

BANRURAL S.A.: REASONS TO CELEBRATE THE 10TH ANNIVERSARY OF A DIFFERENT KIND OF BANK

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1. Ten years of Banrural S.A.

a. Brief summary of the history and purpose of Banrural S.A.

Banrural S.A. resulted from the restructuring of the National Agricultural Development Bank (*Banco Nacional de Desarrollo Agrícola*, Bandesa). The new bank came to fruition after a long process that involved identifying its focus and designing a capital and governance structure that would foster economic activity in rural areas of the country with a modern entity that was operationally, financially and politically sustainable. The design of Banrural S.A. took into account Bandesa's strengths — its extensive presence in rural areas and its experience in managing trust funds¹ — and its development banking experience, taking advantage of its most successful strategies while recognizing the particular characteristics of the new bank's environment — rural Guatemala — to ensure that it would not only respond to the need to end the Bandesa crisis, but that it would contribute, above all, to the country's development.

Since its conception in 1997, Banrural S.A. has comprehensively promoted rural development in Guatemala, as reflected in the law that established it: *"The bank's main objective is to promote economic and social development in the rural area of the country."*² The bank has focused on providing financial services to rural areas of Guatemala and to social sectors traditionally not served by the financial system, particularly banks.

The private sector plays a leading role in Banrural S.A. and was instrumental in its creation. Banrural S.A. is defined as a *"mixed-capital banking institution, with multi-sector service and participation."* It therefore seeks to promote economic activities in rural areas in a way that is profitable and sustainable for its shareholders, while maintaining a development objective with an entrepreneurial vision. The reform process, backed by the public sector, has resulted in a solid and profitable development entity.

The bank is a multi-sector institution that promotes economic activities in rural areas without limiting itself strictly to agriculture. It also strives to reach sectors that traditionally have been ignored by the financial sector, such as the country's indigenous groups. To do so, the bank has had to innovate constantly, developing a wide variety of products, financial services and distribution channels.

In its mission statement, Banrural S.A. defines itself as *"a Guatemalan bank oriented toward the country's rural and integral development, with private and multi-sector capital, universal banking services and national coverage, targeting microentrepreneurs and small and medium-size businesses, farmers and craftspeople."*³ In other words, while its goal is the rural development of Guatemala, this is achieved by financing economic activities in that milieu and supplying a wide range of financial services that facilitate productive, social, investment and consumption activities in rural areas. As the bank's general manager puts it, the bank *reaches people who have a business outlook, regardless of their language or educational level.*⁴ This is also reflected in the bank's vision of *"being the country's leader in development financing, through banking services branches, offering a series*

¹ *Instituciones Públicas y el Desarrollo de los Mercados Financieros Rurales*, p.7.

² Law for Transformation of the Banco Nacional de Desarrollo Agrícola (Bandesa). Decree 57-97 (July 1997), Article 3.

³ Banrural S.A. Web page: <http://www.banrural.com.gt>, 15 October 2007.

⁴ Fernando Peña, Public Banking Workshop.

of products that satisfy the needs of our customers, with a fair profit and without neglecting social responsibility.⁵

KEY FACTORS IN THE SUCCESS OF BANRURAL S.A.

1. Leadership by its managers: administrative council and general managers.
2. Clear definition of the bank's vision and mission and the values on which it is based, which has given the bank a clear direction that is shared by upper and middle management and employees. There is also a commitment to efficient management.
3. Diversification of products and services (capturing savings and investment, lending, and other financial and non-financial services).
4. Diversification of market segments served.
5. Broad geographic coverage.
6. Form of legal organization (corporation) .
7. Mixed-capital structure and diverse administrative council.
8. Financial intermediation, targeting rural (non-metropolitan) and low-income customers for lending, as well as low- and middle-income customers in metropolitan and non-metropolitan areas.
9. Special attention to portfolio of microenterprises and small and medium-size businesses to diversify and increase profitability.
10. Constant innovation in technology and infrastructure.
11. Competitive interest rates and low transaction costs.
12. Promotion of a culture of repayment.

From Trivelli and Venero (2007), adapted from Alfaro, L.N. (2003)

When the decision was made to establish Banrural S.A., the trend in the region was to privatize (clear debts and then privatize) or liquidate agricultural development banks. It is worth noting, therefore, that the original proposal for Banrural S.A., which was spearheaded by Guatemalan professionals, bucked that trend. That is part of the reason that it is so interesting to examine its outcomes now, 10 years after its creation.

b. The state of the bank 10 years after its creation

Today Banrural S.A. is the most profitable bank in Guatemala and the third largest in the country's financial system (holding more than 16 percent of the Guatemalan banking system's assets). It has gone from obscurity in Central America to ranking first in return on equity (ROE), third in assets and first in profits.

Banrural S.A. has low delinquency rates (0.87 percent in 2007), with only about 1 percent of its loans considered unrecoverable.⁶ Most of Banrural S.A.'s indicators have registered positive results. Deposits increased by a factor of 15 between 1998 and 2006, demonstrating growing public confidence in the institution.⁷ The ratio of deposits to loan portfolio was 1.22 in 2007, and administrative costs have been decreasing (reaching 6.3 percent of the loan portfolio amount in 2007). The effective interest rate

⁵ Banrural S.A. Web page: <http://www.banrural.com.gt>, October 15, 2007.

⁶ A rate much lower than that registered by the rest of the financial system. Banrural S.A. now also has provisioning equal to twice the amount of its at-risk portfolio.

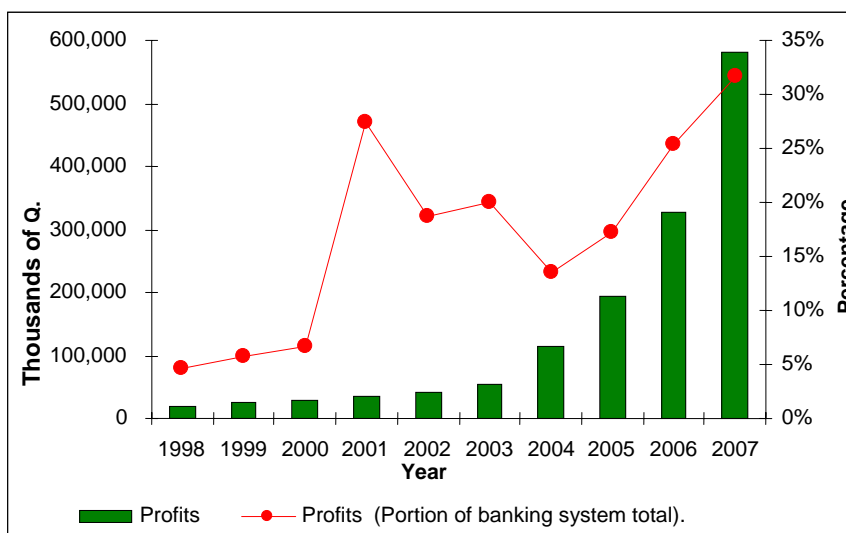
⁷ From 785,000 Q. to more than 15 million Q. in 2006.

charged for its loans has shown a slight downward trend since operations began, dropping from more than 19 percent in 1995 to 17 percent in 2007, still above the average market rate (13.3 percent in 2007). The passive interest rate paid to savers is slightly below the market rate (3.35 percent, compared to an average of 3.81 percent in the market). As of December 2006, the bank had served more than 4 million Guatemalans with credit. In 2007 alone, there were 270,000 loan operations.

The creation of Banrural S.A. as a mixed-capital bank that combines development goals with profitability has had an impact on the institution's performance. The quest for profitability ensures that the institution continues to operate over the medium to long term, so that clients will not find their source of financing or financial services interrupted. This is especially important in a country like Guatemala, which has seen several financial institutions fail in recent years.

As the following figure shows, Banrural S.A.'s profits have increased over its 10 years of operation, and since 2004 they represent an increasing portion of total profits of Guatemala's financial system, indicating that it outperforms other banks operating in the country.

Figure 1.1. Banrural S.A. profits, 1998-2007



Source: Office of Banking Superintendent of Guatemala

Banrural S.A. began operations with limited capital, and it was therefore extremely important to generate a profit, since it is through the generation of dividends and capitalization that Banrural S.A. has been able to expand its operations. The generation of profits also enables the bank to pay dividends to its shareholders, helping to consolidate various stakeholders who are key players in rural development, such as the agricultural cooperative movement, microfinance entities, Maya organizations, etc., that are among the bank's shareholders. Shareholders who receive resources and become stronger enable the bank to reinforce its commitment to promoting development and targeting rural areas.

Being subject to all regulations that apply to any financial institution has several advantages for the bank. One is the professionalization of the services offered, which

helps the bank attain the desired levels of profitability and sustainability.⁸ The bank's sustainability and independence from public resources also help protect it from political changes and influence.

Clarity among all shareholders that the bank is a business and must be managed accordingly, while not jeopardizing its development objectives, has enabled Banrural S.A. to grow. It is clear that every product and service must cover its costs, and that each product must be offered efficiently, taking into account the customers' characteristics and the costs this implies for the bank.

