternative sources of funds, does not deal with the basic reasons for these high costs -- and especially for the duplication of effort and responsibility. In fact, the spread on project funds of 5.5 percent is already higher than the spread on the Central Bank's regular rediscount lines and does not allow enough for the capitalization of credit the fund (4.5 percent) to prevent its erosion by inflation, nor enough for the Central Bank (1 percent) to cover its administrative expenses, as long as the rate of interest is maintained at only 14 percent for project beneficiaries. Moreover, other recommendations in the evaluation, such as creating trust funds or loan guarantee mechanisms to speed disbursement of the project's credit funds, not only fail to address the basic reasons for slow disbursement but also run the risk of adding to the distortions in Guatemala's rural financial markets rather than contributing to reform and liberalization. A recommendation that could instead have received greater emphasis is more rapid use of grant funds for training and technical assistance to improve the credit operations of the Central Bank and participating intermediaries -- after first investigating why these funds have been so slow to disburse.

BANDESA's role in the project's credit component is to provide loans for cooperatives to support processing and marketing activities, especially for non-traditional exports, in coordination with technical assistance being provided to cooperatives under the project. However, BANDESA's project lending was also very small at the time of the evaluation -- just one loan from the project's credit line and two loans from competing sources to cooperatives receiving technical assistance under the project. BANDESA's limited participation in project lending is attributed in part, as in the case of private-sector financial institutions, to Central Bank delays, high administrative costs, low spreads on project funds relative to alternative sources, and a variety of eligibility requirements including the need for the borrower to be a legal entity, to provide guarantees in the form of land, to submit to joint and several liability and to provide at least 25 percent of project costs. In addition, maximum loan size is low for

cooperatives, many cooperatives are delinquent on prior BANDESA loans, and BANDESA is said to focus heavily on the political benefits of its lending -- which are said to be few because of the small size and low visibility of the project's cooperative credit component. BANDESA has also been criticized frequently for its excessive centralization and its lack of adequate field personnel. Although USAID has made significant efforts to improve BANDESA's operations, especially its credit delivery system, BANDESA still has numerous shortcomings, including high operating costs, severe loan recovery problems, lack of appropriate performance criteria and incentives for employees, unqualified and unproductive personnel, and political intrusions into its internal affairs. Until substantial progress in made in these areas, and especially in assuring BANDESA's independence from inappropriate external interference, gains from support provided by donor agencies are likely to be limited and transitory.[5]

Agricultural Production and Marketing Project[6]

The Agricultural Production and Marketing Project is a cooperative agreement with the American Institute for Free Labor Development to strengthen the capacity of Guatemala's National Labor Union Confederation and its farm union affiliates to provide agricultural services to members. The project is funded by grants of approximately US$320,000 and Q3,100,000 for a three year period from mid 1987 through mid 1990. Among the project's several components is a credit component, funded by a grant of Q875,000, to provide short-term loans to small-scale producers of corn and sesame. At the time of the evaluation at the end of 1988, approximately 800 farmers had received loans totaling about Q125,000, but in value terms only about 40 percent of these loans had been repaid on time. However, because the date of the evaluation was just after the due date for loan repayment, it is still too soon to know if loan repayment problems will plague this project as they have so many similar projects. Moreover, little information is provided in the evaluation about the terms and conditions of project loans, so that it is difficult to make any predictions about the future course of loan recovery or other

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[5]In 1989, the project was amended to add US$ 1 million to grant funds for the cooperative strengthening component of the project. In addition, because of continuing slow disbursement from BANDESA's credit line for lending to cooperatives, approximately US$ 0.6 million of these loan funds was transferred to the credit line for lending by banks and finance company which, subsequent to the evaluation of the project, had disbursed more rapidly.

[6]Consultores Agroindustriales, Report on the Mid-Term Evaluation of the Agricultural Production and Marketing Project, 1989.

aspects of the credit component of the project.

Highlands Agricultural Development Project[7]

The objective of the Highland Agricultural Development Project is to increase agricultural productivity, especially through improving the resource base of the rural poor. The first phase of the project had a rural road maintenance component and a natural resource component consisting in small-scale irrigation, soil conservation and reforestation. In the second phase a variety of technical and administrative services were added to support project beneficiaries on a more comprehensive basis, with particular focus on credit, marketing, research and increased technical assistance. The project was initially to be funded with a loan from USAID of US$7.5 million, a grant of US$1.5 million, and counterpart funds from the Guatemalan Government equivalent to approximately US$5.8 million, and this was subsequently increased through a series of loan and grant amendments to the original project. With the initiation of the second stage in 1988, a major addition was made to the project of US$15 million in USAID grant funds, along with the equivalent of approximately US$ 12.8 million in counterpart funds from the Guatemalan Government. The following discussion is based primarily on the evaluation of the project carried out late in 1987 and focuses on the credit aspects which, consisting in credit for irrigation facilities, fall within the irrigation component of the project.

The interest rate on loans to project beneficiaries was initially set at 6 percent but had been increased gradually to 10 percent as of late 1987. However, even this rate is well below the rate on commercial bank agricultural loans, especially if the effective rate rather than the stated rate is considered, as well as being below the rates that BANDESA, the project lender, charges on most of its other loans. In many recent years, moreover, the rate has been substantially below the rate of inflation so that the fund for project lending is being decapitalized -- even if loan repayment is 100 percent on time -- through large implicit subsidies to the fortunate current recipients of project loans at the expense of potential future beneficiaries. Other terms of project loans are also highly generous, including terms up to fifteen years, grace periods up to two years on principal, possible similar grace periods on interest, and highly flexible guarantee requirements. The evaluation recommends that some of these terms be tightened somewhat and, in particular, that interest rates on project loans be increased slightly and made flexible because of the need to compensate for inflation, especially on longer terms loans. However, even these interest rates would continue to be

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[7]Associates in Rural Development, Inc., Highlands Agricultural Development Project: Midterm Evaluation, 1987.

highly subsidized (i.e., they would not cover the cost of securing funds at market rates of interest and on-lending them under the project) and could even be negative in real terms unless interest rate flexibility is tied closely to inflation.

The credit component of the project is administered by BANDESA under a trust fund. Under the terms of the trust, BANDESA is compensated for its work by being allowed to retain the interest income collected on project loans. However, it must initially use its own funds for these loans and is then reimbursed with a lag of approximately six months. This can present problems for BANDESA because its difficult liquidity position results in almost total dependence on trust funds. Although BANDESA had about Q60 million in savings deposits, the evaluation does not recommend using these funds for agricultural loans because of the serious mis-matching of maturities and the risks of lending to small farmers. In any case, BANDESA's liquidity shortfalls are primarily due to loan recovery problems which the evaluation attributes mainly to pressures to lend to the politically powerful, to weak cooperatives and federations and in areas disturbed by violence, rather than to shortcomings in BANDESA's staff and operations. In fact, the evaluation largely praises BANDESA's project lending efforts but suggests that they may be too costly to be covered by even the total interest income from the project. Instead of suggesting increased efficiency in project lending, the evaluation recommends additional commissions for BANDESA along with support for improved infrastructure (e.g., vehicles and computers) and greater attention to savings mobilization. However, such support is unlikely to accomplish much until BANDESA's high costs and serious loan recovery problems due to lack of independence in selecting borrowers are resolved, while savings mobilization, though desirable in itself, may be dangerous if the funds mobilized are devoted to covering BANDESA's high costs or lent to questionable borrowers.

During the first phase of the project (including amendments) approximately US$2.4 million in USAID funds was available for irrigation loans, but as of the end of 1987 only about US$0.4 had been disbursed. According to the evaluation, this shortfall is not due to any BANDESA's shortcomings but rather to the failure of DIGESA to develop and submit enough loan applications. It is DIGESA's responsibility to develop the loan applications including preparing feasibility studies, organizing participants into groups and forwarding lists of potential borrowers to BANDESA to check for existing loan delinquency. BANDESA not only facilitates rapid loan approval by dividing large groups into smaller groups if necessary to avoid the delays from having to send loan applications over a certain limit to the central office for approval but also substitutes family members with no negative credit record for applicants with delinquent loans. In reviewing loan applications, moreover, BANDESA has not only stressed quick response but had also approved all applications submitted to it as of the date of the

evaluation. Although efforts to speed the lending process are commendable, such easy approval of all loan applications may subsequently result in serious loan recovery problems, particularly given the record of similar programs where the responsibility for lending is divided between two agencies. Borrowers may correctly perceive that the financial institution will take little responsibility for loan recovery, especially when the other agency effectively controls borrower selection. At the time of the evaluation, little information was yet available on loan recovery rates because of generous grace periods, but in one case where information was available (interest payments at BANDESA's Quezaltenango agency) only about 50 percent of payments due had been collected. On the other hand, the evaluation mentions that some loans made by other agencies had been prepaid, reflecting the profitability of small scale irrigation together with some borrowers' fears of debt.

Commercial Land Markets II Project[8]

The main objectives of the Commercial Land Markets II Project are to improve the welfare of Guatemala's rural poor and, at the same time, to increase overall agricultural output through better land utilization. These objectives are to be achieved through voluntary purchases of agricultural land by the Penny Foundation for resale in small parcels (2.8 hectares) to farmers having little or no land and by providing these beneficiaries with infrastructure, technical assistance and production credit. The project also includes a substantial research component to enhance the performance and evaluation of the project and to identify additional ways in which land transactions can be facilitated and their financing improved, not only in Guatemala but also in countries facing similar problems. The project is an extension of an earlier pilot project that involved a grant of $1 million to the Penny Foundation in 1984 for a similar program of land purchase and resale. Because of the apparent success of the pilot project, additional grants of $1 million were made to the Penny Foundation in 1985 and 1986, and these grants have since been included as part of the Commercial Land Markets II Project. The following discussion focuses primarily on the financial aspects of the project, that is, the financing of land purchases and sales and the extension of production credit to beneficiaries, but it is also necessary to discuss various aspects of land markets in Guatemala in order to understand more fully the potential that the Penny Foundation or alternative institutions or mechanisms may have to operate programs of this type on a sustainable basis.

In Guatemala, as elsewhere in Latin America, it is widely

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[8]USAID/Guatemala, Commercial Land Markets II Project Paper, 1987.

believed that large land holdings are often less efficiently used than smaller holdings. If this is in fact the case, then facilitating the transfer of land from large holdings to able farmers without adequate access to land has the potential to increase productivity as well as helping the rural poor. However, past land reform efforts of the Guatemalan Government have engendered strong political resistance, as well as being at most marginally successful, so that efforts under the Commercial Land Markets II Project are focused on voluntary market transfers of land rather than forced expropriations. The main barriers to such land transactions are said to be information and contracting, on one hand, and finance, on the other. Information about land markets, especially potential offers to sell, is said to be limited by the large gap between rich and poor in rural Guatemala and by past conflicts over land. It is also said to be complex and costly to undertake and administer the subdivision and selling of a large farm in small parcels. Finally, there is said to be no commercial financing of any kind available for rural land purchases in Guatemala. Grants to the Penny Foundation have allowed it to overcome these barriers by undertaking the functions of buying large farms, reselling small parcels and financing the purchase of these parcels.

To the extent that the Penny Foundation has been successful in such endeavors, it may be due to its special expertise in these areas (land purchase, parcelization and financing) that is unavailable to other agents, thereby allowing the Penny Foundation to be profitable where others cannot be -- or success may be due to access to grants from USAID and other donors. Since expertise in land purchase, parcelization and financing should be common to successful land developers in any country, it is important to know more precisely what the barriers are in rural Guatemala that inhibit carrying out these functions and exactly how the Penny Foundation has been able to overcome these barriers. Prospects can then be more adequately assessed for the continuing viability of the Penny Foundation's program (without permanent dependance on donor grants) and for the transfer of this expertise to other institutions to create similar programs to expand outreach on a sustainable basis. An important aspect of this is to separate the barriers in land purchase and parcelization from those in financing, since the imperfections implied are in different markets and hence in need of different remedies. The research component of the project appropriately focuses not only on a thorough evaluation of the Penny Foundation's activities but also on identifying imperfections in Guatemala's land and financial markets and then supporting institutions and mechanisms that can overcome these barriers and thus provide more adequate markets for rural land transactions and their financing.

