

6. Guatemala: Survey of Financial Institutions

I. General background and marketplace

The objective of this study is to gather information on financial institutions (FIs) in Guatemala to provide a picture on current and past financing activity and to assess the type of financing available to CP investments. This required CP Guatemalan experts to interview financiers and determine how they view environmental issues (if at all) and if they are aware of the CP concept.

As a backdrop to this study, it is important to provide an overview of the state of Guatemala's financial services sector.

During the 1990's, liberalisation of Guatemala's financial sector led to an increase in the number of banks and other financial institutions. Nevertheless, business confidence dampened in 1999. A crisis in the banking system was attributed to the lingering financial problems in the coffee industry, compounded by the effects of Hurricane Mitch.

During 1999, commercial banks were reluctant to make loans. A squeeze in private sector credit, weak exports performance, a rise in inflation rates and continued currency instability was partly to blame for this.

The restriction in credit to the private sector has had a significant effect on the private sector growth. The level of outstanding loans to the private sector was partly to blame for this. By September 1999, the stock of outstanding loans increased by quetzal Q1.77 billion, an increase of 9.4% since January 1999.

Guatemala's monetary policy for 1999 was overshadowed by its aim to further strengthen the country's financial system. With the backing of Guatemala's Bankers Association, the Junta Monetaria's (the Monetary Policy Committee or JM), which is the banking and financial sector's highest authority, begun to introduce further banking reforms.

As part of the study, CP Guatemalan experts interviewed seven FIs that focus, in some capacity, on providing funds for environmental and sustainable development projects, rather than traditional industrial projects. The FIs include:

- Banco Centroamericano de Integracion Economica (BCIE)
- Banco de Desarrollo Rural (BANRURAL)
- Corporacion Financiera Ambiental (CFA)
- Banco del Café (BANCAFE)
- Fideicomiso para la Conservacion en Guatemala (FCG)
- Banco Agricola Mercantil (BAM)
- Fondo Guatemalteco del Medio Ambiente (FOGUAMA).

Interviews with the FIs listed above revealed that six out of seven banks have developed a clear policy on the type of industry in which they invest. Unique to most developing countries, six Guatemalan FIs focus on sectors that relate to natural resources and agriculture, with a particular emphasis on:

- Organic agriculture
- Sustainable forestry
- Eco-tourism
- Renewable energy
- Energy efficiency
- Recycling
- Waste management
- Pollution abatement.

Only one bank looks at “all industrial activity.”

Two FIs have a regional spread of activities, with operations in most Central American countries, while the remaining five FIs’ operations concentrate in Guatemala exclusively.

Among the seven FIs interviewed, one is a regional bank that acts as a financial intermediary for multilateral institutions, five are private banks and one is a government-funded institution. The latter is FOGUAMA, which started in 1997, with assets of \$1.4 million, to support municipal and NGO projects that focus on:

- Preservation of natural resources
- Improvement of environmental quality
- Health
- Environmental education
- Sustainable agriculture
- Energy.

Projects funded by FOGUAMA that range from \$2,600 - \$6,600 are eligible for non-refundable funds. Projects that are up to \$13,300 are eligible for refundable loans at a rate of 10%, based on a 1-year term. In both cases, a minimum of 50% match-funding is required.

The average size of investment by Guatemalan FIs is unclear. Only two FIs, BCIE and BANRURAL, specified that they provide funding for medium-, small- and micro-sized enterprises.

The five private banks are described below.

- **BANRURAL** – Previously known as the Agricultural Development Bank, 94% of the bank’s clients are small and micro enterprises.
- **CFA** – is managed by the Environmental Enterprises Assistance Fund (a US NGO) and is wholly owned by Empresas Ambientales de Centroamerica.

- **BANCAFE** – is the second largest bank in Guatemala with assets of around \$430 million. It holds 8.1% of the market share (or 78,000 customers) in Guatemala. Corporate clients account for 17% of the bank’s total assets.
- **FCG** – was formed with the funding of three organisations: Whitley Animal Trust, World Wildlife Fund and a private US bank. FCG work with the World Bank’s International Environment Fund.
- **BAM** – is the 11th largest FI in Guatemala. In mid-2000, it is due to merge with Banco del Agro to become the 3rd largest FI.

Listed below are the types of funding offered by Guatemalan FIs in this survey.

Types of funding	
Company	Types
BCIE	• Equity & Mortgage Finance – 6 years in quetzals; 15 years in US\$
BANRURAL	• Equity & Mortgage Finance – 5 years
CFA	• Venture Capital – 5-10 years
BANCAFE	• Equity & Mortgage Finance – 2-5 years
FCG	• Equity & Mortgage Finance – 3-4 years
BAM	• Equity & Mortgage Finance – 3-6 years
FOGUAMA	• Refundable/Non-refundable loans – 1 year

A majority of the seven FIs provide finance at a rate of approximately 20%.

Projects are funded on the basis of size of company (in terms of production and capital), cash flow, credit history, industrial sector, production capacity, level of technology production and organisational structure.

II. Environmental considerations

All seven FIs consider environmental risks and liabilities, to a varying degree, when considering investing in projects. Environmental impact assessments are required by all the banks, which must then be approved by the National Environmental Commission (CONAMA).

CFA has clear mandate to invest “only in environmental businesses which have a net positive environmental impact”. As well as reviewing environmental risks and liabilities, it examines environmental benefits and compliance records with local and national laws and with its own company guidelines. It also reviews a project’s product efficiency and best available technology (BAT).

Although the FIs surveyed in this study are active in financing environmental projects, only three banks have their own corporate environmental policy. These include CFA, FCG and FOGUAMA.

BCIE and BANRURAL interact with government agencies to provide finance to environmental projects. BCIE acts as a financial intermediary for community projects through the Promuni Programme. It also provides funds for local and municipal agencies through the Guatemalan Federation of Environmental Funds (The Guatemalan Federation of Environmental Funds was created with the support of FOGUAMA.) BANRURAL provide a credit line for reforestation, with the support of the government and the National Forest Institute.

Future programmes that are considered to provide important financial instruments for initiating the take-up of CP measures include the following:

- The Carbon Fund
- The Central American Fund for Environment and Development
- The Central American Federation of Environment Funds.

Four FIs have indicated that they are considering the above initiatives as investment vehicles for increasing their environmental portfolio.

III. Conclusions

Sustainable development has become a new buzz-word for countries in Central America. Almost every country has now begun to embark on the formulation and implementation of a national environmental policy, drawing up international and regional agreements as well as legislation. Guatemala has also begun to translate environmental considerations and sustainable development into its financial markets.

The Guatemalan FIs that participated in this study have demonstrated that they are familiar with environmental opportunities, which centre on environmental investments. This concentration of activity has most likely been triggered by the mass destruction of Hurricane Mitch.

However, little is known about the volume of financing (i.e. average size and extent of investments) to demonstrate the extent to which environmental investments have become mainstream in Guatemala. The length of the investment period is considered relatively short and, consequently, indicates that the size of the investments may be small (See table: *Types of Funding*). This is reinforced by the fact that two FIs specified that they cater to medium-, small- and micro-sized enterprises.

It is most likely that the financial institutions and investment vehicles outlined in this study are considered niche. Yet, further steps taken by government agencies and multilateral institutions through credit schemes and policy are expected to change the scale of investment to be more far-reaching. This can be demonstrated by the forthcoming launch of environmental funding programmes (i.e. The Carbon Fund, etc). Several FIs have indicated that these programmes are likely to have a positive impact on the extent to which they provide finance for CP projects.