Despite the focus on profitability and sustainability, the bank has also been a development finance entity, with the advantages associated with this type of institution, such as *"its potentially greater commitment to sectors traditionally underserved by commercial banks (such as small farmers, the poor, women, small merchants, etc.), its possible production of public goods (information, records, contact with remote groups, etc.) and complementary services (delivery of social assistance, etc.), or its characteristic of being less procyclic than private banks."* Proof of this is the broad coverage that Banrural S.A. has attained, expanding from 90 branches (at the end of 1998) to 478 branches throughout Guatemala (as of December 2007), representing 21 percent of all branches in the banking system.⁹ The bank grew because it took advantage of the opportunity to expand operations outside Guatemala City, where there had been little financial system development. In 2006, Banrural S.A. accounted for 90 percent of loans made in the department of Petén and 85 percent of lending in the department of Huehuetenango.¹⁰

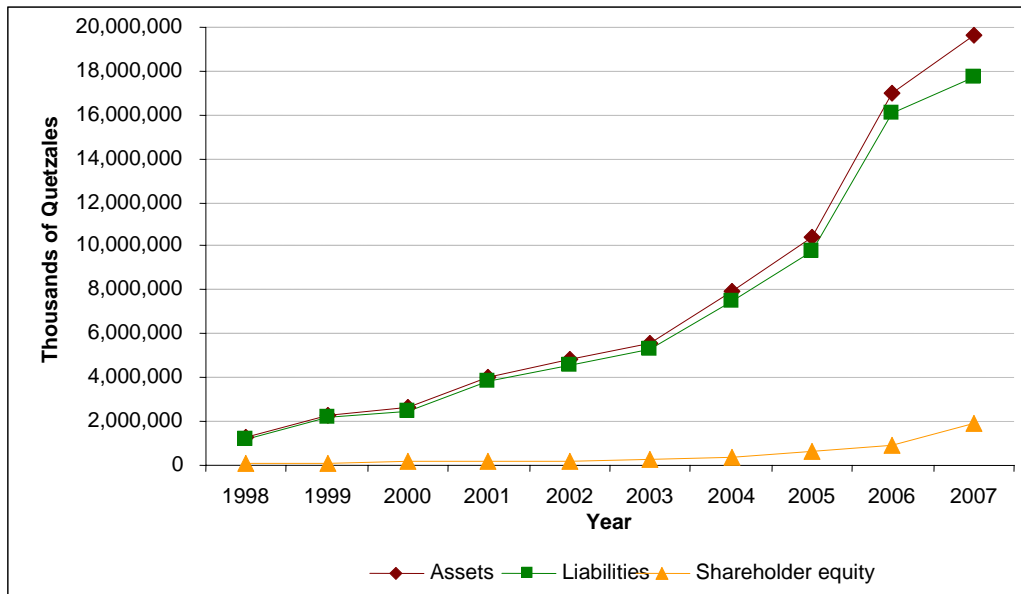
Throughout its 10 years of operation, Banrural S.A. has contributed to Guatemala's development, focusing mainly on small entrepreneurs and rural markets — customers who traditionally have not been served by the financial sector. This focus, combined with good growth management, has made Banrural S.A. a leader in Guatemalan finance and yielded the positive results described at the beginning of this section. This good management has enabled the institution to experience sustained growth, as shown in Figure 1.2

⁸ *Microfinanzas en Centroamérica: los avances y desafíos*. Villalobos, Iris, Arie Sandersv and Marieke de Ruijter de Wildt. Santiago, Chile: CEPAL, 2003, p.9.

⁹ By December 2007, Banrural S.A. had 480 branches. In 2000, Banrural S.A. employed 10 percent of the work force in the financial system; by August 2007, that figure had increased to 21 percent. See Table A.9 in the appendix.

¹⁰ Banrural S.A. annual report for 2006. Figures for December 2007 indicate that in that year, Banrural S.A. made 25.45 percent of all loans made by the banking system. Its share of lending in the departments of Petén, Quiché and Solotá was 88.08 percent, 84.83 percent and 81.09 percent, respectively.

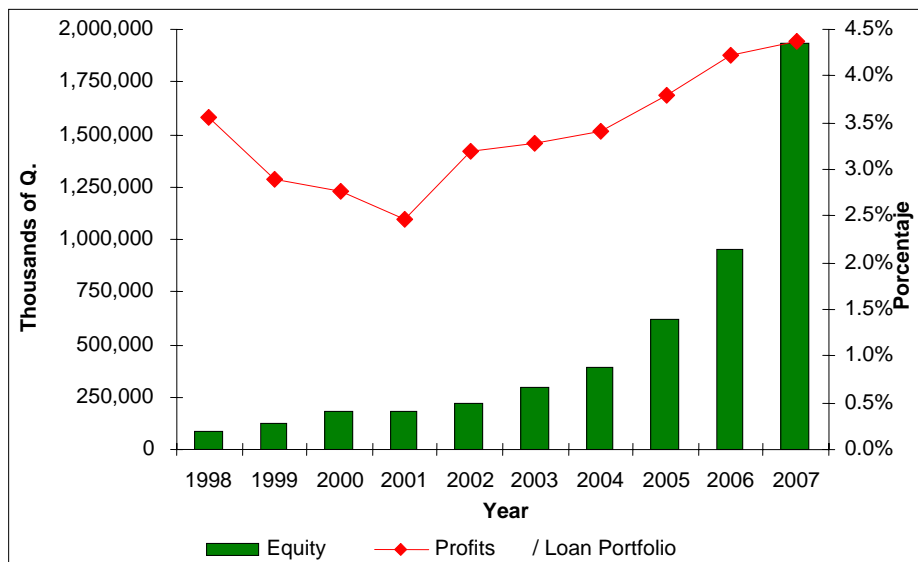
**Figure 1.2. Assets, Liabilities and Equity, 1998-2007
(Thousands of Q.)**



Source: Office of Superintendent of Banking of Guatemala

Equity growth has been moderate, with capitalization of part of the profits generated by the bank itself as practically the only source of capitalization.

Figure 1.3. Evolution of equity and profits of Banrural S.A., 1998-2007



Source: Office of Superintendent of Banks of Guatemala

Figure 1.3 shows equity growth from 1998 to 2007. Financial revenues are the main source of the bank's income; "The bank's profitability are due to the high diversification of products and services (mass provision), combined with a slight difference in costs and greater efficiency, which combines the variable of lower payment for capture with

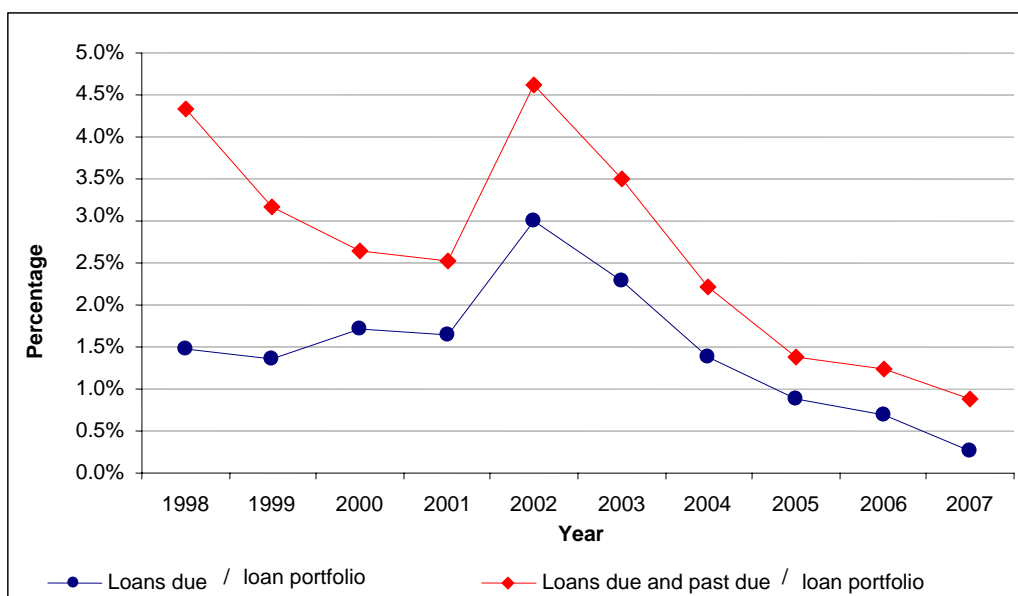
*slightly higher rates for lending with greater efficiency.*¹¹ This is possible because of the bank’s economies of scale, which enable it to “*earn a little, many times over.*”

Although the bank is sustainable, there is a risk that the quest for profitability and compliance with financial regulations could affect the depth of its loan portfolio if a limit is placed on the number of low-income customers or customers from a particular geographic area.¹² But while it is profitable, if necessary the bank could implement a kind of implicit subsidy — for example, in the early stages of branches in areas where the volume of operations does not cover costs — but this must be temporary, until the minimal level for branch profitability is reached or mechanisms are designed to lower costs and ensure the sustainability of services in the area.¹³

Banrural S.A. has a multisector operation strategy that translates into an understanding that people in rural areas engage in various activities besides agriculture.¹⁴ This has enabled it to diversify activities and, therefore, risks related to its rural portfolio. This multisector approach translates into a growing rural portfolio in which farm loans represent a decreasing relative proportion. As of mid-2006, agriculture loans represented only 11 percent of the total portfolio.

This diversification among sectors and within the rural area is the basis for the bank’s risk-management strategy, which, along with its loan technology, which is grounded in the loan officer’s direct contact with the customer, has enabled Banrural S.A. to significantly reduce portfolio risk, resulting in low delinquency rates, as shown in Figure 1.4.¹⁵

Figure 1.4. Portfolio quality, 1998-2007 (percentage)



Source: Office of Superintendent of Banks of Guatemala

¹¹ *Instituciones Públicas y el Desarrollo de los Mercados Financieros Rurales*, pp.14-15.

¹² *Manejo del Riesgo en Instituciones Financieras Rurales - Estudio de Caso*, p.1.

¹³ *Instituciones Públicas y el Desarrollo de los Mercados Financieros Rurales*, pp.18-19.

¹⁴ This reflects the bank’s adoption of a new rural finance consensus, which acknowledges that rural livelihoods depend on more than farming.

¹⁵ For more detail, see Table A.4 in Appendix 1.

From the outset, Banrural S.A. also shifted from an approach that emphasized lending to one that emphasized providing financial services, in which credit plays an important role but is not the only service. Banrural S.A. depends greatly on attracting savings to finance its activities, and offers a broad range of complementary services, such as handling remittances, inter-regional payments, capitalization accounts, and other services. In that sense, Banrural S.A. is applying one of the lessons of the microfinance revolution, which stresses the need to offer a broad range of financial services to low-income customers, not just because they are profitable for the institution, but because they have a great impact on the customers' lives and possibilities for development.¹⁶

Finally, Banrural S.A.'s 10-year history shows that it has been important for the bank to adopt the new consensus on rural finance: a broad understanding of rural life (more than agriculture), an emphasis on providing financial services and not just credit, and the need for an entity that is financially profitable and sustainable. It also underscores some important choices: placing the majority of shares in the hands of private shareholders from sectors that have traditionally been outside the financial system, which complements public-sector participation in the board of directors and bank decision making; choosing a solution that responds to local conditions and not one that is merely fashionable or imposed; the constant effort to learn from other experiences, along with constant innovation and adaptation; etc. These efforts, combined with professional management, have made it a vibrant, developing bank.

¹⁶ This underlies the shift from microcredit to microfinance.

2. Five reasons to celebrate Banrural S.A.'s 10th anniversary

Besides the positive results summarized in the previous section, which make it interesting to examine Banrural S.A.'s development over these ten years, there is the question of whether Banrural S.A. is merely a bank that is doing well, or if its characteristics and performance make it an interesting subject for analysis and discussion of the characteristics, opportunities and challenges facing development banks, microfinance banks and other financial entities that seek to serve sectors that have traditionally been neglected by the financial system, especially in rural areas. The answer, from our standpoint, is clear: Banrural S.A. is different and interesting. Banrural S.A. is an innovative, attractive model that offers concrete evidence that provides input for broader discussion of development banking. This is true for at least five reasons:

a. It is an example of successful reform of an agricultural development bank.