The amount of funding for the project is US$14 million, including the US$2 million in USAID grants to the Penny Foundation that occurred in 1985 and 1986, US$8.5 million in new USAID

contributions, and US$3.5 million in counterpart contributions from the Penny Foundation (mainly for the payment of principal and interest on notes issued in land purchase transactions and for the continuation of traditional Penny Foundation programs). These funds are divided into six main components: (1) land purchase and resale (US$5.005 million); (2) farm management (US$0.822 million); (3) production credit (US$4.338 million); (4) improvements in administration (US$ 2.018 million); (5) inflation and contingencies (US$1.067 million); and (6) studies (US$0.750 million). This breakdown of project funding shows clearly that land purchase and resale supported by production credit for beneficiaries is the main activity of the project, with subsidiary support for farm management, administration and research studies. The level of project funding was established based on the objective of making the land purchase and resale activity self supporting at a designated level of land purchases -- which was later determined to be 1,350 hectares per year.

In an evaluation of the pilot project carried out in May, 1987, the Penny Foundation's procedures for reviewing farms and making purchase offers were criticized, but in addition the requirement of making purchases with at most 50 percent down and the remaining portion to be paid over five years at 9 percent interest may not always be optimal to secure the best price. In particular, the optimal financing offer will depend on the relative liquidity positions of the Penny Foundation and the other party to the transaction and the interest rate that each would have to pay to obtain additional funds. The price to be paid by beneficiaries for their 2.8 hectare parcels is based on the cost of the farm plus surveying and parceling costs. Payments are to be made over a ten year period, with a 10 percent down payment, but the Penny Foundation has been flexible with downpayments in order not to exclude participation by landless individuals with few assets. In addition, production credit is provided to beneficiaries in the form of inputs (supplied by the Penny Foundation) and in cash (a subsistence wage for half the work done on the farm by the beneficiary). It is argued that the Penny Foundation must provide production credit not only because no other source of such credit is available, but also because providing short-term credit helps the Penny Foundation's cash flow situation by complementing its long-term loans for land purchase. Loans for both land purchase and production carry the same interest rate, 12 percent at the time the project was designed and expected to rise to 14 percent.

A more appropriate justification for the Penny Foundation's role in lending to beneficiaries is the Foundation's comparative advantage (i.e., economies of scope in information and loan collection arising from its relationships with beneficiaries) that allows it to lend profitably to beneficiaries while other potential lenders cannot. However, interest rates on loans to beneficiaries must be adequate to cover the Penny Foundation's costs -- both the cost of funds and loan administration (including losses from

repayment problems) -- in order to avoid decapitalizing the Foundation while providing unwarranted subsidies to beneficiaries. The interest rates to be charged to beneficiaries are said to be competitive with prevailing market rates, but they are certainly not adequate to cover the Penny Foundation's cost of funds and loan administration -- if they were, the Foundation should be both able and eager to expand its lending activities. Moreover, these interest rates are well below those available even to most large-scale producers and, for this reason as well, represent an unwarranted subsidy to beneficiaries. If, for either social or economic reasons, beneficiaries are to receive subsidies, such subsidies can be more easily justified and more effectively delivered as technical assistance. In addition, the emphasis in the project document that these interest rates are positive in real terms, though currently correct, provides no guarantee that this will be true throughout the lives of the longer-term loans for land, as there appears to be no mechanism in the project by which interest rates on outstanding loans can subsequently be adjusted.

The size of the project, that is, the amount of the grant from USAID to the Penny Foundation, was determined on the basis of the amount that would be required to make the Penny Foundation's land purchase and resale operations sustainable at the designated level of 1350 hectares each year. In the project discussion, both the cash flow position and the solvency of the Penny Foundation are mentioned as key constraints to be overcome in the selection of this level. However, as the foregoing discussion indicates, interest rates charged to beneficiaries are not adequate at any level of operations to achieve either solvency or a manageable cash flow position for either the Penny Foundation or other institutions that may later be asked to replicate these activities. If the crops to be planted by the beneficiaries in fact generate high rates of return that can cover the full costs to the Penny Foundation of providing credit to beneficiaries, as well as the initial costs of purchasing and dividing the land, then the sustainability of the project can be assured if adequate (market) prices and interest rates are charged (except that a continuing subsidy for technical assistance may be justified). If returns to beneficiaries are not adequate to cover these costs, then the project will never be viable without a perpetual subsidy, and other approaches to assisting these beneficiaries should be sought. Given that rates of return for beneficiaries are adequate, the key elements in the success of the project will, as indicated initially, be the particular expertise that enables the Penny Foundation to buy large farms, resell them in small parcels and provide credit to the beneficiaries, all in efficient ways that can be identified and ultimately replicated by other institutions.

Penny Foundation Proposal To Create a Finance Company[9]

The Penny Foundation has proposed to create a new finance company that would have the basic objective of providing credit to low-income producers who are involved in viable, socially-oriented programs and projects sponsored by the Penny Foundation and similar non-governmental organizations. In providing credit and other financial services to assist beneficiaries in the development of productive activities, highest priority would be given to the projects of the Penny Foundation, especially its Integrated Development Program (i.e., USAID's land purchase and resale project). Moreover, profits earned by the finance company, and not reinvested, would be transferred to the Penny Foundation to cover its general expenses.[10] In addition to making medium and long term loans, the finance company would provide a wide range of financial services to its beneficiaries, including: capital investments, short term loans based on central bank rediscounts; guarantees, advances and discount operations; housing finance; and stock market operations, especially involving instruments issued by the Penny Foundation or by beneficiaries. In order to obtain funds to provide these services, the finance company would have the usual powers of a financial intermediary, including: issuing a wide range of instruments; obtaining foreign and domestic loans; operating trust funds; and accessing central bank rediscounts. In addition, the Penny Foundation argues that the finance company would need a significant donation of capital to provide a high proportion of low-cost funds in order to make loans at interest rates competitive with, or lower than, commercial bank rates and still operate viably.

In spite of the Penny Foundation's intention that the finance company should make loans that can be recovered (e.g., for productive activities in low risk areas) and should operate profitably, the chances that the proposed finance company would in fact be viable are slim. The record of efforts to create similar (i.e., socially oriented, yet profitable) finance companies in other Latin American countries or elsewhere in the developing world is not promising. The few finance companies of this type that have continued to operate have either dropped their social objectives

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[9]Penny Foundation, Perfil Sobre la Creacion de una Sociedad Financiera que de Apoyo a las Operacions de la Fundacion Del Centavo y otras ONGs, 1989.

[10]Profits will need to be retained to cover inflation, to create reserves against problem loans and to allow for further growth if leverage become too high. Moreover, profits should not be artificially enhanced by special privileges for the finance company, such as exemption from taxes because it is owned by the Penny Foundation and other non-profit institutions, that would create financial market distortions.

and become purely profit oriented or have continued to depend heavily on grants from governments or donor agencies for their survival. In addition, the finance company proposed by the Penny Foundation has elements of potential conflict that will likely hasten its demise (or its reorientation in unintended directions). An essential element in the successful regulation and supervision of financial intermediaries in any country is strong and effective limits over the provision of loans and other services to related parties, that is, the owners and managers of a financial intermediary and individuals and entities connected to them. Involvement in such lending inevitably leads to serious loan recovery problems as the financial intermediary is neither free to select clients with the greatest likelihood of repaying loans nor to press recalcitrant borrowers strongly to repay. The prospects for the Penny Foundation's proposed finance company are even more bleak because of almost certain conflicts between the Penny Foundation and other nongovernmental organizations over priorities in the provision of loans and other financial services, as well as between the beneficiaries and the institution in charge of each program over who will in fact be responsible for allocating loans and subsequently collecting them.

The Penny Foundation's proposal is also problematic in that it depends on a large initial infusion of capital to attempt to insure the future viability of the finance company and to allow lending to beneficiaries at preferential rates of interest (rates equal or below those charged by commercial banks to their favored clients). To be viable in the long run, the finance company must charge rates of interest that cover the full cost of mobilizing funds from the public at market rates of interest and then lending these funds (including costs from the failure to recover loans on time). If the intended beneficiaries cannot afford to pay such rates of interest, then other mechanisms and programs are needed to increase the profitability of their activities. Providing loans at below market rates of interest will instead encourage rent seeking behavior by unintended recipients and, at best, create a privileged class among the intended beneficiaries as the amount of the subsidy required limits the outreach of the program. Moreover, the Penny Foundation's suggestion of a large initial grant to capitalize the finance company with low cost funds also inverts the normal financial structure of an enterprise for which equity capital is the most costly source of funds because it incurs the greatest risks. The amount of subsidy implicit in a grant of capital to start a finance company should be compared with the potential benefits from allocating equivalent resources to increase the profitability of the activities to be carried out by the beneficiaries (e.g., through technical assistance and training, together with efforts to improve the policy environment).

In addition to the foregoing general analysis, the Penny Foundation's proposal to create a finance company should be viewed specifically in relation to the USAID sponsored land purchase and

resale program. The Penny Foundation claims that it needs additional funds to expand this program to an acceptable size and believes that the newly created finance company could provide these funds from its mobilization of resources and its profits. Serious cash flow constraints have indeed emerged in the land purchase and resale program as more loans have been long term with the predominance of permanent crops on the farms being developed and especially as the program has been transformed into a more costly integrated development program with complementary infrastructure and services. In addition, there may be some slippage in loan collection which may not be readily apparent because of the Penny Foundation's flexibility in rescheduling loans based on its view that the initiation of new activities by beneficiaries with limited assets can be highly risky in the first stages. However, as the preceding analysis suggests, the proposed finance company is unlikely ever to have adequate profits to contribute funds to the Penny Foundation and, in order to mobilize funds successfully from the public, will need to pay market rates of interest which will require rates of return on its loans and investments adequate to cover all its costs. A crucial issue is thus whether lending under the land purchase and resale program can be carried out profitably and, if so, whether more profitably by a newly created finance company or by the Penny Foundation directly.

Cash flow problems should not be insurmountable if lending is profitable and if the newly created finance company (or the Penny Foundation itself) is creditworthy and hence can borrow at favorable rates of interest to finance its cash shortfall. However, continuing cash flow problems can be a sign of lack of profitability rather than just poor matching of cash flows. One advantage of separating lending activities from the Penny Foundation and assigning them to a newly created finance company is that it may be easier to identify sources of lack of profitability (e.g., the Foundation's land transactions or the provision of infrastructure and complementary services) and to deal with them appropriately (i.e., make them profitable, subsidize them if justified or discontinue them). On the other hand, because of economies of scope in information and loan collection arising from the Penny Foundation's relationships with beneficiaries, as noted earlier, it may be preferable to maintain lending activities within the Foundation itself in spite of the potential advantages from specialization in the provision of financial services. Moreover, in spite of the Penny Foundation's apparent lack of enthusiasm for loan collection responsibility, it may be more effective than a finance company that is likely to suffer from the problems involved in lending to related parties also noted above. In any case, for either the Penny Foundation or a finance company, significant term transformation cannot be avoided, and this will require adjustable interest rates on longer term loans and major efforts to enhance liquidity management techniques (as well as techniques to deal with foreign exchange risk if foreign credits are used).

The foregoing discussion of the Commercial Land Markets II Project and the Penny Foundation's proposal to create a finance company suggests the need for further analysis of the options available to finance rural land transactions. While the creation of a new finance company (or the transformation of an existing one) may be helpful to finance rural land transactions and provide related financial services, the Penny Foundation's current proposal has serious shortcomings. Moreover, the in-depth analyses contemplated under Commercial Land Markets II Project, not only of the Penny Foundation's land purchase and resale program but also of alternative mechanisms to finance rural land transactions, are likely to be crucial in reaching a judgement on what is workable. In particular, it will be important to know whether the Penny Foundation's cash flow problems are due in part to losses sustained in certain activities and, if so, which activities (e.g., land transactions or lending) before appropriate lessons can be learned from the Penny Foundation's experience to be transmitted to other non-governmental institutions. In addition, closer analysis of land transactions and their financing can pinpoint the imperfections that need to be addressed and can indicate which mechanisms and institutions are likely to have a comparative advantage in implementing the necessary innovations that can make these activities viable. One potentially significant (but generally neglected) area for such innovation may be savings mobilization, not only to contribute to land purchase operations and to the viability of financial institutions but also to provide important deposit and liquidity services for program beneficiaries who traditionally have been thought too poor to save.