The first reason for celebrating Banrural S.A.'s tenth anniversary is that Banrural S.A. is an example of a successful transition from a traditional public development bank in the agriculture sector, which yielded poor results, to a profitable, sustainable financial institution that remains focused on promoting development, particularly in rural areas.

The restructuring of Bandesa that ended with the creation of Banrural S.A. was a long process that involved various sectors of Guatemalan society and public agencies that, after evaluating various alternatives, sought to respond to the challenge of rural finance in Guatemala. It was not an easy process, and it became even more complex when the decision was made not to follow the trend and privatize or liquidate Bandesa, but to seek an alternative that would respond to needs in Guatemala in the mid-1990s.

The process that led to the creation of Banrural S.A. was innovative and rigorous. In the 1990s, many countries in the region opted to privatize their development banks or simply liquidate them in hopes that the private sector would respond by assuming the positive role that these banks had played, especially in serving rural clients. There was also significant expansion of the financial sector (since there was no longer competition, generally unfair, from public-sector entities). As has been widely documented, however, neither privatization of public agriculture banks nor their liquidation improved the depth or coverage of financial services for small farmers and rural dwellers. Various studies have shown the limited impact of the privatization of public development banks in Latin America, and others have shown that liquidation, even in countries with strong microfinance systems, did not encourage the private sector to serve even the customers who had previously been served by the development banks.¹⁷

Banrural S.A. is a successful case of development bank reform, making it one of a handful of entities that, under different models, have redefined and recreated themselves and continued to work for the benefit of their countries' financial systems and their customers.¹⁸ Banrural S.A.'s results show that it is not only a successful

¹⁷ See for example works by Micco and Panizza (2005) and Voguel (2005).

¹⁸ The classic cases are those of the Agrarian Bank of Mongolia (now XAAH), the Rakyat Bank of Indonesia (BRI), the Bank for Agriculture and Agriculture Cooperatives in Thailand (BAAC), the Center for Agriculture and Rural Development (*Centro para la Agricultura y Desarrollo Rural*, Banco, CARD) in the Philippines, the Centenary Rural Development Bank (CRDB) of Uganda,

example of this type of restructuring, but that it is in a special class, since it is not only successful as a bank (profitable and sustainable) and a development institution (because of its depth and coverage), but it is also a key development player in Guatemala's financial system.

b. It has an innovative, inclusive model for action and governance.

Perhaps Banrural S.A.'s most distinctive characteristic is the makeup of its shareholders, not only because it is a mixed-capital entity (30 percent public and 70 percent private when it was established), but especially because of the private shareholders' profile. These are not financial entities or traditional economic power groups, but grassroots organizations. Community groups, cooperatives and organizations are now the owners of one of Guatemala's largest banks.

This shareholder structure and that of the Banrural S.A. Administrative Council is part of the key to its identity as a development bank with an entrepreneurial vision.¹⁹

The ownership structure designed when Banrural S.A. was created allowed new grassroots groups involved in the rural sector to be included as owners and directors. Various classes of shares were established, so that different groups would have a place in the institution. This enabled the bank to begin operations incorporating both the public sector and organizations with a strong social commitment. The share classes were:²⁰

- Series A: Shares that could be acquired only by the State.
- Series B: Shares for entities in the cooperative movement, which had to be active and legally recognized.
- Series C: Shares for legally recognized Maya, Garífuna, Xinca and peasant farmer organizations.
- Series D: Legally recognized non-profit organizations.
- Series E: Shares for associations, federations or groups of microentrepreneurs and owners of small and medium-size businesses.
- Series F: Actions available preferentially to former Bandesa employees as partial or total compensation for benefits due, as well as legally recognized women's organizations and other entities not included among the preceding groups, and the general public.

Table 2.1 shows a breakdown of the percentage of shares in each series, as well as the number of representatives on the Administrative Council.

the Banque Nationale Agricole (BNA) in Tunisia, and the Kezhavarzy Bank in Iran (Nagarajan and Meyer (2005); Seibel et al.(2005)).

¹⁹ *Instituciones Públicas y el Desarrollo de los Mercados Financieros Rurales*, p.11.

²⁰ Law of Transformation of the National Agricultural Development Bank (*Banco Nacional de Desarrollo Agrícola*, Bandesa). Decree 57-97 (July 1997), Art. 10.

Table 2.1. Banrural S.A. initial shareholder structure

| Series | Class of shares | Shares | Percentage | Representatives on Administrative Council |
|--------------|--|------------------|-------------|--|
| Series A | State | 600,000 | 30% | 3 |
| Series B | Cooperatives | 400,000 | 20% | 2 |
| Series C | Indigenous and peasant farmer organizations | 400,000 | 20% | 2 |
| Series D | Non-profit organizations | 200,000 | 10% | 1 |
| Series E | MIPYME associations | 200,000 | 10% | 1 |
| Series F | Former employees, women's organizations and others | 200,000 | 10% | 1 |
| Total | | 2,000,000 | 100% | 10 |

Source: Decree 57-97

As the table shows, not only is the shareholder structure inclusive, but it also involves all of the groups in the bank's governance structure. This model enables each class of shareholder to choose its representatives (directors) in homogeneous assemblies and ensures that the board of directors is representative of the various types of shareholders, which means there will be constant negotiation and consensus building among the various types of shareholders.²¹ To control the board of directors or impose a decision, at least three or four groups of shareholders would have to reach an agreement.

The model designed for Banrural S.A. enabled (and convinced) civil society organizations to invest in the new bank and made room for them in Guatemalan society and the country's economy. For these civil society groups, the relationship with Banrural S.A. and their status as shareholders has meant change and new opportunities — opportunities for training, information and capitalization, but also opportunities for empowerment and recognition in the public sphere (they are consulted and their opinions are considered important in public processes related to rural development and other issues) and within their own groups. This relationship has also facilitated the channeling of demands, needs and information about the groups' characteristics from these groups (as customers) directly to the bank's decision-making bodies. Besides being recognized as important stakeholders who have won a place in civil society, the shareholding organizations — like the bank — benefit from information and opinions received from all parties.

Shares can only be transferred among shareholders in the same category, and the State's contribution must represent at least 30 percent of the bank's paid capital.²² This ensures that the bank remains focused on development and that it includes the various types of organizations involved in rural work in Guatemala. This inclusion of private investors and their representation on the board of directors helps buffer the institution against the vagaries of the political cycle.

²¹ Some of these shareholder groups were interested in and sought to create banks in their own organizations, but they lacked the necessary resources or skills. They therefore became potential shareholders for a new bank, but this required resolving the question of whether they should be participants in or owners of a bank.

²² Law of Transformation of the National Agricultural Development Bank (*Banco Nacional de Desarrollo Agrícola*, Bandesa). Decree 57-97 (July 1997), Article 10.

While private shareholders have maintained a policy of reinvesting 50 percent of their profits, the Guatemalan government has not done the same. The State's share has now decreased to only 19 percent of equity. Nevertheless, the State continues to hold its three seats on the board of directors.

Decree 57-97, which established Banrural S.A., also indicates the number of representatives of each series of shares on the board of directors (see Table 2.1). The State holds three of the 10 seats, with representatives named by the Ministry of Agriculture, Livestock and Food, the Ministry of Public Finance and the Ministry of the Economy. This structure, which divides the seats among various sectors and gives the State a non-majority share, buffers Banrural S.A. against any political upheaval that could occur in Guatemala and against the possibility of being pushed to take action that is only relevant for one sector.

Besides this protection against political power, which is built into the bank's shareholder and board of directors structure, there has been continuity in the bank's management, allowing the implementation of medium- and long-range strategies compatible with the bank's objectives. One indication of this is that the bank has had the same general manager since it was restructured. This ensured that the original strategy was implemented and perfected and that new products and services compatible with that strategy were developed. The continuity of management staff has also allowed the institution to benefit from the knowledge and experience they had acquired. Finally, this continuity makes the bank's actions predictable, decreasing uncertainty in the financial system, especially among rural intermediaries.²³

Banrural S.A. is transforming Guatemalan society, strengthening the economic integration of groups that have traditionally been invisible in the country's decision-making spheres. This is perhaps one of Banrural S.A.'s most significant contributions to Guatemala: consolidating grassroots organizations and making room for them in economic, political and social spheres from which they used to be excluded. Today Banrural S.A.'s shareholder organizations earn revenue, help guide the actions of the country's third-largest bank and are beginning to be recognized as being among those on whom the country's future will depend. This is a gradual process, of course, but it has been marked by learning on both sides, by training and by experience with a new way of collaborating and interacting, which sooner or later will translate into more integration and development for Guatemala.

c. Banrural S.A. is an example of the type of financial entity proposed by the New Rural Finance Paradigm

The "old rural finance paradigm" of the 1960s and 1970s grew out of concern over increasing rural lending, especially for agriculture, on the assumption that more credit would spur agricultural development.²⁴ This paradigm was the basis for the idea that governments should focus on intervening in the market to meet the need for credit on favorable terms (with subsidized interest rates, without guarantees, etc.). The results were not encouraging: the desired agricultural development did not occur, loan programs proved costly for governments and unsustainable over time, and many loan programs ended up serving the governments' political ends and/or underestimated the risks implicit in their implementation.

²³ Trivelli and Venero (2007), p.294.

²⁴ Nagarajan and Meyer (2005).

A second development paradigm emerged with the “microfinance revolution” of the 1970s, especially because of the activity of non-financial entities, such as NGOs, and financial institutions closely linked to poor sectors and their organizations (cooperatives, mutual savings banks, etc.). This phase involved the development of institutions and financial products for customers who were traditionally neglected by the financial system (especially “poor” customers). Increasing attention was paid to access to information and a close relationship between borrower and lender, along with innovation in products, services, and the technology for delivering loans and collecting debts. Above all, however, this phase demonstrated that it is possible to offer financial services on a small scale and under conditions traditionally considered adverse (without real guarantees, marked by informality, etc.), and that this can be done by financially solid and profitable private institutions (for-profit and non-profit).²⁵

In the 1990s, there was renewed discussion of the need to develop a new paradigm for rural finance; the debate continues today.²⁶ This concern emerged from the lessons learned from the “old” paradigm and the microfinance revolution and the need for a set of basic principles that would guide development of the financial system and facilitate rural development. It involved a commercial approach based on acknowledgement of the superiority of the market and its mechanisms in providing sustained service to a growing number of customers, and responded to the challenge of designing policies, interventions and technologies capable of overcoming or counteracting the main problems of financial markets through compatible or intelligent incentives, innovation and new institutional designs (for organizations, regulation, etc.).

In debate over this new paradigm, it was acknowledged that public entities had failed as promoters of agricultural development through farm lending, especially in Latin America. Nevertheless, it was also acknowledged that there had been no significant progress in the development of rural financial markets after public financial entities disappeared or were privatized. The debate over the role and characteristics of development entities, therefore, took on renewed importance.

Given this context, it is important to discuss and analyze cases like that of Banrural S.A., because they not only show that it is possible to transform public entities into new entities that promote development, but also because they demonstrate that the restructured, reformed or recreated entities can achieve positive outcomes. From its beginnings, Banrural S.A. has implemented the lessons learned from microfinance. It has also taken advantage of the successful experiences of other countries, adapting them to the context in which it operates. Examples include the capital structure with limits for the various shareholder groups, which is based on the model of the Banco Latinoamericano de Exportaciones (Bladex), and the expansion of activities through broader geographic coverage, which is based on the experience of Colombia’s Banagrario.

Banrural S.A.’s experience reaffirms that it is important to test and design new models that draw on the experience of others (the influence of microfinance success stories, Grameen Bank, the restructuring of development banks in Indonesia, etc., clearly have an impact), while also taking into account and taking advantage of the particular characteristics of each environment (lack of banks with broad coverage, existence of social sectors with the interest and ability to enter the world of finance, economic, political and social situation, etc.). Banrural S.A. demonstrates the benefits of good design and the way in which this design can be managed by the private sector without sacrificing development objectives.

²⁵ For an analysis and review of the process, see Robinson (2001).

²⁶ Nagarajan and Meyer (2005).

d. *Making a bank profitable does not mean ignoring rural, poor or small-scale customers*

Banrural S.A. stands out because it not only serves the banking system's usual customers, but it has also reached groups that traditionally have been neglected by the financial system, among whom it is developing a reliable and growing clientele. The bank mainly operates in rural areas where there are high rates of poverty and illiteracy and broad cultural diversity. The adaptation of services to those characteristics has been a key factor in its successful results. According to Fernando Peña, general manager of the bank, *knowing the needs of each group has enabled them to achieve the results they have.*²⁷ Banrural S.A. achieves its good financial outcomes by working with small-scale, rural and poor clients.

While Banrural S.A. may not offer services to all poor people, it has made an unquestionable contribution to making financial services available to the rural poor through its widespread network of points of service, its network of multilingual automatic teller machines, its remittance-handling system, its loans to very small-scale customers, its second-tier portfolio, which finances microfinance institutions, and its role in managing funds that target the vulnerable population.²⁸

Banrural S.A. is now responsible for about 20 percent of all loans made in Guatemala (in 1999, it handled only 4.2 percent of all loans in the country), as shown in Table A.5 in the appendix. Its portfolio is healthy, with due and past-due loans representing less than 1 percent of total lending (see Table A.4 in the appendix).²⁹

In terms of the ***scale of its customers***, Banrural S.A. targets microenterprises and small and medium-size businesses. The average direct loan is approximately US\$3,400, significantly higher than the average of US\$350 for loans channeled through its second-tier operations. In 2005, however, 17 percent of its direct loans were under US\$ 650, while 48 percent were between US\$650 and US\$2,600.³⁰ In December 2006, 90 percent of the bank's loans were for operations of less than Q 50,000 (approximately US\$6,800), and 27 percent were for operations of less than Q. 5,000 (equivalent to US\$680).³¹

Banrural S.A. also has more than 1.8 million savings accounts, most of which are microsavings. The average deposit amount in the savings accounts (not counting term deposits) is Q. 7,250 (equivalent to US\$967).³² Banrural S.A.'s deposit accounts represent 25 percent of the country's total deposit accounts, reflecting public confidence in the bank. Those accounts represent 19 percent of the value of savings deposited in the financial system³³ (see Table A.8 in the appendix).

Banrural S.A. has a Microfinance Department that specializes in serving that segment. Loan amounts range from US\$65 to US\$13,000, at an effective annual interest rate of 22 percent to 32 percent. To obtain a loan, customers must have been in business for

²⁷ Fernando Peña, Public Banking Workshop, May 2007.

²⁸ *Instituciones Públicas y el Desarrollo de los Mercados Financieros Rurales*, p.9.

²⁹ Figures from December 2007 indicate that portfolio due or past due as of the end of that year was 0.9 percent.

³⁰ Trivelli and Venero (2007), data for 2005.

³¹ Banrural S.A. 2006 annual report.

³² Including term deposits, the average balance is Q. 9,275, equivalent to US\$ 1,238.

³³ These figures indicate the importance of low-balance accounts in Banrural S.A., which has a larger percentage of the total number of accounts in the financial system than than of the total value of deposits in the system.

at least one year, be located near a Banrural S.A. branch, and provide a copy of their identity document and a guarantee. Most guarantees are non-conventional (such as high-value goods, household equipment or goods, or third-party guarantees).³⁴

Banrural S.A. also works with solidarity groups and communal banks. In solidarity groups, it works with an initial amount of up to US\$520 per member, and in communal banks with an initial amount of up to US\$260. The bank has a scaled (progressively increasing) lending system based on the form of payment and the business' growth. As of March 2002, the active portfolio was about US\$43 million, with 34,700 active customers. Of the total loans made, 97 percent were in rural areas and only 3 percent in urban zones.³⁵

Besides providing direct loans, Banrural S.A. also provides second-tier loans to financial intermediaries. By the end of 2006, these were reaching 156 organizations.

Its identification with small-scale customers does not keep Banrural S.A. from becoming involved in other activities that help increase its profitability, such as corporate financing. If this type of operation takes on increasing importance, however, it could affect the bank's ability to meet its development objectives. In 2006, it made 339 corporate loans (171 of which were in US dollars and 168 in quetzales), for a total of Q. 820,791,540 (representing about 10 percent of its total lending).

In terms of **customers' gender**, Banrural S.A. serves women's groups (48 percent of its clientele) with microcredit, helping them provide income for their households and improving their economic situation while promoting gender equality.

Another significant characteristic is the importance of **people of indigenous descent among the bank's clientele**, as well as representation of indigenous groups on the board of directors and among the shareholders. Guatemala has high illiteracy rates, which reach 18 percent among non-indigenous people and 47 percent among those of indigenous descent. In other words, there is a strong relationship between ethnic origin and illiteracy (see Table 2.2).³⁶ It is also a country with great cultural diversity, in which there are 20 Mayan languages, and in which most of the people who speak those languages live in rural areas. To expand its operations to include all types of entrepreneurs, Banrural S.A. has implemented a network of multilingual automatic teller machines that use biometric identification (fingerprints) and provide audible instructions in the language registered for each customer. Banrural S.A. currently has more than 150 automatic teller machines of this type.

³⁴ *Microfinanzas en Centroamérica: los avances y desafíos*. Villalobos, Iris, Arie Sandersv and Marieke de Ruijter de Wildt. Santiago, Chile: ECLAC, 2003, p.48.

³⁵ *Ibid.*

³⁶ Gender is also important, as higher rates are reported among women.

Table 2.2. Illiteracy rates in Guatemala, 2000 (percentage)

| Age | Indigenous | | | Non-indigenous | | |
|-------|------------|-----|-------|----------------|-----|-------|
| | Women | Men | Total | Women | Men | Total |
| 10-19 | 67% | 80% | 74% | 89% | 91% | 90% |
| 20-29 | 50% | 78% | 63% | 85% | 91% | 88% |
| 30-39 | 34% | 67% | 49% | 76% | 89% | 82% |
| 40-49 | 21% | 58% | 40% | 71% | 86% | 78% |
| 50-59 | 13% | 42% | 26% | 57% | 70% | 63% |
| 60-69 | 6% | 32% | 20% | 47% | 68% | 58% |
| 15-64 | 39% | 68% | 53% | 77% | 87% | 82% |

Source: Encovi (2000), Prepared by: Hall and Patrinos (2006)

In: Hall, Gillette and Harry Anthony Patrinos (2006) *Pueblos Indígenas, Pobreza y Desarrollo Humano en América Latina 1994-2004*. Bogotá: World Bank, Mayol Ediciones.

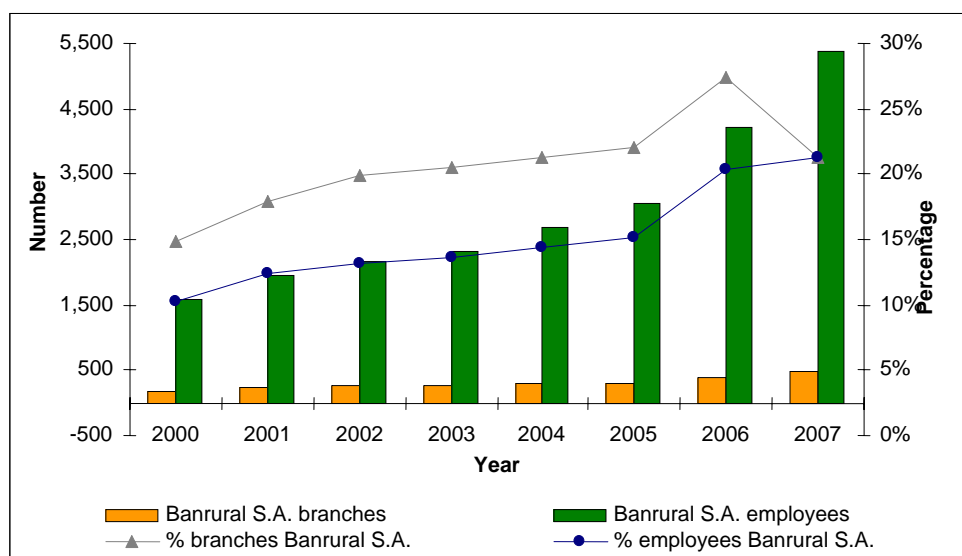
Finally, one important characteristic of Banrural S.A. is the **geographic location of its customers**. Of the bank's loans, 87 percent are made outside Guatemala City and nearly 60 percent are made in rural areas.