Private Enterprise Development Project[11]

The objective of the Private Enterprise Development Project is to strengthen the role of the private sector, especially small and medium scale enterprises, in the Guatemalan economy and in policy making through a wide range of activities including technical assistance, training and improved access to financial services. The budget for the project during its five year life from mid 1987 through mid 1992 is approximately US$27.5 million, including a grant of US$10 million from USAID, a local currency equivalent of US$10.9 in ESF funds from the Guatemalan Government, and a local currency equivalent of US$6.6 in counterpart contributions from Guatemalan private sector institutions. The financial market development component of the project has two elements: (1) a loan guarantee fund to encourage lending to small and medium scale enterprises; and (2) support for financial market research, development, promotion and policy dialogue. The loan guarantee fund is supported by the equivalent of US$5.5 million in

[11]USAID/Guatemala, Private Enterprise Development: Project Paper, 1987.

ESF funds from the Guatemalan Government, the equivalent of US$5.5 million from participating Guatemalan financial institutions, the equivalent of US$50,000 in ESF funds for promotional purposes, and a USAID grant of US$50,000 for technical assistance and staff training at participating banks. The financial market research, development, promotion and policy dialogue component is supported by a grant of US$500,000 from USAID and the equivalent of US$50,000 in ESF funds. Although this project and its financial market components are not oriented specifically toward rural Guatemala, it is nonetheless worthwhile to analyze these components briefly for the lessons that they can provide for rural financial market activities.

Small and medium scale enterprises have been identified as lacking access to adequate financial services (e.g., credit) because of a variety of financial market distortions, especially highly restrictive collateral requirements. A loan guarantee fund has thus been created to substitute for collateral, with initial participation by three banks. This fund guarantees 50 percent of the principal of qualifying loans (e.g., between 2,500 and 100,000 quetzales, with one year terms for working capital and up to five years for capital goods) to eligible small and medium scale enterprises (e.g., 10 to 100 employees, with certified financial statements and an acceptable business plan). For the guarantee, a fee of .5 percent is charged on the outstanding principal of the loan, and there are also certain reporting requirements. However, the significant burden for participating banks is that claims can only be submitted after a loan is six months overdue and after collection procedures, including legal action, have been initiated. After approval, 50 percent of the outstanding principal is reimbursed (and any amounts subsequently recovered are shared 50 - 50 until the entire principal has been recovered). In spite of USAID/Guatemala's efforts to avoid the problems that have plagued similar programs in other countries, use of the loan guarantee fund has been quite limited. Because of the long wait and the high costs of loan recovery efforts, incentives have not been adequate for banks to participate actively in the loan guarantee program. Moreover, collateral requirements may not be the main barrier to lending, as banks are reported to be willing to circumvent these requirements when they are in fact eager to make loans to particular clients.

The component of the Private Enterprise Development Project devoted to financial market research, development, promotion and policy dialogue appears to be a model of what might be accomplished in pinpointing distortions in rural financial markets and then addressing these distortions through research and policy dialogue along with related technical assistance and training. Moreover, the Guatemalan Financial Chamber, which has been designated as the counterpart institution for this component of the project, appears to have the support of the different private sector financial institutions that is necessary for the diagnosis of financial

market distortions and for policy dialogue that could lead to the implementation of appropriate reforms. Nonetheless, it must be remembered that at least some financial market distortions are the result of non-competitive behavior by members of the Guatemalan Financial Chamber, while members of the Chamber may also benefit from certain other distortions that stem from inappropriate financial market policies of the Guatemalan Government. Consequently, this component of the project may have a tendency to lag or to fail to focus on some of the most significant distortions unless USAID at times provides leadership to ensure that research and policy dialogue indeed address some of the more controversial issues in depth. On the other hand, the growing importance of non-regulated financial institutions and the competition they provide to the members of the Guatemalan Financial Chamber may make the members particularly interested in research and policy dialogue leading to policy reforms that enhance the members' ability to compete on equal terms.

EXHIBIT A

Individuals Interviewed

Individual / Title	Institution
Roberto Valladares Sub-Gerente	Banco de Guatemala
Edin H. Velásquez Sub-Gerente	Banco de Guatemala
Justo Román Ugarte Asistente de Gerencia	Banco de Guatemala
Percy Anibal McNutt Director II - Departamento de Estudios Económicos	Banco de Guatemala
Mario Roberto Oliva Director I Departamento de Crédito	Banco de Guatemala
Willy Zapata Lagastume Director I Departamento de Investigaciones Agropecuarios e Industriales	Banco de Guatemala
Saúl Arriaga Ponce Director -Departamento de Relaciones Públicas	Banco de Guatemala
Jorge Castillo Aragón Jefe - Organismos Financieros Internacionales	Banco de Guatemala
Fernando Fernández Jefe de Seccion Crédito Bancario	Banco de Guatemala
Gloria Lagastume de Arroyave Sub-Jefe - Seccion Bancaria e Instituciones Financieras Nacionales	Banco de Guatemala
Carlos Villeda Coordinador - Unidad Ejecutora de Crédito Agropecuario Préstamo BID 529-OC-GU	Banco de Guatemala
Oscar H. Cordón Consultor - Programa de Crédito Agropecuario Préstamo BID 529-OC-GU	Banco de Guatemala

EXHIBIT A

Individuals Interviewed
(continued)

Individual / Title	Institution
Mario Guillermo Paz Director (Sección de Banca)	Superintendencia de Bancos
Guillermo Rodriguez Coordinador Area Comercio Exterior	Cámara Empresarial de Guatemala
Juan Osberto Mendez Economista - Analista	Cámara Empresarial de Guatemala
Rodolfo Ferber Aguirre Director Ejecutivo	Cámara de Industria de Guatemala
J. Roderico Rossell Gerente General	Financiera Industrial y Agropecuario, S.A. (FIASA)
Rodolfo Castellanos Gerente General	Banco Industrial, S.A.
Diego Pulido Aragón Gerente	Banco Industrial, S.A.
Oscar Salazar Subgerente Financiero	Banco Industrial, S.A.
Roberto Ramirez Jefe Departamento de Préstamos	Banco Agrícola Mercantil
Arturo Romeo Chávez Asistente Jefe Depto. de Préstamos	Banco Agrícola Mercantil
Roberto Mazariegos Godoy Director Consejo de Administración y Gerente General	Banco Inmobiliario, S.A.
Egemberto Alvergue Oliveros Sub-Gerente General	Banco Granai & Townson, S.A.
Rodolfo Granai Sub-Gerente	Banco Granai & Townson, S.A.
Sergio Leal Espinosa Gerente General	Banco Nacional de Desarrollo Agrícola (BANDESA)

EXHIBIT A

Individuals Interviewed
(continued)

Individual / Title	Institution
Oscar Alvarez Marroquin Gerente General	Banco de la Construcción, S.A.
and	
Presidente	Asociación de Bancos
Rafael Viejo Rodríguez Gerente General	Banco de Exportación, S.A.
Irene Arroyave G. de Asturias Jefe del Departamento Financiero	Banco de Occidente
Alfredo Gil Spillari Gerente	Consejo Nacional del Algodón
Arturo Aldana Managing Partner	KPMG Peat Marwick

EXHIBIT B

Geographic Distribution of Banking Offices in Guatemala
(as of December 31, 1988)

	Public Sector Banks				Private	
Department	Guatemala	C.H.N.	BANDESA	BANVI	Banks	Total
Guatemala	4	8	2	5	110	129
El Progreso	1	-	1	-	-	2
Sacatepequez	1	-	1	-	3	5
Chimaltenango	1	-	2	-	1	4
Escuintla	2	2	3	-	14	21
Santa Rosa	1	-	2	-	2	5
Solola	1	-	1	-	1	3
Totonicapán	1	-	1	-	-	2
Quezaltenango	1	1	2	1	18	23
Suchitepequez	1	1	2	-	7	11
Retalhuleu	2	-	1	-	4	7
San Marcos	3	1	3	-	5	12
Huehuetenango	1	-	1	-	3	5
El Quiche	1	1	2	-	1	5
Baja Verapaz	1	-	1	-	-	2
Alta Verapaz	1	1	3	-	5	10
El Petén	2	1	3	-	1	7
Izabal	2	-	2	-	5	9
Zacapa	1	1	1	-	4	7
Chiquimula	1	1	2	-	3	7
Jalapa	1	-	1	-	1	3
Jutiapa	1	-	2	-	2	5
Total	31	18	39	6	190	284

EXHIBIT C

Private Banks - Total Banking Offices
(includes headquarters, branches and agencies)

Bank	Guatemala City	Other Cities	Total Offices
Granai & Townsen	13	10	23
del Agro	8	13	21
Inmobiliario	11	5	16
del Cafe	6	10	16
del Occidente	6	10	16
del Ejército	5	10	15
Industrial	10	4	14
Internacional	10	2	12
Agrícola	4	8	12
Metropolitano	7	3	10
Trabajadores	6	3	9
Lloyds Bank	5	3	8
Construcción	4	2	6
del Quetzal	4	2	6
Bank of America	2	-	2
de Exportación	2	-	2
Promotor	2	-	2
Total	105	85	190

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EXHIBIT D

BALANCE SHEET DATA FOR 20 GUATEMALAN BANKS

(all figures in thousands of quetzales as of September 30, 1989)

Bank	Loans	Past-due Loans	Allowance for loan losses	Discounts	Past-due Discounts	Allowance for losses: discounts
Agricola Mercantil	214,113	10,471	993	1,995	1,045	230
Agro	114,092	41,604	1,406	717	451	106
Cafe	102,336	36,697	1,051	7,135	2,338	500
Construccion	71,333	11,671	336	798	1,307	54
Ejercito	115,954	19,684	1,504	9,003	1,333	314
Banex	90,275	25,468	0	12,174	138	0
Granai & Townson	228,193	57,145	979	2,467	1,428	603
Industrial	390,357	12,051	450	4,918	540	0
Inmobiliario	77,341	64,816	190	2,755	2,950	342
Internacional	124,878	30,471	769	2,445	729	40
Metropolitano	117,657	29,428	351	810	1,157	15
Occidente	356,449	33,011	0	2,986	900	0
Promotor	44,511	121	50	9,328	101	0
Quetzal	58,358	2,530	246	4,604	166	27
Trabajadores	53,557	9,557	1,033	181	1,072	401
Bank of America	35,962	9,089	0	0	0	0
LLoyds	108,448	21,567	98	3,418	0	0
Bandesa	63,929	17,603	7,825	15	3,724	3,724
BANVI	87,596	4,243	420	105	661	114
C.H.N.	167,966	22,527	3,012	4,973	2,488	1,411
Total: 20 banks	2,623,305	459,754	20,713	70,827	22,528	7,881

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EXHIBIT D

BALANCE SHEET DATA FOR 20 GUATEMALAN BANKS
(continued)

(all figures in thousands of quetzales as of September 30, 1989)

Bank	Receivables in Foreign Currency	Allowance for losses: receivables in foreign currency	Net loans + discounts	Interest Receivable: Loan Interest	Interest Receivable: Discount Interest
Agricola Mercantil	939	0	227.340	4.123	576
Agro	60	0	155.412	4.627	96
Cafe	713	165	147.503	2.027	31
Construccion	146	0	84.865	2.665	352
Ejercito	33	33	144.156	3.405	822
Banex	1.521	0	129.576	80	4
Granai & Townson	14	0	287.665	3.207	36
Industrial	2.990	0	410.406	5.689	27
Inmobiliario	0	0	147.330	1.728	5
Internacional	188	0	157.902	1.483	110
Metropolitano	0	0	148.686	8.392	459
Occidente	4.643	0	397.989	3.831	117
Promotor	70	0	54.081	50	5
Quetzal	0	0	65.385	132	2
Trabajadores	0	0	62.933	5.794	1.206
Bank of America	0	0	45.051	409	0
LLoyds	0	0	133.335	88	0
Bandesa	0	0	73.722	14.952	3.464
BANVI	0	0	92.071	5.812	1.261
C.H.N.	688	0	194.219	12.164	1.284
Total: 20 banks	12.005	198	3.159.627	80.658	9.857