Banrural S.A. currently operates in all departments of the country, with a total of 47 branches.³⁷ This broad geographic coverage ensures that its agriculture portfolio contains a large diversification of crops, to reduce the possible impact of regional climatic events.³⁸ Banrural S.A. has a presence in major cities and district capitals. This broad coverage ensures that it can offer intermediation, payment and remote collection services to the rural population. Figure 2.1 shows the increase in the number of Banrural S.A. branches and employees, as well as its importance in the overall Guatemalan banking system.

³⁷ As of December 2007. For more details, see Table A.9 in Appendix 1.

³⁸ *Manejo del Riesgo en Instituciones Financieras Rurales - Estudio de Caso*, p.8.

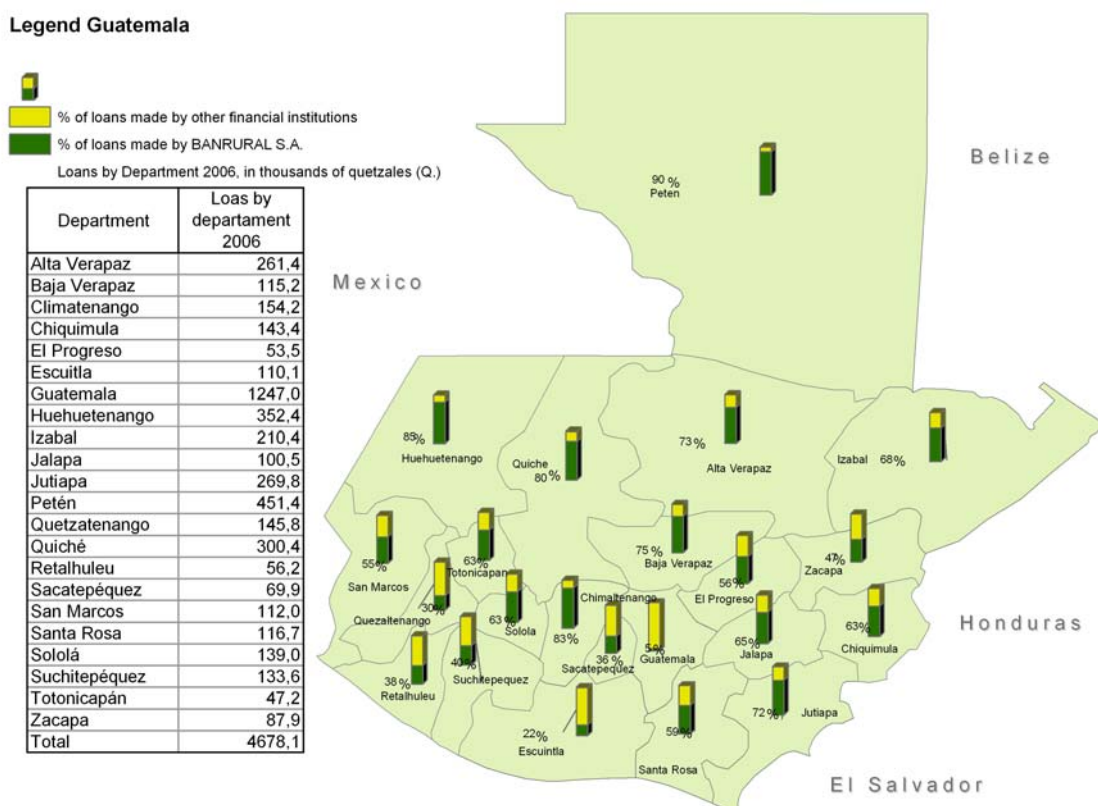
Figure 2.1. Number of branches and employees, 2000-2007



Source: Office of Superintendent of Banks of Guatemala

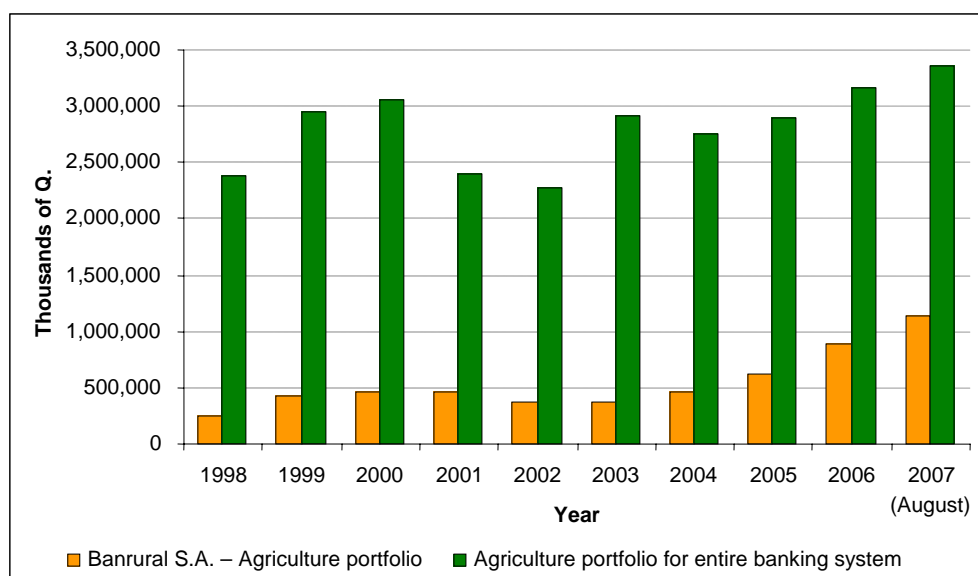
As the following map shows, Banrural S.A. is responsible for the major share of loans, mainly in rural Guatemala. Its success in rural lending is closely related to its decision, from the time it was established, to take a broad view of rural business, with agriculture as only one of the economic and social activities in which rural dwellers engage.

Map 2.1 Banrural S.A. lending by department, 2006



As will be discussed below, Banrural S.A. remains the main source of financing for agriculture. It is responsible for about 34 percent of all farm loans made by the financial system (as shown in Table A.11 in Appendix 1), a percentage much higher than in its early years of operation, as shown in Figure 2.2.

Figure 2.2. Banrural S.A. farm lending portfolio and total for banking system, 1998-2007 (thousands of Q.)



Source: Office of Superintendent of Banks of Guatemala

Banrural S.A.'s goal is to promote rural development in Guatemala, with the understanding that rural areas include not only farmers, but also small businesses, craftspersons and merchants with investment needs. This approach enables the bank to diversify its lending and services in various sectors, reducing portfolio risk. While it initially concentrated a large proportion of its loan portfolio in the agriculture sector, over the years it has developed a more solid multi-sector profile. As the loan portfolio has increased, the relative weight of the various economic activities has changed. As Table 2.3 shows, in 1998 the portfolio was concentrated in the agriculture sector, commerce and consumer credit, transfers and other uses, with farm loans representing half of all lending. The main activities are now consumer credit, transfers and other uses, followed by construction, commerce and, to a lesser extent, agriculture.

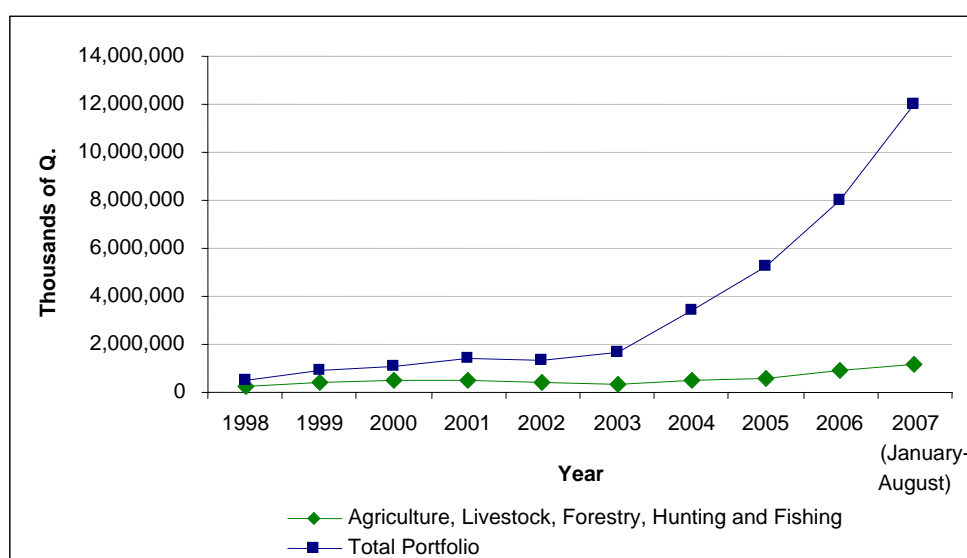
Table 2.3. Banrural S.A. – Loan portfolio by economic activity (percentage of total portfolio), 1998-2007 (August)

| Activity | 1998 | 2006 | 2007 (August) |
|--|---------------|---------------|---------------|
| Agriculture, Livestock, Forestry, Hunting and Fishing | 49.3% | 11.1% | 9.4% |
| Mining and Quarrying | 0.1% | 0.1% | 0.0% |
| Manufacturing | 4.3% | 0.9% | 0.7% |
| Electricity, Gas and Water | 0.4% | 0.0% | 0.1% |
| Construction | 6.4% | 29.8% | 28.1% |
| Commerce | 13.2% | 15.6% | 19.2% |
| Transportation and Storage | 0.8% | 3.8% | 3.1% |
| Financial Establishments, Real Es-tate and Business Services | 3.6% | 2.1% | 3.9% |
| Community, Social and Personal Services | 2.9% | 0.4% | 0.4% |
| Consumer, Transfers and Other Uses | 19.1% | 36.3% | 35.0% |
| TOTAL | 100.0% | 100.0% | 100.0% |

Source: Office of Superintendent of Banks of Guatemala

As Figure 2.3 shows, while the total amount of farm lending has increased significantly (from Q. 241,303,000 in 1998 to Q. 1,130,115,000 in August 2007; in US dollars, this means that Banrural S.A.'s farm lending has more than tripled), agriculture's share of the total Banrural S.A. portfolio has decreased (from 49.3 percent to 9.4 percent in the same period).³⁹

Figure 2.3. Farm lending and total lending, 1998-2007 (thousands of Q.)



Source: Office of Superintendent of Banks of Guatemala

Besides diversification of sectors, an effort has also been made to diversify within the agriculture sector, increasing lending to the livestock sector, which is less exposed to

³⁹ For more detail, see Table A.11 in Appendix 1.

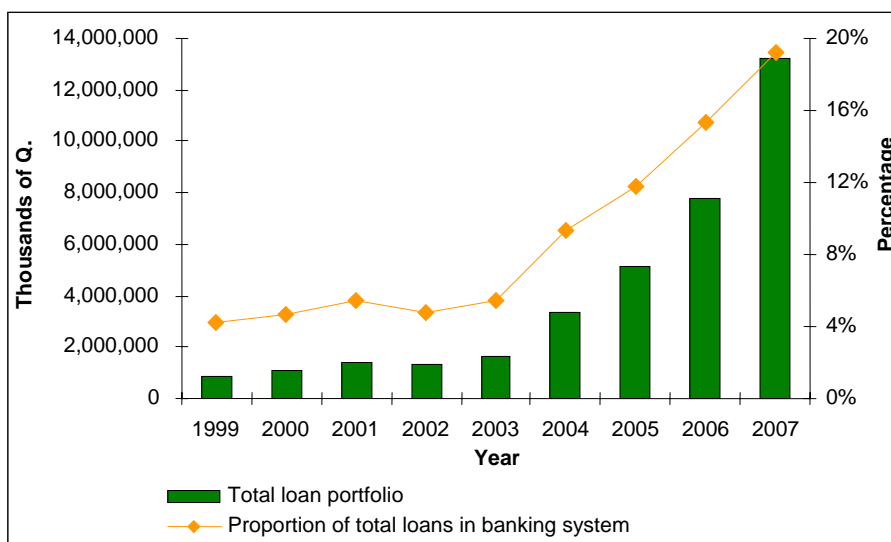
price fluctuations and adverse climatic events.⁴⁰ Another measure for protecting portfolio quality has been to avoid lending for subsidized crops.⁴¹ Banrural S.A. supports profitable, sustainable initiatives in rural areas.

e. Multiple services, not focused exclusively on credit

To achieve its goal of promoting sustainable rural development, Banrural S.A. has gained an in-depth understanding of the context in which it works in order to offer appropriate services. This has meant the constant development of new products. With the goals of being a profitable bank — to ensure its sustainability — while reaching the largest possible number of customers, the institution has developed a wide variety of services, thus expanding its revenue sources. Among the services are the financial intermediation mentioned above, which mainly targets microenterprises and small and medium-size businesses (“*earn a little, many times over*”) while not neglecting other opportunities.

The direct loans offered by the bank are complemented with second-tier financing and the management of trust funds for grassroots organizations involved in rural financing. These mechanisms make it possible to offer financing to members of these organizations, who would not qualify for credit individually. In the case of the trust funds, Banrural S.A. participates in the administration of funds and in the process of making and recovering loans, as well as handling window transactions.⁴² By having first- and second-tier financing options, however, the bank may compete with its second-tier clients and capture the best customers by offering more attractive terms, rates and disbursement speed (lower transaction costs for customers).⁴³ Figure 2.4 shows the growth of the bank’s loan portfolio and its share of the total banking system portfolio.

Figure 2.4. Banrural S.A. loan portfolio, 1999-2007



Source: Office of Superintendent of Banks of Guatemala

⁴⁰ *Manejo del Riesgo en Instituciones Financieras Rurales - Estudio de Caso*, p.7.

⁴¹ Fernando Peña, Public Banking Workshop.

⁴² *Instituciones Públicas y el Desarrollo de los Mercados Financieros Rurales*, p.18.

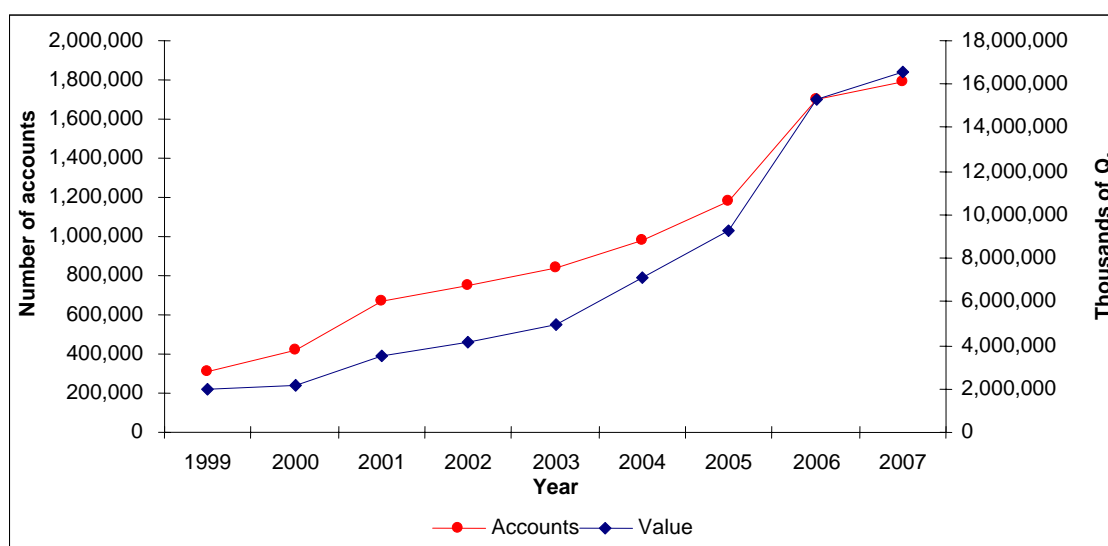
⁴³ *Ibid.*

Banrural S.A. has emphasized the expansion of its services, beginning with rural areas and later entering urban zones and the metropolitan area. It has combined this with diversification of products and services to diverse market segments.⁴⁴ Banrural S.A. offers various credit and deposit products to its customers, loans to other financial entities (as a second-tier bank), remittance handling (it has several branches in the United States to receive funds from migrants residing there) and insurance products.⁴⁵

Among its first-tier credit offering, the institution has a unit specializing in microfinance, which makes loans using various models: individual, solidarity groups and communal banks. Other credit includes loans for small and medium-size farmers, consumer credit and loans for home remodeling and expansion. Second-tier operations target microfinance institutions, which serve customers that Banrural S.A. is unable to reach (mainly for geographic reasons).

Besides its credit and trust fund areas, Banrural S.A. ranked second in 2006 in capturing deposits from the public, which represented the institution's principal source of financing. Since 2003, deposits have represented more than 90 percent of total liabilities and more than 85 percent of total liabilities and equity. As Figure 2.5 shows, the number of accounts — and the total amount of deposits — has increased steadily and now exceeds 1.5 million.⁴⁶ As of December 2007 total liabilities were equivalent to 90 percent of total assets.

Figure 2.5. Banrural S.A. – Number of accounts and deposit balance and financial obligations, 1999-2007



Source: Office of Superintendent of Banks of Guatemala

The bank attracts deposits from the public in various forms, including savings accounts, fixed-term deposits and mortgage bonds; it even offers children's savings accounts designed to encourage early savings habits. The importance of the deposits can be seen in Figure 2.6, which shows that in recent years they have represented more than 90 percent of liabilities.⁴⁷

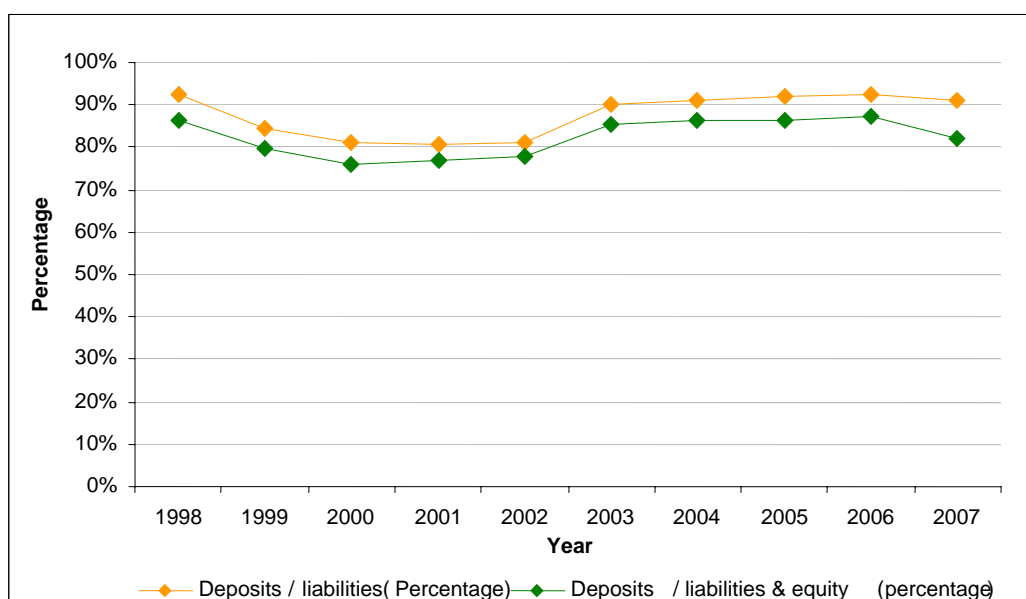
⁴⁴ *Instituciones Públicas y el Desarrollo de los Mercados Financieros Rurales*, p.21.

⁴⁵ *Manejo del Riesgo en Instituciones Financieras Rurales - Estudio de Caso*, p.2.

⁴⁶ For more detail, see Table A.6 in Appendix 1.

⁴⁷ For more detail, see Table A.7 in Appendix 1.

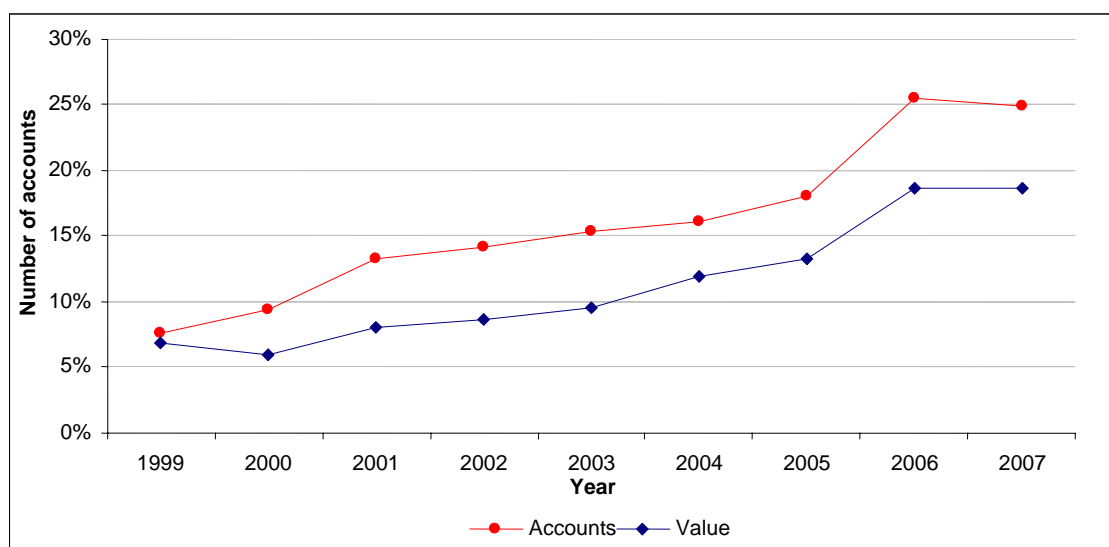
Table 2.6. Importance of deposits (percentage) 1998-2007



Source: Office of Superintendent of Banks of Guatemala

It should be noted that the total value of Banrural S.A.'s deposits represents a smaller share of the banking system total than the number of accounts (see Figure 2.7), which may indicate that Banrural S.A. is offering savings options to small savers.