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EXHIBIT D

BALANCE SHEET DATA FOR 20 GUATEMALAN BANKS
(continued)

(all figures in thousands of quetzales as of September 30. 1989)

Bank	Other Assets Owned		Other Assets				
	Total	Doubtful	Overdrafts	Receivables from Sale of Assets	Doubtful	Other	Total
Agricola Mercantil	127	(7)	706	0	(259)	958	1,405
Agro	529	0	2,460	331	(54)	1,382	4,119
Cafe	517	0	1,607	0	(666)	4,975	5,916
Construccion	933	0	589	3,084	(12)	489	4,150
Ejercito	1,396	(25)	0	10,234	(278)	918	10,874
Banex	0	0	1,162	0	0	611	1,773
Granai & Townson	1,128	193	97	1,250	(58)	1,206	2,495
Industrial	0	0	1,539	1,238	0	909	3,686
Inmobiliario	28,156	0	1,208	21,613	0	934	23,755
Internacional	177	0	37	762	(57)	469	1,211
Metropolitano	75	0	671	2,880	(10)	7,083	10,624
Occidente	219	0	122	895	0	362	1,379
Promotor	0	0	0	0	0	85	85
Quetzal	0	0	0	0	(48)	185	137
Trabajadores	n.a	n.a	40	5,258	(43)	535	5,790
Bank of America	0	0	13	1,170	0	848	2,031
LLoyds	0	0	413	5,413	0	61	5,887
Bandesa	4,140	27	0	451	(750)	2,380	2,081
BANVI	297	0	68	624	(46)	24,105	24,751
C.H.N.	2,622	(1640)	0	2,284	(144)	3,489	5,629
Total: 20 banks	40,316	220	10,732	57,487	(2,425)	51,984	117,778

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EXHIBIT D

BALANCE SHEET DATA FOR 20 GUATEMALAN BANKS
(continued)

(all figures in thousands of quetzales as of September 30, 1989)

Bank	Capital Accounts: Capital Stock	Capital Reserves	Retained Earnings	Net Worth	Net Worth + Allowances for losses
Agricola Mercantil	5,000	17,157	3,861	26,018	27,241
Agro	10,000	11,276	5,785	27,061	28,573
Cafe	9,150	2,807	6,641	18,598	20,314
Construccion	9,916	141	3,397	13,454	13,844
Ejercito	9,761	6,949	1,424	18,134	19,985
Banex	7,500	4,715	11,538	23,753	23,753
Granai & Townson	13,000	10,337	4,219	27,556	29,138
Industrial	25,000	19,123	2,862	46,985	47,435
Inmobiliario	35,000	619	(5063)	35,619	36,151
Internacional	11,000	5,452	2,649	19,101	19,910
Metropolitano	14,854	885	(362)	15,739	16,105
Occidente	5,000	35,890	13,556	54,446	54,446
Promotor	5,666	21	405	6,092	6,142
Quetzal	5,000	1,150	362	6,512	6,785
Trabajadores	21,502	17	(7767)	21,519	22,953
Bank of America	3,000	2,997	1,001	6,998	6,998
LLoyds	5,220	6,280	5,061	16,561	16,659
Bandesa	22,986	0	(8173)	14,813	26,362
BANVI	60,293	0	(18732)	41,561	42,095
C.H.N.	11,533	10,743	4,589	26,865	31,288
Total: 20 banks	290,381	136,559	67,350	467,385	496,177

EXHIBIT D

BALANCE SHEET DATA FOR 20 GUATEMALAN BANKS
(continued)

(all figures in thousands of quetzales as of September 30, 1989)

Bank	Net loans + discounts	Total Deposits	Total Assets	Rank by Total Loans	Rank by Total Assets	Rank by Total Deposits
Agricola Mercantil	227,340	374,078	451,279	4	4	4
Agro	155,412	269,963	342,183	7	6	6
Cafe	147,503	279,914	374,605	9	5	5
Construccion	84,865	137,621	224,192	15	15	13
Ejercito	144,156	191,499	240,464	11	14	11
Banex	129,576	125,587	252,394	13	13	15
Granai & Townson	287,665	443,971	541,151	3	3	3
Industrial	410,406	613,921	855,436	1	1	1
Inmobiliario	147,330	223,682	324,800	10	7	8
Internacional	157,902	241,712	294,840	6	9	7
Metropolitano	148,686	194,930	267,361	8	11	10
Occidente	397,989	588,507	752,145	2	2	2
Promotor	54,081	83,506	101,071	19	19	17
Quetzal	65,385	89,883	107,311	17	18	16
Trabajadores	62,933	72,564	112,030	18	17	19
Bank of America	45,051	70,534	88,355	20	20	20
LLoyds	133,335	174,241	253,996	12	12	12
Bandesa	73,722	133,521	183,905	16	16	14
BANVI	92,071	75,132	294,428	14	10	18
C.H.N.	194,219	217,122	300,964	5	8	9
Total: 20 banks	3,159,627	4,601,888	6,362,910			

EXHIBIT E

BALANCE SHEET RATIOS FOR 20 GUATEMALAN BANKS

(Percentages as of September 30, 1989)

Bank	Past due loans and discounts / Total Loans and discounts	Allowance for loan and discount losses / Total Loans and discounts	Allowance for loan and discount losses / Past due loans and discounts	Past due loans and discounts / Net Worth
Agricola Mercantil	5.0	0.5	10.6	44.3
Agro	26.8	1.0	3.6	155.4
Cafe	26.2	1.1	4.4	209.9
Construccion	15.2	0.5	3.0	96.5
Ejercito	14.4	1.3	8.8	115.9
Banex	19.8	0.0	0.0	107.8
Granai & Townson	20.3	0.5	2.7	212.6
Industrial	3.1	0.1	3.6	26.8
Inmobiliario	45.8	0.4	0.8	190.3
Internacional	19.7	0.5	2.6	163.3
Metropolitano	20.5	0.2	1.2	194.3
Occidente	8.5	0.0	0.0	62.3
Promotor	0.4	0.1	22.5	3.6
Quetzal	4.1	0.4	10.1	41.4
Trabajadores	16.5	2.2	13.5	49.4
Bank of America	20.2	0.0	0.0	129.9
LLoyds	16.2	0.1	0.5	130.2
Bandesa	25.0	13.5	54.2	144.0
BANVI	5.3	0.6	10.9	11.8
C.H.N.	12.6	2.2	17.7	93.1
Weighted average: (all banks)	15.1	0.9	6.0	103.2

EXHIBIT E

BALANCE SHEET RATIOS FOR 20 GUATEMALAN BANKS
(continued)

(Percentages as of September 30, 1989)

Bank	Past due loans and discounts / Net worth + Allowance for loan and discount losses	Total Allowances / Net Worth	Interest Receivable / Past Due Loans	Interest Receivable / Net Worth	Interest Receivable / Total Loans and discounts
Agricola Mercantil	42.3	4.7	40.8	18.1	2.1
Agro	147.2	5.6	11.2	17.5	3.0
Cafe	192.2	9.2	5.3	11.1	1.4
Construccion	93.7	2.9	23.2	22.4	3.6
Ejercito	105.2	10.2	20.1	23.3	2.9
Banex	107.8	0.0	0.3	0.4	0.1
Granai & Townson	201.0	5.7	5.5	11.8	1.1
Industrial	26.5	1.0	45.4	12.2	1.4
Inmobiliario	187.5	1.5	2.6	4.9	1.2
Internacional	156.7	4.2	5.1	8.3	1.0
Metropolitano	189.9	2.3	28.9	56.2	6.0
Occidente	62.3	0.6	11.6	7.3	1.0
Promotor	3.6	0.8	24.8	0.9	0.1
Quetzal	39.7	4.2	5.0	2.1	0.2
Trabajadores	46.3	6.7	65.9	32.5	11.1
Bank of America	129.9	0.0	4.5	5.8	0.9
LLoyds	129.5	0.6	0.4	0.5	0.1
Bandesa	80.9	78.0	86.4	124.3	22.6
BANVI	11.6	1.3	144.2	17.0	7.7
C.H.N.	80.0	16.5	53.8	50.1	6.9
Weighted average: (all banks)	97.2	6.2	18.8	19.4	2.9

EXHIBIT E

BALANCE SHEET RATIOS FOR 20 GUATEMALAN BANKS
(continued)

(Percentages as of September 30, 1989)

Bank	Other Assets Owned / Net Worth	Receivables Sale of Other Assets Owned / Net Worth	(Past Due Loans + Interest Receivable + Other Assets Owned) / Net Worth + llowances	(Past Due Loans + Intere receivable + Other asse owned + Receivables fr sale of other assets) Net Worth + Allowance
Agricola Mercantil	0.5	0.0	60.0	60
Agro	2.0	1.2	165.6	166
Cafe	2.8	0.0	204.8	204
Construccion	6.9	22.9	122.3	144
Ejercito	7.7	56.4	133.3	184
Banex	0.0	0.0	108.2	108
Granai & Townson	4.1	4.5	216.0	220
Industrial	0.0	2.6	38.6	41
Inmobiliario	79.0	60.7	270.1	329
Internacional	0.9	4.0	165.6	169
Metropolitano	0.5	18.3	245.3	263
Occidente	0.4	1.6	69.9	71
Promotor	0.0	0.0	4.5	4
Quetzal	0.0	0.0	41.7	41
Trabajadores	0.0	24.4	76.8	99
Bank of America	0.0	16.7	135.7	152
LLoyds	0.0	32.7	130.0	162
Bandesa	27.9	3.0	166.5	168
BANVI	0.7	1.5	29.2	30
C.H.N.	9.8	8.5	131.3	138
Weighted average: (all banks)	8.6	12.3	123.6	135.

Prestamos y Descuentos
Sistema Bancario
(Miles de Qtzs. Reales)

Table A1

Categoria	1983	1984	1985	1986	1987	1988
Agricultura	1586.89	1652.06	1266.80	1041.25	1060.08	838.90
Agricultura	1341.26	1349.96	962.93	853.73	801.80	634.39
Ganaderia	219.55	249.49	285.39	170.89	238.69	178.31
Silv, Caza y Pesca	26.08	52.61	18.48	16.63	19.60	26.20
Ind. Manufactureras	2601.13	3182.14	3053.52	2319.49	3050.67	2359.23
Construccion	572.00	726.94	458.33	453.38	573.25	605.48
Comercio	2007.88	2461.99	2212.95	2374.73	2504.65	1822.98
Otros	1939.91	2557.68	1749.13	1428.05	2085.87	1413.85
Total	8707.80	10580.81	8740.72	7616.91	9274.52	7040.44
Otros	7120.914	8928.752	7473.921	6575.656	8214.441	6201.544
Distribucion Porcentual						
Agricultura	18.22	15.61	14.49	13.67	11.43	11.92
Agricultura	15.40	12.76	11.02	11.21	8.65	9.01
Ganaderia	2.52	2.36	3.27	2.24	2.57	2.53
Silv, Caza y Pesca	0.30	0.50	0.21	0.22	0.21	0.37
Ind. Manufactureras	29.87	30.07	34.93	30.45	32.89	33.51
Construccion	6.57	6.87	5.24	5.95	6.18	8.60
Comercio	23.06	23.27	25.32	31.18	27.01	25.89
Otros	22.28	24.17	20.01	18.75	22.49	20.08
Total	100.00	100.00	100.00	100.00	100.00	100.00
Tasas de Crecimiento						
Agricultura		4.11	-23.32	-17.80	1.81	-20.86
Agricultura		0.65	-28.67	-11.34	-6.08	-20.88
Ganaderia		13.64	14.39	-40.12	39.67	-25.30
Silv, Caza y Pesca		101.72	-64.88	-9.98	17.81	33.69
Ind. Manufactureras		22.34	-4.04	-24.04	31.52	-22.67
Construccion		27.09	-36.95	-1.08	26.44	5.62
Comercio		22.62	-10.12	7.31	5.47	-27.22
Otros		31.85	-31.61	-18.36	46.06	-32.22
Total		21.51	-17.39	-12.86	21.76	-24.09

Fuente: Boletin de Estadisticas Bancarias, IV Trimestre 1988.
Indice Anual de Precios al Consumidor 1988. INE.
Nota: Cifras nominales deflatadas en base a IPC de 1983-88.