Figure 2.7. Banrural S.A. - Accounts and deposit balances and financial obligations as percentage of the banking system total, 1999-2007



Source: Office of Superintendent of Banks of Guatemala

Although Banrural S.A. seeks to promote the development of economic activity, it has designed products for different purposes, such as student loans, home improvement loans (under an agreement with the IDB), receiving and sending remittances, and facilitating payments between providers and customers.

One significant area that the bank recognized is the importance of remittances from migrants abroad to local rural households. Through agreements with companies that capture remittances outside Guatemala, Banrural S.A. has become the largest payer of family remittances in Guatemala. In 2006, 50 percent of family remittances that entered Guatemala were handled by Banrural S.A.

Besides financial products, the bank has also developed non-financial services and benefits, such as medical insurance, scholarships, discounts and support for community development.

The Guatemalan banking sector has traditionally consisted of a large number of small banks, which makes it difficult to achieve economies of scale that allow for greater efficiency.⁴⁸ With its wide network of branches and its goal of taking its services to communities, Banrural S.A. uses multilingual automatic teller machines that recognize each user's language for transactions. This has enabled the bank to work with illiterate customers and those who speak a language other than Spanish. It is a noteworthy example of the way in which the institution has adapted to the environment in which it does business.

Besides withdrawing savings, small businesspeople can get access to their approved line of credit through the automatic teller machines, reducing transaction costs related to loan disbursement. Besides the network of automatic teller machines, Banrural S.A. has agreements with providers of inputs and machinery to provide them with electronic terminals so customers can use their cards. This gives customers direct access to their lines of credit, while ensuring that the providers receive sales revenue immediately.

The bank's interest rate strategy is based on charging highly competitive effective rates. The effective interest rate charged by Banrural S.A. is below the active market rate. This is achieved by capturing resources at an effective rate that is lower than the effective market rate.⁴⁹

The institution has made an effort to develop the infrastructure and technology needed to create favorable conditions both for customers and for the employees responsible for evaluation and monitoring of the bank's operations. Examples of the use of technology to improve the bank's performance include the multilingual automatic teller machines and access to approved lines of credit through those machines. To enhance institutional performance, the bank has installed the COBIS banking system with on-line connection to its branches. The new system allows precise control over loan approval time and automates payment reminders and notices.⁵⁰

One important factor is that there are different levels of loan approval, depending on the amount:⁵¹

- Branches can approve loans of less than Q. 30,000 (approximately US\$4,000).
- Loans over Q. 30,000 but less than Q. 300,000 (approximately US\$40,000) are approved at the regional level.
- Amounts greater than Q. 300,000 must be approved by the home office.

⁴⁸ *Microfinanzas en Centroamérica: los avances y desafíos*. Villalobos, Iris, Arie Sandersv and Marieke de Ruijter de Wildt. Santiago, Chile: CEPAL, 2003, p.21.

⁴⁹ *Instituciones Públicas y el Desarrollo de los Mercados Financieros Rurales*, p.21.

⁵⁰ *Ibid.*

⁵¹ *Manejo del Riesgo en Instituciones Financieras Rurales - Estudio de Caso*, p.6.

Banrural S.A. has also been a partner in establishing the Credit Reference Corporation (*Corporación de Referencias Crediticias, Crediref*), better known as the Risk Center. This enables members to share information about their portfolios and customers and establishes credit ratings for customers, indicating whether they have a record of repaying their loans on time.⁵²

⁵² *Microfinanzas en Centroamérica: los avances y desafíos*. Villalobos, Iris, Arie Sandersv and Marieke de Ruijter de Wildt. Santiago, Chile: CEPAL, 2003, p.46.

3. Criticism and challenges for Banrural S.A.

Despite the positive results and characteristics that have been mentioned, Banrural S.A.'s consolidation has not been free of criticism, and the bank still faces many challenges. This section summarizes the three major points on which the Banrural S.A. model has been criticized in recent years. Other, more specific, criticism has been aimed not at the model, but at specific decisions and actions; this paper is not the place to discuss this. We then present what we believe are some of the challenges facing Banrural S.A. in the coming years.

a. *Criticism*

The strongest criticism of the model implemented by Banrural S.A. falls into three categories. The first involves the possible incompatibility between achieving profitability and promoting development. The second is that Banrural S.A. is profitable because it has benefited from subsidies. The third is that Banrural S.A. has been turning away from smaller customers, particularly small farmers.

i. Development objectives vs. profitability

One criticism of the Banrural S.A. model is that while it is a development entity, it also seeks to be profitable. This criticism is based on the premise that the quest for profitability limits the universe of potential borrowers and, therefore, the bank's impact on development. It should be noted, however, that Banrural S.A. has worked to expand its coverage by developing products and services that are adapted to the context in which it operates.

At the same time, the bank's profitability has enabled it to grow. The shareholders' reinvestment policy has enabled them to expand the bank's capital, since they are organizations with limited resources.

Finally, being a profitable institution that operates with its own capital has enabled the bank to remain independent of the vagaries of Guatemalan politics.

ii. Banrural S.A. and subsidies

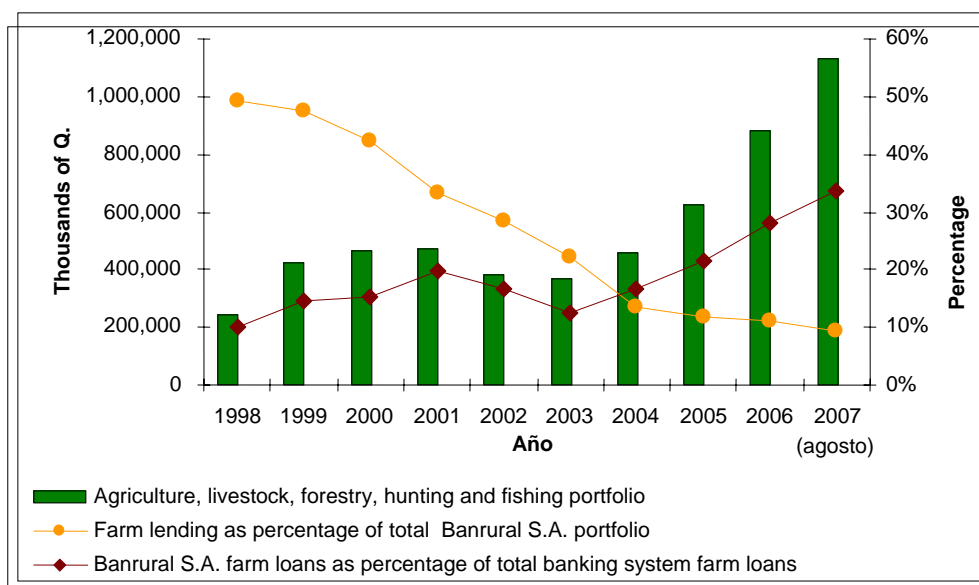
Another aspect that has been criticized is the concentration in the bank of trust funds and operations involving the public sector, which provide it with resources for lending while constituting a lower-cost investment alternative than conventional lines of financing.

Nevertheless, it should be noted that since its founding, Banrural S.A. has taken advantage of the strengths of its predecessor (Bandesa): a broad presence in rural areas and experience in managing trust funds. These characteristics also explain why the bank is an attractive way to channel public-sector initiatives and manage funds from international cooperation agencies. Because of its network of branches, the bank allows the public and private sectors to channel resources (payments, public service transfers, etc.). In the case of trust funds, it should be noted that only part of these are loaned, and even if they were all loaned, they would still represent only a limited proportion of overall income.

iii. Shifting away from agriculture and small customers

Another criticism leveled at Banrural S.A. is that in its quest for profitability, it is shifting away from its focus on agriculture and small customers. This could be reflected in the fact that the bank's farm loans have dropped considerably, representing only 9.4 percent of the bank's total portfolio in 2007. In fact, as Figure 3.1 shows, the farm loan portfolio has shown an upward trend in the past 10 years, while total farm lending in the Guatemalan banking sector has tripled.⁵³

Figure 3.1. Farm loan portfolio, 1998-2007



Source: Office of Superintendent of Banks of Guatemala

With regard to its customers' size, Banrural S.A. has first- and second-tier lines of credit. The latter allow it to finance microfinance institutions with clients that work with smaller customers who do not meet the requirements for obtaining a loan in the banking system. This is reflected in the average loan amounts for each of these categories.⁵⁴

b. Challenges

Banrural S.A. faces various challenges, six of which are particularly relevant. The first has to do with maintaining its leadership, profitability and, above all, its ability to expand, which it should do in two directions: toward poorer and more remote sectors, and toward corporate sectors. It must also consolidate in middle-income sectors without neglecting low-income customers. The second challenge is to maintain its existing relationship of collaboration and competition with microfinance institutions (cooperatives, NGOs, MFIs). Third, it must stay innovative to keep the advantage that allows it to compete with the banking sector, which, as in other countries in the region, is increasingly attracted to microfinance. Fourth, it must consolidate a management model that allows it to weather management turnover or changes in the Administrative Council without risk (the current manager has been with the institution since the

⁵³ For more detail, see Table A.11 in Appendix 1.