Prestamos y Descuentos
Bcos. Privados
(Miles de Qtzs. Reales)

Table A2

Categoria	1983	1984	1985	1986	1987	1988
Agricultura	1505.00	1582.95	1173.27	1129.73	905.02	547.46
Agricultura	1293.85	1305.22	912.52	959.28	675.88	387.30
Ganaderia	185.38	228.85	242.50	153.98	209.86	135.03
Silv, Caza y Pesca	25.78	48.88	18.24	16.49	19.27	25.13
Ind. Manufactureras	2537.70	3104.94	2979.78	2229.96	2955.53	2276.60
Construccion	469.81	599.21	362.38	319.79	435.80	432.34
Comercio	1960.58	2416.21	2152.88	2303.88	2425.60	1781.62
Otros	1734.88	2309.69	1578.95	1305.37	1357.70	1181.96
Total	8207.98	10013.01	8247.25	7288.76	8079.64	6219.98
Distribucion Porcentual						
Agricultura	18.34	15.81	14.23	15.50	11.20	8.80
Agricultura	15.76	13.04	11.06	13.16	8.37	6.23
Ganaderia	2.26	2.29	2.94	2.11	2.60	2.17
Silv, Caza y Pesca	0.31	0.49	0.22	0.23	0.24	0.40
Ind. Manufactureras	30.92	31.01	36.13	30.59	36.58	36.60
Construccion	5.72	5.98	4.39	4.39	5.39	6.95
Comercio	23.89	24.13	26.10	31.61	30.02	28.64
Otros	21.14	23.07	19.15	17.91	16.80	19.00
Total	100.00	100.00	100.00	100.00	100.00	100.00
Tasas de Crecimiento Nomi						
Agricultura		5.18	-25.88	-3.71	-19.87	-39.51
Agricultura		0.88	-30.09	5.12	-29.54	-42.70
Ganaderia		23.45	5.97	-36.50	36.29	-35.66
Silv, Caza y Pesca		89.63	-62.68	-9.59	16.86	30.39
Ind. Manufactureras		22.35	-4.03	-25.16	32.54	-22.97
Construccion		27.54	-39.52	-11.75	36.28	-0.79
Comercio		23.24	-10.90	7.01	5.28	-26.55
Otros		33.13	-31.64	-17.33	4.01	-12.94
Total		21.99	-17.63	-11.62	10.85	-23.02

Fuente: Boletin de Estadisticas Bancarias, IV Trimestre 1988.
Instituto Nacional de Estadistica, Indice Anual de Precios
cios al Consumidor, 1988
Nota: Cifras nominales deflatadas en base a IPC de 1983-88.

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Table A2 (cont.)

Destino	Total #	Valor	% Numero 100.0	% Valor 100.0	Promedio Credito
Cereales/Leg	241	19762.4	14.50	7.50	82.00
Hortalizas	75	2232.9	4.51	0.85	29.77
Frutas	101	17412.6	6.08	6.61	172.40
Beb Y Azuc	820	134178	49.34	50.94	163.63
Plantas Y Oleag	97	11571.9	5.84	4.39	119.30
Plantas Textiles	242	62750.6	14.56	23.82	259.30
Especies	1	65	0.06	0.02	65.00
Otros Cultivos	85	15411.8	5.11	5.85	181.32
Agricultura	1662	263385.2	60.63	73.29	158.47
Ganaderia	1007	84479.7	36.74	23.51	83.89
Silvicultura	33	4834	1.20	1.35	146.48
Caza y Pesca	36	6658.8	1.31	1.85	184.97
Otros	3	14.7	0.11	0.00	4.90
Total	2741	359372.4	100.00	100.00	131.11

Prestamos y Descuentos
Bancos Estatales
(Miles de Qtzs. Reales)

Table A3

Categoria	1983	1984	1985	1986	1987	1988
Agricultura	81.89	69.11	93.53	-88.50	155.06	291.44
Agricultura	47.42	44.74	50.41	-105.54	125.92	247.10
Ganaderia	34.17	20.64	42.89	16.90	28.82	43.27
Silv, Caza y Pesca	0.30	3.72	0.23	0.14	0.32	1.07
Ind. Manufactureras	63.43	77.20	73.74	89.52	95.14	82.63
Construccion	102.19	127.73	95.95	133.60	137.45	173.14
Comercio	47.30	45.78	60.06	70.85	79.05	41.37
Otros	205.02	247.99	170.18	122.68	728.17	231.89
Total	499.82	567.80	493.47	328.15	1194.88	820.46

Tasas de Crecimiento

Agricultura	-1.07	2.56	-14.10	21.70	18.64
Agricultura	-0.23	1.42	-16.46	23.46	21.82
Ganaderia	-9.81	8.42	-3.62	3.39	10.36
Silv, Caza y Pesca	12.09	-2.20	-0.38	0.95	3.30
Ind. Manufactureras	-0.02	-0.01	1.12	-1.01	0.31
Construccion	-0.46	2.57	10.67	-9.84	6.42
Comercio	-0.62	0.78	0.30	0.19	-0.67
Otros	-1.29	0.03	-1.03	42.05	-19.27
Total	-0.48	0.24	-1.24	10.91	-1.07

Prestamos y Descuentos
Por Estratos
Bca. Privada
(En miles de Qtzs.)

Table A4

Tamano	Agricultura	Otros	Total
0-1000	1	5245	5246
1001-10000	300	15960	16260
10001-20000	547	6254	6801
20001-50000	1684	17691	19375
50001-100000	2723	21895	24618
100001-y mas	22386	234877	257263
Total	27641	301922	329563
Distribucion Porcentual			
0-1000	0.00	1.74	1.59
1001-10000	1.09	5.29	4.93
10001-20000	1.98	2.07	2.06
20001-50000	6.09	5.86	5.88
50001-100000	9.85	7.25	7.47
100001-y mas	80.99	77.79	78.06
Total	100.00	100.00	100.00

Fuente: Superintendencia de Bancos
EBUCA, IV, Trimestre 1988.

Cartera Crediticia
Consolidado
Bcos. Privados
Al 31/dic/88
(Miles de Qtzls.)

Table A5

Destino	Zona Central #	Zona Central Valor	Zona Sur #	Zona Sur Valor	Zona Occdt #	Zona Occdt Valor	Zona Norte #	Zona Norte Valor	Zona Oriente #	Zona Oriente Valor	Total #		Valor
Cereales/Leg	124	11462.3	35	3631.6	84	3483.3	18	1137.2	10	47.0	241	19	762.4
Hortalizas	58	1701.4	4	317.7	5	76.3	3	68.0	5	69.5	75	2	232.9
Frutas	30	9817.2	14	866.2	16	1277.9	32	3430.8	9	2020.6	101	17	412.6
Beb Y Azuc	283	44680.4	220	42150.6	304	43793.6	10	3418.7	3	134.8	820	1	34178
Plantas Y Oleag	46	7116.2	7	1716	22	1724.7	21	1009.0	1	6.0	97	11	571.9
Plantas Textiles	63	15878.1	108	35599	71	11273.5	0	0.0	0	0.0	242	62	750.6
Especies	0	0	0	0	1	65	0	0.0	0	0.0	1		65
Otros Cultivos	51	6387.5	2	1038	16	3149.1	6	2365.8	11	2471.4	85	15	411.8
Agricultura	655	97043.1	390	85320	489	64843.4	89	11429.5	39	4749.2	1662	263	385.2
Ganaderia	462	52156.4	219	16160.4	184	10645.7	109	4330.8	33	1186.4	1007	84	479.7
Silvicultura	9	729.6	1	361.8	17	3117.5	6	625.1	0	0.0	33		4834
Caza y Pesca	22	4375	7	493.5	4	1036.9	2	3.4	1	750.0	36	6	658.8
Otros	3	14.7									3		14.7
Total	1151	154316.8	617	102336.7	694	79643.5	206	16388.8	73	6685.6	2741	359	372.4
Poblacion/1,000	2437	2437	748	748	3377	3377	1221	1221	899	899	8682		8682
Credito/Capita	0.47	63.32	0.82	136.81	0.21	23.58	0.17	13.42	0.08	7.44	0.32		41.39
Agencias	120	120	26	26	66	66	28	28	22	22	262		262
Promedio/Agencia	9.59	1285.99	23.73	3936.99	10.52	1206.72	7.36	585.31	3.32	303.89	10.46	13	71.65
Establecimientos	12236	12236	2140	2140	3602	3602	1382	1382	725	725	20085		20085
Crdt/Establcmto	0.09	12.61	0.29	47.82	0.19	22.11	0.15	11.86	0.10	9.22	0.14		17.89

Fuente: Superintendencia de Bancos, Seccion de Estadistica.

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Zona Sur
Creditos
Bcos. Privados
Al 31/dic/88
(Miles de Quetzales)

Table A6

Destino	Escuintla Numero	Valor	Santa Rosa Numero	Valor	Total Numero	Valor	% Numero 100	% Valor 100	Promedio Credito
Cereales/Leg	30	3571.0	5	61.6	35	3632.6	8.97	4.26	103.79
Hortalizas	4	317.7	0	0.0	4	317.7	1.03	0.37	79.43
Frutas	11	793.2	3	73.0	14	866.2	3.59	1.02	61.87
Beb Y Azuc	121	23425.9	99	18724.6	220	42150.5	56.41	49.40	191.59
Plantas Y Oleag	7	1716.0	0	0.0	7	1716	1.79	2.01	245.14
Plantas Textiles	107	35292.4	1	306.6	108	35599	27.69	41.72	329.62
Especies	0	0.0	0	0.0	0	0	0.00	0.00	0.00
Otros Cultivos	1	1000.0	1	38.0	2	1038	0.51	1.22	519.00
Agric-SubTotal:	281	66116.2	109	19203.8	390	85320	63.21	83.37	218.77
Ganaderia	177	14030.1	42	2130.3	219	16160.4	35.49	15.79	73.79
Silvicultura	1	361.8	0	0.0	1	361.8	0.16	0.35	361.80
Caza y Pesca	5	338.5	2	155.0	7	493.5	1.13	0.48	70.50
Total	464	80846.6	153	21489.1	617	102335.7	100	100	165.86
Poblacion	496	496	252	252	748	748			
Credito/Capita	0.94	163.00	0.61	85.27	0.82	136.81			
Agencia	21	21	5	5	26	26			
Credito/Agencia	22.10	3849.84	30.60	4297.82	23.73	3935.99			
Establecimientos	1575	1575	565	565	2140	2140			
Crdt/Estblcmts	0.29	51.33	0.27	38.03	0.29	47.82			

Fuente: Superintendencia de Bancos, Seccion de Estadistica.

Table A6 (cont.)

Destino	Total Numero	Valor	% Numero 100	% Valor 100	Promedio Credito
Cereales/Leg	35	3632.6	8.97	4.26	103.79
Hortalizas	4	317.7	1.03	0.37	79.43
Frutas	14	866.2	3.59	1.02	61.87
Beb Y Azuc	220	42150.5	56.41	49.40	191.59
Plantas Y Oleag	7	1716	1.79	2.01	245.14
Plantas Textiles	108	35599	27.69	41.72	329.62
Especies	0	0	0.00	0.00	0.00
Otros Cultivos	2	1038	0.51	1.22	519.00
Agric-SubTotal:	390	85320	63.21	83.37	218.77
Ganaderia	219	16160.4	35.49	15.79	73.79
Silvicultura	1	361.8	0.16	0.35	361.80
Caza y Pesca	7	493.5	1.13	0.48	70.50
Total	617	102335.7	100	100	165.86

Zona Norte
Cartera Creditica
Bcos. Privados
Al 31/dic/88
(Miles de Quetzales)

Table A7

Destino	Baja Verapaz Numero	Baja Verapaz Valor	Alta Verapaz Numero	Alta Verapaz Valor	Peten Numero	Peten Valor	Izabal Numero	Izabal Valor	Total Numero	Total Valor
Cereales/Leg	0	0.0	1	150.0	5	67.5	12	919.7	18	1137.2
Hortalizas	0	0.0	3	68.0	0	0.0	0	0.0	3	68.0
Frutas	0	0.0	29	3415.2	1	3.6	2	12.0	32	3430.8
Beb Y Azuc	4	185.6	0	0.0	0	0.0	6	3233.1	10	3418.7
Plantas Y Oleag	1	20.0	17	921.0	0	0.0	3	68.0	21	1009.0
Plantas Textiles	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Especies	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Otros Cultivos	2	444.0	1	1800.0	0	0.0	2	121.8	5	2365.8
Agric-Subtotal:	7	649.6	51	6354.2	6	71.1	25	4354.6	89	11429.5
Ganaderia	3	9.6	13	262.6	34	870.5	59	3188.1	109	4330.8
Silvicultura	1	7.9	2	485.0	1	17.3	2	114.9	6	625.1
Caza y Pesca	0	0.0	0	0.0	0	0.0	2	3.4	2	3.4
Total	11	667.1	66	7101.8	41	958.9	88	7661	206	16388.8
Poblacion/1,000	170	170	539	539	215	215	297	297	1221	1221
Credito/Capita	0.06	3.92	0.12	13.18	0.19	4.46	0.30	25.79	0.17	13.42
Agencias	2	2	10	10	7	7	9	9	28	28
Credito/Agencia	5.50	333.55	6.60	710.18	5.86	136.99	9.78	851.22	7.36	585.31
Establecimientos	134	134	568	568	223	223	457	457	1382	1382
Crdt/Establcmts	0.08	4.98	0.12	12.50	0.18	4.30	0.19	16.76	0.15	11.86

fuente: Superintencia de Bancos, Seccion de Estadistica

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Table A7 (cont.)

Destino	Total Numero	Valor	% Numero 100	% Valor 100	Promedio Credito
Cereales/Leg	18	1137.2	20.22	9.95	63.18
Hortalizas	3	68.0	3.37	0.59	22.67
Frutas	32	3430.8	35.96	30.02	107.21
Beb Y Azuc	10	3418.7	11.24	29.91	341.87
Plantas Y Oleag	21	1009.0	23.60	8.83	48.05
Plantas Textiles	0	0.0	0.00	0.00	0.00
Especies	0	0.0	0.00	0.00	0.00
Otros Cultivos	5	2365.8	5.62	20.70	473.16
Agric-Subtotal:	89	11429.5	43.20	69.74	128.42
Ganaderia	109	4330.8	52.91	26.43	39.73
Silvicultura	6	625.1	2.91	3.81	104.18
Caza y Pesca	2	3.4	0.97	0.02	1.70
Total	206	16388.8	100	100	79.56

Zona Central
Creditos
Bcos. Privados
Al 31/dic/89
(Miles de Quetzales)

Table A8

Destino	Guatemala Numero	Guatemala Valor	Progreso Numero	Progreso Valor	Sacatepequez Numero	Sacatepequez Valor	Chimaltenango Numero	Chimaltenango Valor	Total Numero	Total Valor
Cereales/Leg	111	11155.0	0	0.0	3	16.2	10	291.1	124	11462.3
Hortalizas	44	1434.5	0	0.0	8	181.4	6	85.5	58	1701.4
Frutas	20	9715.1	0	0.0	4	20.5	6	81.6	30	9817.2
Beb Y Azuc	231	37549.0	1	1.5	21	1696.8	30	5433.1	283	44680.4
Plantas Y Oleag	43	7020.3	0	0.0	0	0.0	3	95.9	46	7116.2
Plantas Textiles	61	15565.6	0	0.0	2	312.5	0	0.0	63	15878.1
Especies	0	0.0	0	0.0	0	0.0	0	0.0	0	0
Otros Cultivos	38	5670.4	5	194.1	8	523.0	0	0.0	51	6387.5
Agric-SubTotal:	548	88109.9	6	195.6	46	2750.4	55	5987.2	655	97043.1
Ganaderia	422	49240.4	12	502.5	11	775.1	17	1638.4	462	52156.4
Silvicultura	8	593.8	0	130.5	0	0.0	1	5.3	9	729.6
Caza y Pesca	22	4375.0	0	0.0	0	0.0	0	0.0	22	4375
Otros	2	14.7	1	0.0	0	0.0	0	0.0	3	14.7
Total	1002	142333.8	19	828.6	57	3525.5	73	7630.9	1151	154318.8
Poblacion/1,000	1854	1854	102	102	164	164	298	298	2418	2418
Credito/Capita	0.54	76.77	0.19	8.12	0.35	21.50	0.24	25.61	0.48	63.82
Agencias	109	109	2	2	5	5	4	4	120	120
Credito/Agencia	9.19	1305.81	9.50	414.30	11.40	705.10	18.25	1907.73	9.59	1285.99
Establecimientos	11245	11245	162	162	435	435	394	394	12236	12236
Crdt/Estabcmts	0.09	12.66	0.12	5.11	0.13	8.10	0.19	19.37	0.09	12.61

Fuente: Superintendencia de Bancos, Seccion de Estadistica.

Table A8 (cont.)

Destino	Total Numero	Valor	% Numero 100.0	% Valor 100.0	Promedio Credito
Cereales/Leg	124	11462.3	18.93	11.81	92.44
Hortalizas	58	1701.4	8.85	1.75	29.33
Frutas	30	9817.2	4.58	10.12	327.24
Beb Y Azuc	283	44680.4	43.21	46.04	157.88
Plantas Y Oleag	46	7116.2	7.02	7.33	154.70
Plantas Textiles	63	15878.1	9.62	16.36	252.03
Especies	0	0	0.00	0.00	0.00
Otros Cultivos	51	6387.5	7.79	6.58	125.25
Agric-SubTotal:	655	97043.1	56.91	62.88	148.16
Ganaderia	462	52156.4	40.14	33.80	112.89
Silvicultura	9	729.6	0.78	0.47	81.07
Caza y Pesca	22	4375	1.91	2.84	198.86
Otros	3	14.7	0.26	0.01	4.90
Total	1151	154318.8	100.00	100.00	134.07

Table A9

Zona Oriente
Cartera Crediticia
Bcos. Privados
Al 31/dic/89
(Miles de Quetzales)

Destino	Zacapa Numero	Zacapa Valor	Chiquimula Numero	Chiquimula Valor	Jalapa Numero	Jalapa Valor	Jutiapa Numero	Jutiapa Valor	Total Numero	Total Valor
Cereales/Leg	1	1.3	0	0.0	0	0.0	9	45.7	10	47.0
Hortalizas	2	20.5	1	30.0	0	0.0	2	19.0	5	69.5
Frutas	7	1900.5	0	0.0	0	0.0	2	120.0	9	2020.5
Beb Y Azuc	3	134.8	0	0.0	0	0.0	0	0.0	3	134.8
Plantas Y Oleag	0	0.0	0	0.0	1	6.0	0	0.0	1	6.0
Plantas Textiles	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Especies	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Otros Cultivos	11	2471.4	0	0.0	0	0.0	0	0.0	11	2471.4
Agric-Subtotal	24	4528.5	1	30	1	6	13	184.7	39	4749.2
Ganaderia	13	742.7	3	30.5	6	129.6	11	283.6	33	1186.4
Silvicultura	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Caza y Pesca	0	0.0	1	750.0	0	0.0	0	0.0	1	750.0
Total	37	5271.2	5	810.5	7	135.6	24	468.3	73	6685.6
Poblacion	297	297	153	153	237	237	177	177	864	864
Credito/Capita	0.12	17.75	0.03	5.30	0.03	0.57	0.14	2.65	0.08	7.74
Agencia	7	7	7	7	3	3	5	5	22	22
Credito/Agencia	5.29	753.03	0.71	115.79	2.33	45.20	4.80	93.66	3.32	303.89
Establecimientos	263	263	156	156	95	95	211	211	725	725
Crdt/Establcmts	0.14	20.04	0.03	5.20	0.07	1.43	0.11	2.22	0.10	9.22

Fuente: Superintendencia de Bancos,Seccion de Estadistica

Table A9 (cont.)

Destino	Total Numero	Valor	% Numero 100	% Valor 100	Promedio Credito
Cereales/Leg	10	47.0	25.64	0.99	4.70
Hortalizas	5	69.5	12.82	1.46	13.90
Frutas	9	2020.5	23.08	42.54	224.50
Beb Y Azuc	3	134.8	7.69	2.84	44.93
Plantas Y Oleag	1	6.0	2.56	0.13	6.00
Plantas Textiles	0	0.0	0.00	0.00	0.00
Especies	0	0.0	0.00	0.00	0.00
Otros Cultivos	11	2471.4	28.21	52.04	224.67
Agric-Subtotal	39	4749.2	53.42	71.04	121.77
Ganaderia	33	1186.4	45.21	17.75	35.95
Silvicultura	0	0.0	0.00	0.00	0.00
Caza y Pesca	1	750.0	1.37	11.22	750.00
Total	73	6685.6	100	100	91.58

Zona Occidente
Cartera Crediticia
Econ. Privados
Al 31/dic/89
(Miles de Quetzales)

Table A10

Destino	Solola Numero	Solola Valor	Totonicapan Numero	Totonicapan Valor	Quetzaltenango Numero	Quetzaltenango Valor	Suchitepequez Numero	Suchitepequez Valor	Retalhuleu Numero	Retalhuleu Valor	San Marcos Numero	San Marcos Valor	Huehuetenango Numero	Huehuetenango Valor	Quiche Numero	Quiche Valor	Total Numero	Total Valor
Cereales/Leg	3	0.0	0	0.0	24	950.5	13	1631.5	13	695.3	4	225.0	0	0.0	0	0.0	54	3483.3
Hortalizas	0	0.0	0	0.0	4	75.5	0	0.0	0	0	0	0.0	1	0.8	0	0.0	5	76.3
Frutas	0	0.0	0	0.0	11	146.2	1	70.0	4	1061.7	0	0.0	0	0.0	0	0.0	16	1277.9
Beb Y Azuc	4	394.8	0	0.0	79	8171.1	104	17186.9	21	2736.1	84	14252.6	10	930.0	2	62.1	304	43793.6
Plantas Y Oleag	0	0.0	0	0.0	6	778.2	4	110.5	7	680	4	144.3	1	12.0	0	0.0	22	1724.7
Plantas Textiles	0	0.0	1	180.0	0	0.0	24	3715.5	44	7307.1	2	70.9	0	0.0	0	0.0	71	11273.5
Especies	0	0.0	0	0.0	0	0.0	1	65.0	0	0	0	0.0	0	0.0	0	0.0	1	65
Otros Cultivos	0	0.0	0	0.0	0	0.0	6	1254.6	6	599.5	4	1295.0	0	0.0	0	0.0	16	3149.1
Agric-SubTotal:	4	394.8	1	180	124	10121.5	153	24034	35	13080.7	98	15567.5	12	1002.8	2	62.1	483	54444.4
Ganaderia	0	0.0	0	0.0	27	972.4	86	4925.7	57	4574.2	8	116.3	4	26.4	2	31.7	184	10645.7
Silvicultura	0	0.0	0	0.0	5	1208.6	9	1486.7	1	249.2	2	173.5	0	0.0	0	0.0	17	3117.5
Caza y Pesca	0	0.0	0	0.0	1	470.0	0	0.0	3	566.3	0	0.0	0	0.0	0	0.0	4	1036.3
Otros																		
Total	4	394.8	1	180.0	157.0	12772.5	248	30446.4	155	18471	108	16256.8	16	1029.2	4	93.8	694	73543.5
Poblacion	220	220	273	273	513	513	334	334	219	219	645	645	650	650	523	523	3377	3377
Credito/Capita	0.02	1.79	0.00	0.66	0.31	24.90	0.74	91.16	0.71	84.34	0.17	25.20	0.02	1.58	0.01	0.18	0.21	23.58
Agencias	3	3	2	2	21	21	11	11	7	7	12	12	5	5	5	5	66	65
Credito/Agencias	1.33	131.60	0.50	90.00	7.48	608.21	22.55	2767.85	22.29	2638.71	9.00	1354.73	3.20	205.84	0.80	18.56	10.52	1236.72
Establecimientos	109	109	60	60	528	908	967	967	537	537	535	535	281	281	175	175	3692	3692
Crdt.Establcmts	0.04	3.62	0.02	3.00	0.17	14.07	0.26	31.49	0.31	36.43	0.19	27.22	0.06	.46	0.02	0.53	0.18	22.11

Fuente: Superintendencia de Bancos, Seccion de Estadistica

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Table A10 (cont.)