⁵⁴ See Section 2.d of this paper.

reconversion of Bandesa). Fifth, the rapid expansion of coverage (from the 70 branches it received from Bandesa to more than 400 Banrural S.A. branches in 2007), new staffing demands and development of technologies based on point-to-point sales to serve clients in remote areas (with development agents) require a sophisticated human resources policy that enables the bank to ensure that all transactions reflect its values, mission and vision. Sixth, the bank must not neglect its policy of expanding to still-unserved areas; this effort to expand the financial services frontier has been crucial, but it will be increasingly costly and complex. Finally, Banrural S.A. has a capital growth policy based on its shareholders' possibilities; it must therefore maintain a policy of gradual growth. This is not always easy, but so far has been key to the bank's stability and sustainability.⁵⁵

⁵⁵ Trivelli and Venero (2007)

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Web Page

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Office of Superintendent of Banks of Guatemala
<http://www.sib.gob.gt/>

World Council of Credit Unions
<http://www.woccu.org/>

Appendix 1 – Statistical information

Table A.1. Banrural S.A. profits, 1998-2007

| Account / Year | Profits | Profits / Equity | Profits (percentage of banking system total) |
|----------------|---------|------------------|---|
| 1998 | 17,590 | 20.4% | 4.6% |
| 1999 | 25,707 | 21.0% | 5.7% |
| 2000 | 30,007 | 16.5% | 6.7% |
| 2001 | 34,482 | 18.7% | 27.4% |
| 2002 | 41,440 | 19.0% | 18.8% |
| 2003 | 53,908 | 18.6% | 20.0% |
| 2004 | 113,934 | 29.3% | 13.5% |
| 2005 | 194,911 | 31.5% | 17.3% |
| 2006 | 327,008 | 34.4% | 25.3% |
| 2007 | 580,299 | 30.0% | 31.6% |

Source: Office of Superintendent of Banks of Guatemala

**Table A.2. Assets, Liabilities and Patrimonio, 1998- 2007
(Thousands of Q.)**

| Year | Assets | Liabilities | equity |
|------|------------|-------------|-----------|
| 1998 | 1,293,926 | 1,207,500 | 86,425 |
| 1999 | 2,301,243 | 2,178,911 | 122,332 |
| 2000 | 2,656,643 | 2,475,219 | 181,423 |
| 2001 | 4,026,625 | 3,841,835 | 184,791 |
| 2002 | 4,814,502 | 4,595,981 | 218,520 |
| 2003 | 5,575,807 | 5,285,311 | 290,496 |
| 2004 | 7,911,291 | 7,522,424 | 388,867 |
| 2005 | 10,406,744 | 9,787,820 | 618,924 |
| 2006 | 17,014,853 | 16,065,456 | 949,397 |
| 2007 | 19,657,808 | 17,721,535 | 1,936,273 |

Source: Office of Superintendent of Banks of Guatemala

**Table A.3. Banrural S.A. equity and profits, 1998-2007
(Thousands of Q.)**

| Account / Year | Equity | Loan Portfolio | Profits / Loan Portfolio |
|-----------------------|---------------|-----------------------|---------------------------------|
| 1998 | 86,425 | 493,565 | 3.6% |
| 1999 | 122,332 | 889,967 | 2.9% |
| 2000 | 181,423 | 1,082,846 | 2.8% |
| 2001 | 184,791 | 1,403,736 | 2.5% |
| 2002 | 218,520 | 1,297,031 | 3.2% |
| 2003 | 290,496 | 1,641,734 | 3.3% |
| 2004 | 388,867 | 3,335,854 | 3.4% |
| 2005 | 618,924 | 5,126,255 | 3.8% |
| 2006 | 949,397 | 7,745,087 | 4.2% |
| 2007 | 1,936,273 | 13,258,375 | 4.4% |

Source: Office of Superintendent of Banks of Guatemala

Table A.4. Portfolio quality, 1998-2007 (percentage)

| Account / Year | Loans due / loan portfolio | Loans due and past due / loan portfolio |
|-----------------------|-----------------------------------|--|
| 1998 | 1.5% | 4.3% |
| 1999 | 1.4% | 3.2% |
| 2000 | 1.7% | 2.6% |
| 2001 | 1.6% | 2.5% |
| 2002 | 3.0% | 4.6% |
| 2003 | 2.3% | 3.5% |
| 2004 | 1.4% | 2.2% |
| 2005 | 0.9% | 1.4% |
| 2006 | 0.7% | 1.2% |
| 2007 | 0.3% | 0.9% |

Source: Office of Superintendent of Banks of Guatemala

**Table A.5. Banrural S.A. loan portfolio, 1999-2007
(Thousands of Q.)**

| Year | Loan portfolio total | Percentage of total banking system loans |
|-------------|-----------------------------|---|
| 1999 | 889,967 | 4.2% |
| 2000 | 1,082,846 | 4.7% |
| 2001 | 1,403,736 | 5.5% |
| 2002 | 1,297,031 | 4.7% |
| 2003 | 1,641,734 | 5.4% |
| 2004 | 3,335,854 | 9.4% |
| 2005 | 5,126,255 | 11.8% |
| 2006 | 7,745,087 | 15.3% |
| 2007 | 13,258,375 | 19.2% |

Source: Office of Superintendent of Banks of Guatemala

Table A.6. Banrural S.A. – Number of Accounts and Deposit Balances and Financial Obligations, 1999-2007

| Year | Accounts | Value (Thousands of Q.) | Average balance (Q.) |
|-------------|-----------------|--------------------------------|-----------------------------|
| 1999 | 310,622 | 1,941,205 | 6,249 |
| 2000 | 416,847 | 2,188,347 | 5,250 |
| 2001 | 669,720 | 3,472,674 | 5,185 |
| 2002 | 753,486 | 4,116,195 | 5,463 |
| 2003 | 837,191 | 4,972,630 | 5,940 |
| 2004 | 979,779 | 7,101,363 | 7,248 |
| 2005 | 1,182,576 | 9,301,074 | 7,865 |
| 2006 | 1,704,712 | 15,337,322 | 8,997 |
| 2007 | 1,788,126 | 16,585,301 | 9,275 |

Source: Office of Superintendent of Banks of Guatemala

Table A.7. Deposits

| Accounts / Year | Deposits / liabilities (percentage) | Deposits / equity (times) | Deposits / liabilities and equity (percentage) |
|-----------------|-------------------------------------|---------------------------|--|
| 1998 | 92.3% | 12.9 | 86.2% |
| 1999 | 84.3% | 15.0 | 79.8% |
| 2000 | 81.3% | 11.1 | 75.8% |
| 2001 | 80.5% | 16.7 | 76.8% |
| 2002 | 81.4% | 17.1 | 77.7% |
| 2003 | 90.1% | 16.4 | 85.4% |
| 2004 | 90.8% | 17.6 | 86.3% |
| 2005 | 91.9% | 14.5 | 86.4% |
| 2006 | 92.5% | 15.7 | 87.4% |
| 2007 | 90.9% | 8.3 | 82.0% |

Source: Office of Superintendent of Banks of Guatemala

Table A.8. Banrural S.A. - Percentage of banking system accounts and deposit balances and financial obligations, 1999-2007

| Year | Accounts | Value |
|------|----------|-------|
| 1999 | 7.6% | 6.8% |
| 2000 | 9.5% | 5.9% |
| 2001 | 13.3% | 8.1% |
| 2002 | 14.2% | 8.6% |
| 2003 | 15.3% | 9.6% |
| 2004 | 16.2% | 11.9% |
| 2005 | 18.0% | 13.3% |
| 2006 | 25.5% | 18.7% |
| 2007 | 25.0% | 18.6% |

Source: Office of Superintendent of Banks of Guatemala

Table A.9. Number of branches and employees, 1998-2007

| Year | Banrural S.A. branches | Banrural S.A. employees | Banking system branches | Banking system employees | % Banrural S.A. branches | % Banrural S.A. employees |
|------|------------------------|-------------------------|-------------------------|--------------------------|--------------------------|---------------------------|
| 1998 | 90 | n.d. | 978 | n.d. | 9.2% | n.d. |
| 1999 | 137 | n.d. | 1,093 | n.d. | 12.5% | n.d. |
| 2000 | 173 | 1,584 | 1,165 | 15,469 | 14.8% | 10.2% |
| 2001 | 220 | 1,943 | 1,231 | 15,648 | 17.9% | 12.4% |
| 2002 | 251 | 2,162 | 1,258 | 16,364 | 20.0% | 13.2% |
| 2003 | 266 | 2,312 | 1,294 | 17,002 | 20.6% | 13.6% |
| 2004 | 285 | 2,689 | 1,344 | 18,724 | 21.2% | 14.4% |
| 2005 | 301 | 3,050 | 1,368 | 20,049 | 22.0% | 15.2% |
| 2006 | 378 | 4,200 | 1,377 | 20,705 | 27.5% | 20.3% |
| 2007 | 478 | 5,374 | 2,245 | 25,237 | 21.3% | 21.3% |

Source: Office of Superintendent of Banks of Guatemala

**Table A.10. Agriculture and total loans, 1998-2007
(Thousands of Q.)**

| Year | Agriculture, Livestock, Forestry, Hunting & Fishing | Total Portfolio |
|------------------|--|-----------------|
| 1998 | 241,303 | 489,710 |
| 1999 | 425,135 | 894,100 |
| 2000 | 461,829 | 1,093,726 |
| 2001 | 470,054 | 1,418,647 |
| 2002 | 379,170 | 1,333,156 |
| 2003 | 366,786 | 1,662,937 |
| 2004 | 459,384 | 3,376,150 |
| 2005 | 622,166 | 5,238,204 |
| 2006 | 882,891 | 7,965,977 |
| 2007 (August) | 1,130,115 | 11,979,769 |

Source: Office of Superintendent of Banks of Guatemala

Table A.11. Agricultural portfolio, 1998-2007

| Year | Agriculture, Livestock, Forestry, Hunting & Fishing (Thousands of Q.) | Agricultural portfolio as percentage of Banrural S.A. total | Banrural S.A. agriculture loans as total of banking system loans to sector |
|------------------|---|---|--|
| 1998 | 241,303 | 49.3% | 10.1% |
| 1999 | 425,135 | 47.5% | 14.4% |
| 2000 | 461,829 | 42.2% | 15.2% |
| 2001 | 470,054 | 33.1% | 19.6% |
| 2002 | 379,170 | 28.4% | 16.7% |
| 2003 | 366,786 | 22.1% | 12.6% |
| 2004 | 459,384 | 13.6% | 16.6% |
| 2005 | 622,166 | 11.9% | 21.4% |
| 2006 | 882,891 | 11.1% | 28.0% |
| 2007 (August) | 1,130,115 | 9.4% | 33.7% |

Source: Office of Superintendent of Banks of Guatemala