Destino	Total Numero	Valor	% Numero 100	% Valor 100	Promedio Credito
Cereales/Leg	54	3483.3	11.04	5.37	64.51
Hortalizas	5	76.3	1.02	0.12	15.26
Frutas	16	1277.9	3.27	1.97	79.87
Beb Y Azuc	304	43793.6	62.17	67.54	144.06
Plantas Y Oleag	22	1724.7	4.50	2.66	78.40
Plantas Textiles	71	11273.5	14.52	17.39	158.78
Especies	1	65	0.20	0.10	65.00
Otros Cultivos	16	3149.1	3.27	4.86	196.82
Agric-SubTotal:	489	64843.4	70.46	81.42	132.60
Ganaderia	184	10645.7	26.51	13.37	57.86
Silvicultura	17	3117.5	2.45	3.91	183.38
Caza y Pesca	4	1036.9	0.58	1.30	259.23
Otros					
Total	694	79643.5	100	100	114.76

Distribucion geografica
De los Saldos de Depositos
Al 31/dic./86

Consolidado de
Todos los Bancos

Table A11

	A la Vista	De Ahorro	A Plazo	Total	Poblacion	Agencias
TOTAL	781433.0	2216926.0	151103.0	3149462.0	8,196	262
DEPARTAMENTO						
GUATEMALA	682116.0	1890026.0	139066.0	2711208.0	1,748	109
EL PROGRESO	571.0	2584.0	0.0	3155.0	98	2
SACATEPEQUEZ	6024.0	20859.0	52.0	26935.0	155	5
CHIMALTENANGO	998.0	3383.0	7.0	4388.0	298	4
ESCUINTLA	10467.0	32785.0	740.0	43992.0	467	21
SANTA ROSA	4996.0	13176.0	85.0	18257.0	242	5
SOLOLA	1119.0	2676.0	0.0	3795.0	207	3
TOTONICAPAN	94.0	487.0	0.0	581.0	258	2
QUETZALTENANGO	17276.0	56774.0	2631.0	76681.0	486	21
SUCHITEPEQUEZ	8983.0	24486.0	370.0	33839.0	316	11
RETALHULEU	6554.0	10119.0	140.0	16813.0	206	7
SAN MARCOS	3760.0	12012.0	99.0	15871.0	610	12
HUEHUETENANGO	5039.0	19417.0	778.0	25234.0	610	5
EL QUICHE	1622.0	4781.0	134.0	6537.0	492	5
BAJA VERAPAZ	347.0	2424.0	0.0	2771.0	161	2
ALTA VERAPAZ	9808.0	19968.0	262.0	30038.0	507	10
EL PETEN	3043.0	5330.0	0.0	8373.0	193	7
IZABAL	6090.0	19494.0	6160.0	31744.0	279	9
CHIQUIMULA	4318.0	20940.0	256.0	25514.0	147	7
JALAPA	1230.0	9568.0	100.0	10898.0	228	7
JUTIAPA	3629.0	20453.0	138.0	24220.0	169	3
ZACAPA	3349.0	25184.0	85.0	28618.0	319	5
Promedio	35519.7	100769.4	6868.3	143157.4		

Fuente: Banco de Guatemala.
INE, Guatemala, Poblacion Urbana y Rural
Estimada por Departamento y Municipios, 1985-90.
Superintencia de Bancos, EBUCA, IV Trimestre 1988.

Distribucion Geografica
De los Saldos de Depositos
Porcentajes
Al 31/dic./86

Table A11a

Consolidado de
Todos los Bancos

	A la Vista	De Ahorro	A Plazo	Total
TOTAL	100	100	100	100
DEPARTAMENTO				
GUATEMALA	87	85	92	86
EL PROGRESO	0	0	0	0
SACATEPEQUEZ	1	1	0	1
CHIMALTENANGO	0	0	0	0
ESCUINTLA	1	1	0	1
SANTA ROSA	1	1	0	1
SOLOLA	0	0	0	0
TOTONICAPAN	0	0	0	0
QUETZALTENANGO	2	3	2	2
SUCHITEPEQUEZ	1	1	0	1
RETALHULEU	1	0	0	1
SAN MARCOS	0	1	0	1
HUEHUETENANGO	1	1	1	1
EL QUICHE	0	0	0	0
BAJA VERAPAZ	0	0	0	0
ALTA VERAPAZ	1	1	0	1
EL PETEN	0	0	0	0
IZABAL	1	1	4	1
CHIQUIMULA	1	1	0	1
JALAPA	0	0	0	0
JUTIAPA	0	1	0	1
ZACAPA	0	1	0	1

Fuente: Banco de Guatemala.
INE, Guatemala, Poblacion Urbana y Rural
Estimada por Departamento y Municipios, 1985-90.
Superintencia de Bancos, EBULA, IV Trimestre 1988.

Distribucion Geografica
De los Saldos de Depositos
Al 31/dic./86

Consolidado de
Todos los Bancos

Table A11b

	A la Vista	De Ahorro	A Plazo	Total
TOTAL	781,433	2,216,426	151,103	3,149,462
DEPARTAMENTO				
GUATEMALA	682,116	1,890,026	139,066	2,711,208
HUEHUETENANGO	5,039	56,774	0	61,813
SUCHITEPEQUEZ	8,983	32,785	52	41,820
ESCUINTLA	10,467	20,859	0	31,326
SANTA ROSA	4,996	24,486	740	30,222
TOTONICAPAN	94	25,184	7	25,285
EL QUICHE	1,622	19,968	2,631	24,221
JUTIAPA	3,629	19,417	140	23,186
CHIMALTENANGO	998	20,940	85	22,023
SOLOLA	1,119	19,494	370	20,983
BAJA VERAPAZ	347	20,453	0	20,800
QUETZALTENANGO	17,276	2,584	100	19,960
RETALHULEU	6,554	13,176	99	19,829
ALTA VERAPAZ	9,808	3,383	6,160	19,351
SAN MARCOS	3,760	12,012	778	16,550
CHIQUIMULA	4,318	10,119	134	14,571
EL PROGRESO	571	9,568	0	10,139
IZABAL	6,090	2,676	256	9,022
ZACAPA	3,349	4,781	0	8,130
JALAPA	1,230	5,330	262	6,822
SACATEPEQUEZ	6,024	487	85	6,596
EL PETEN	3,043	2,424	138	5,605

Fuente: Banco de Guatemala.
INE, Guatemala, Poblacion Urbana y Rural
Estimada por Departamento y Municipios, 1985-90.

Distribucion Geografica
De los Saldos de Depositos
Por Agencias
Al 31/dic./86

Table A12

Consolidado de
Todos los Bancos

	A la Vista	De Ahorro	A Plazo	Total
Promedio Total	2982.6	8461.5	576.7	12020.8
DEPARTAMENTO				
GUATEMALA	6257.9	17339.7	1275.8	24873.5
EL PROGRESO	285.5	1292.0	0.0	1577.5
SACATEPEQUEZ	1204.8	4171.8	10.4	5387.0
CHIMALTENANGO	249.5	845.8	1.8	1097.0
ESCUINTLA	498.4	1561.2	35.2	2094.9
SANTA ROSA	999.2	2635.2	17.0	3651.4
SOLOLA	373.0	892.0	0.0	1265.0
TOTONICAPAN	47.0	243.5	0.0	290.5
QUETZALTENANGO	822.7	2703.5	125.3	3651.5
SUCHITEPEQUEZ	816.6	2226.0	33.6	3076.3
RETALHULEU	936.3	1445.6	20.0	2401.9
SAN MARCOS	313.3	1001.0	8.3	1322.6
HUEHUETENANGO	1007.8	3883.4	155.6	5046.8
EL QUICHE	324.4	956.2	26.8	1307.4
BAJA VERAPAZ	173.5	1212.0	0.0	1385.5
ALTA VERAPAZ	980.8	1996.8	26.2	3003.8
EL PETEN	434.7	761.4	0.0	1196.1
IZABAL	676.7	2166.0	684.4	3527.1
CHIQUIMULA	616.9	2991.4	36.6	3644.9
JALAPA	175.7	1366.9	14.3	1556.9
JUTIAPA	1209.7	6817.7	46.0	8073.3
ZACAPA	669.8	5036.8	17.0	5723.6
Promedio	867.0	2888.4	115.2	3870.7

Fuente: Banco de Guatemala.
INE, Guatemala, Poblacion Urbana y Rural
Estimada por Departamento y Municipios, 1985-90.
Superintencia de Bancos, EBUCA, IV Trimestre 1988.

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Distribucion Geografica
De los Saldos de Depositos
Per Capita
Al 31/dic./88

Table A13

Consolidado de
Todos los Bancos

	A la Vista	De Ahorro	A Plazo	Total
Promedio Total	95.3	270.5	18.4	384.3
DEPARTAMENTO				
GUATEMALA	390.2	1081.3	79.6	1551.0
EL PROGRESO	5.8	26.4	0.0	32.2
SACATEPEQUEZ	38.9	134.6	0.3	173.8
CHIMALTENANGO	3.3	11.4	0.0	14.7
ESCUINTLA	22.4	70.2	1.6	94.2
SANTA ROSA	20.6	54.4	0.4	75.4
SOLOLA	5.4	12.9	0.0	18.3
TOTONICAPAN	0.4	1.9	0.0	2.3
QUETZALTENANGO	35.5	116.8	5.4	157.8
SUCHITEPEQUEZ	28.4	77.5	1.2	107.1
RETALHULEU	31.8	49.1	0.7	81.6
SAN MARCOS	6.2	19.7	0.2	26.0
HUEHUETENANGO	8.3	31.8	1.3	41.4
EL QUICHE	3.3	9.7	0.3	13.3
BAJA VERAPAZ	2.2	15.1	0.0	17.2
ALTA VERAPAZ	19.3	39.4	0.5	59.2
EL PETEN	15.8	27.6	0.0	43.4
IZABAL	21.8	69.9	22.1	113.8
CHIQUIMULA	29.4	142.4	1.7	173.6
JALAPA	5.4	42.0	0.4	47.8
JUTIAPA	21.5	121.0	0.8	143.3
ZACAPA	10.5	78.9	0.3	89.7
Promedio	33.0	101.5	5.3	139.9

Fuente: Banco de Guatemala.
INE, Guatemala, Poblacion Urbana y Rural
Estimada por Departamento y Municipios, 1985-90.
Superintencia de Bancos, EBUCA, IV Trimestre 1988.

A 13

INTEGRACION DE LA CARTERA DE DEPOSITOS

AL 10 NOVIEMBRE/89
(en miles de Q)

No.	AGENCIA	MONETARIOS No. CTAS	MONETARIOS MONTO	AHORROS No. CTAS	AHORROS MONTO
01	ANTIGUA	128	142.2	775	108.2
02	BARBERENA	181	347.0	2220	4,627.7
03	JALAPA	153	191,6	2334	3,165.1
04	JUTIAPA	143	154.5	2639	2,896.8
05	GUASTATOYA	171	372.0	2441	4,442.1
06	ZACAPA	120	264.5	1152	1.068.7
07	CHIQUIMULA	127	231.3	820	1,094.0
08	ESQUIPULAS	141	466.2	1175	1,833.0
09	PUERTO BARRIOS	198	359.3	2984	4,463.7
10	SALAMA	240	545.2	3048	3,631.1
11	PANZOS	94	182.0	646	375.1
12	COBAN	269	307.2	1676	760.0
13	ESCUINTLA	112	235.9	409	354.5
15	CHIQUIMULILLA	341	567.1	2568	2,457.9
16	F.B. DE LAS CASAS	164	370.7	725	409.7
17	SANTA ELENA PETEN	319	431.1	549	398.5
18	CHIMALTENANGO	349	1,279.7	3203	2,568.9
19	LA NUEVA CONCEPCION	160	667.8	1431	2,074.1
20	MELCHOR DE MENCOS.	95	237.6	583	415.7
21	TOTONICAPAN	109	234.7	881	734.5
22	SOLOLA	195	302.9	1054	1.456.3
23	SAN MARCOS	137	70.8	936	971.2
24	EL TUMBADOR	77	173.4	740	503.4
25	MALACATAN	160	581.0	1050	609.4
26	COATEPEQUE	94	87.6	724	1,011.4
27	RETALHULEU	153	338.2	918	627.2
28	MAZATENANGO	157	64.9	483	242.2
30	LA MAQUINA	72	134.9	849	631.6
31	EL QUICHE	245	641.4	1973	2,480.0
32	HUEHUETENANGO	199	189.1	1060	1,884.8
33	LA REFORMA	578	1,136.0	901	462.9
34	QUETZALTENANGO	398	203.4	377	539.6
36	MORALES IZABAL	201	73.9	2519	3,451.1
37	ASUNCION MITA	288	1,063.8	3889	8,092.5
38	PATZUN CHIMALTENANGO	86	206.0	846	938.2
39	POPTUN PETEN	245	382.8	1211	1,071.9
40	PLAYA GRANDE IXCAN	140	199.5	507	136.9
41	LA DEMOCRACIA HUEHUET.	78	40.9	251	141.2
	TOTALES:	7117	14,083.5	52957	64,531.9

Guatemala 17 noviembre 1989

SECCION DE OPERACIONES BANCARIAS Y AGENCIAS

1,6

INTEGRACION DE LA CARTERA DE DEPOSITOS

AÑO 1988

(En miles de Q.)

Nº	AGENCIA	MONETARIOS Nº CTAS	MONETARIOS MONTO	AHORROS Nº CTAS	AHORROS MONTO
01	Antigua Guatemala, Sac.	110	891.8	757	5,256.0
02	Barberena, Sta. Rosa	134	2,759.0	3156	35,789.0
03	Jalapa	116	1,079.4	2144	26,175.5
04	Jutiapa	113	4,193.9	2274	23,958.9
05	Guastatoya, El Progreso	160	3,279.9	2222	34,706.1
06	Zacapa	120	3,789.5	1120	9,806.2
07	Chiquimula	121	2,474.7	764	6,937.8
08	Esquipulas, Chiquimula	115	2,443.9	1063	13,352.9
09	Puerto Barrios	167	2,535.9	2886	37,113.5
10	Salamá, B.V.	192	5,802.2	2922	34,595.5
11	Panzós, A.V.	85	3,229.1	594	4,342.0
12	Cobán, A.V.	267	4,063.8	1688	7,109.4
13	Escuintla	95	1,371.0	472	2,557.7
15	Chiquimulilla, Sta. Rosa	302	5,589.4	2428	22,856.3
16	Fray Bartolomé de las Casas	132	4,100.9	682	3,452.8
17	Santa Elena, Petén	274	6,225.1	471	3,468.7
18	Chimaltenango	324	12,117.9	3100	35,417.4
19	Nva. Concepción, Escuintla	132	4,660.6	1282	17,641.5
20	Melchor de Mencos, Petén	74	1,655.3	525	3,782.8
21	Totonicapán	92	1,332.3	828	7,421.7
22	Sololá	180	3,173.1	998	12,403.2
23	San Marcos	127	1,100.7	890	6,927.4
24	El Tumbador, San Marcos	64	1,628.1	696	4,754.3
25	Malacatán, San Marcos	138	3,634.7	1058	6,012.6
26	Coatepeque, Quetz.	87	6,549.9	682	7,291.5
27	Retalhuleu	138	3,152.3	875	5,705.9
28	Mazatenango, Such.	139	1,034.2	477	2,485.3
30	La Máquina, Cuyotenango, Such.	61	3,050.7	765	7,178.4
31	El Quiché	202	3,926.3	1875	20,820.5
32	Huehuetenango	175	1,255.3	991	15,754.3
33	La Reforma, Guatemala	547	7,663.6	893	3,578.5
34	Quetzaltenango	375	5,279.0	343	2,352.6
36	Morales, Izabal	200	5,290.2	2674	27,806.1
37	Asunción Mita, Jutiapa	258	13,422.7	3328	56,957.7
38	Patzún, Chimaltenango	74	1,881.6	767	7,811.1
39	Poptún, Petén	206	3,598.1	1131	9,716.7
40	Playa Grande, Quiché	95	1,084.7	487	1,489.6
41	La Democracia, Huehuetenango	42	858.2	91	479.6
	TOTALES:	6233	141,179.0	50399	535,267.0

Guatemala, noviembre de 1989.
OPERACIONES BANCARIAS Y AGENCIAS

INTEGRACION DE LA CARTERA DE DEPOSITOS

AÑO 1987
(en miles de Q)

No.	AGENCIA	MONETARIOS		AHORROS	
		No. CTAS	MONTO	No. CTAS	MONTO
01	ANTIGUA GUATEMALA	74	117.8	719	424.5
02	BARBERENA	122	276.1	3048	3,310.3
03	JALAPA	103	105.5	2153	2,555.0
04	JUTIAPA	91	222.6	2015	2,124.2
05	GUASTATOYA	149	424.7	2048	2.885.9
06	ZACAPA	115	215.5	1103	1.027.3
07	CHIQUIMULA	97	99.1	742	614.5
08	ESQUIPULAS	91	113.4	1003	1.355.1
09	PUERTO BARRIOS	155	240.7	2876	3,593.5
10	SALAMA	155	379.7	2782	3,018.6
11	PANZOS	64	251.4	577	465.5
12	COBAN	211	1,008.0	1727	718.2
13	ESCUINTLA	88	124.6	473	304.7
15	CHIQUIMULILLA	280	478.3	2282	2,115.5
16	F.B. DE LAS CASAS	126	351.3	642	273.3
17	SANTA ELENA PETEN	221	346.5	363	222.2
18	CHIMALTENANGO	279	1,564.8	2807	2,847.2
19	LA NUEVA CONCEPCION	126	506.4	1212	1,629.8
20	MELCHOR DE MENCOS	63	132.5	455	279.9
21	TOTONICAPAN	79	135.9	778	514.7
22	SOLOLA	162	278.0	907	1,024.5
23	SAN MARCOS	106	56.0	807	588.0
24	EL TUMBADOR	56	203.8	677	439.6
25	MALACATAN	138	229.9	1032	752.2
26	COATEPEQUE	81	254.9	670	544.5
27	RETALHULEU	121	178.4	838	484.1
28	MAZATENANGO	148	171.7	467	190.0
30	LA MAQUINA	44	191.3	739	482.1
31	EL QUICHE	185	284.2	1818	1,783.3
32	HUEHUETENANGO	175	131.4	954	1,293.2
33	LA REFORMA	569	906.9	917	203.2
34	QUETZALTENANGO	558	165.6	317	203.2
36	MORALES IZABAL	186	766.2	2180	2,692.2
37	ASUNCION MITA	214	1,327.6	2956	4,457.7
38	PATZUN	67	177.4	719	650.7
39	POPTUN PETEN	170	372.7	1059	804.0
40	PLAYA GRANDE	44	48.1	444	124.3
TOTALES:		5713	12,838.6	47306	47,155.5

Guatemala, noviembre 17 de 1989.

SECCION DE OPERACIONES BANCARIAS Y AGENCIAS

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INTEGRACION DE LA CARTERA DE DEPOSITOS
AÑO 1986
(En miles de Q.)

Nº	AGENCIA	MONETARIOS		AHORROS	
		Nº CTAS	MONTO	Nº CTAS	MONTO
01	Antigua Guatemala, Sac.	57	80.2	705	346.9
02	Barberena, Sta. Rosa	107	374.2	2971	2,569.9
03	Jalapa	92	131.3	2205	2,408.9
04	Jutiapa	88	142.9	1992	1,837.5
05	Guastatoya, El Progreso	154	548.7	1927	2,396.4
06	Zacapa	112	123.8	1127	970.6
07	Chiquimula	94	83.8	731	506.2
08	Esquipulas, Chiquimula	83	158.4	978	1,270.6
09	Puerto Barrios	143	244.1	2895	3,202.8
10	Salamá, B.V.	115	347.0	2603	2,360.1
11	Panzós, A.V.	63	192.2	598	349.2
12	Cobán, A.V.	211	364.1	1779	728.1
13	Escuintla	75	82.6	507	194.7
15	Chiquimulilla, Sta. Rosa	78	593.1	2294	1,822.4
16	Fray Bartolomé de las Casas	119	386.8	635	300.9
17	Santa Elena, Petén	189	183.9	339	191.4
18	Chimaltenango	249	808.6	2672	2,372.7
19	Nva. Concepción, Escuintla	112	288.0	1142	1,345.3
20	Melchor de Mencos, Petén	58	101.7	439	290.6
21	Totonicapán	84	90.5	841	469.3
22	Sololá	144	184.8	874	851.2
23	San Marcos	115	71.6	806	483.5
24	El Tumbador, San Marcos	54	261.7	669	449.8
25	Malacatán, San Marcos	138	204.8	1050	462.7
26	Coatepeque, Quetz.	67	147.0	717	415.1
27	Retalhuleu	119	228.9	832	458.7
28	Mazatenango, Such.	137	135.5	484	174.4
30	La Máquina, Cuyotenango, Such.	45	136.5	733	490.2
31	El Quiché	182	310.5	1847	1,590.8
32	Huehuetenango	184	289.4	954	1,298.4
33	La Reforma, Guatemala	563	1,123.1	978	1,527.2
34	Quetzaltenango	341	208.4	310	172,7
36	Morales, Izabal	251	1,011.3	2079	2,113.8
37	Asunción Mita, Jutiapa	162	858.8	2709	3,476.1
38	Patzún, Chimaltenango	53	247.0	719	612.3
39	Poptún, Petén	157	362.6	1021	744.7
40	Playa Grande, Quiché	28	44.7	410	101.7
TOTALES:		5464	11,153.0	46570	41,358.5

INTEGRACION DE LA CARTERA DE DEPOSITOS
AÑO 1985
(En miles de Q.)

Nº	AGENCIA	MONETARIOS		AHORROS	
		Nº CTAS	MONTO	Nº CTAS	MONTO
01	Antigua Guatemala, Sac.	49	169.6	737	311.4
02	Barberena, Sta. Rosa	96	189.1	2567	1,810.8
03	Jalapa	89	68.4	2314	2,021.4
04	Jutiapa	82	193.5	1888	1,470.5
05	Guastatoya, El Progreso	138	610.6	1751	1,880.9
06	Zacapa	101	163.2	1116	776.1
07	Chiquimula	82	128.1	742	397.6
08	Esquipulas, Chiquimula	69	109.5	936	1,022.0
09	Puerto Barrios	156	259.7	2942	2,659.7
10	Salamá, B.V.	110	186.3	2482	1,888.5
11	Panzós, A.V.	51	156.5	558	174.1
12	Cobán, A.V.	258	309.0	1814	643.3
13	Escuintla	73	56.7	545	566.8
15	Chiquimulilla, Sta. Rosa	348	645.7	2227	1,534.0
16	Fray Bartolomé de las Casas	103	226.8	616	227.6
17	Santa Elena, Petén	166	170.7	318	134.0
18	Chimaltenango	228	1,151.4	2549	1,908.7
19	Nva. Concepción, Escuintla	112	343.5	1035	825.6
20	Melchor de Mencos, Petén	55	192.6	471	251.2
21	Totonicapán	80	87.1	921	445.4
22	Sololá	128	175.2	834	687.2
23	San Marcos	114	56.1	817	348.4
24	El Tumbador, San Marcos	49	180.7	644	354.0
25	Malacatán, San Marcos	114	400.7	1041	419.1
26	Coatepeque, Quetz.	74	132.7	731	320.3
27	Retalhuleu	105	265.9	854	1,260.6
28	Mazatenango, Such.	132	49.6	497	168.2
30	La Máquina, Cuyotenango, Such.	39	120.0	716	376.8
31	El Quiché	167	409.7	1865	1,228.4
32	Huehuetenango	180	195.2	931	1,038.3
33	La Reforma, Guatemala	874	1,138.7	839	746.0
34	Quetzaltenango	303	173.4	310	111.6
36	Morales, Izabal	245	715.4	1852	1,576.2
37	Asunción Mita, Jutiapa	141	749.0	2391	1,480.6
38	Patzún, Chimaltenango	42	159.2	714	368.1
39	Poptún, Petén	151	283.2	963	699.1
40	Playa Grande, Quiché	17	9.6	387	88.8
TOTALES:		5321	10,632.3	44915	33,221.3

Guatemala, noviembre de 1989.

OPERACIONES BANCARIAS Y AGENCIAS.